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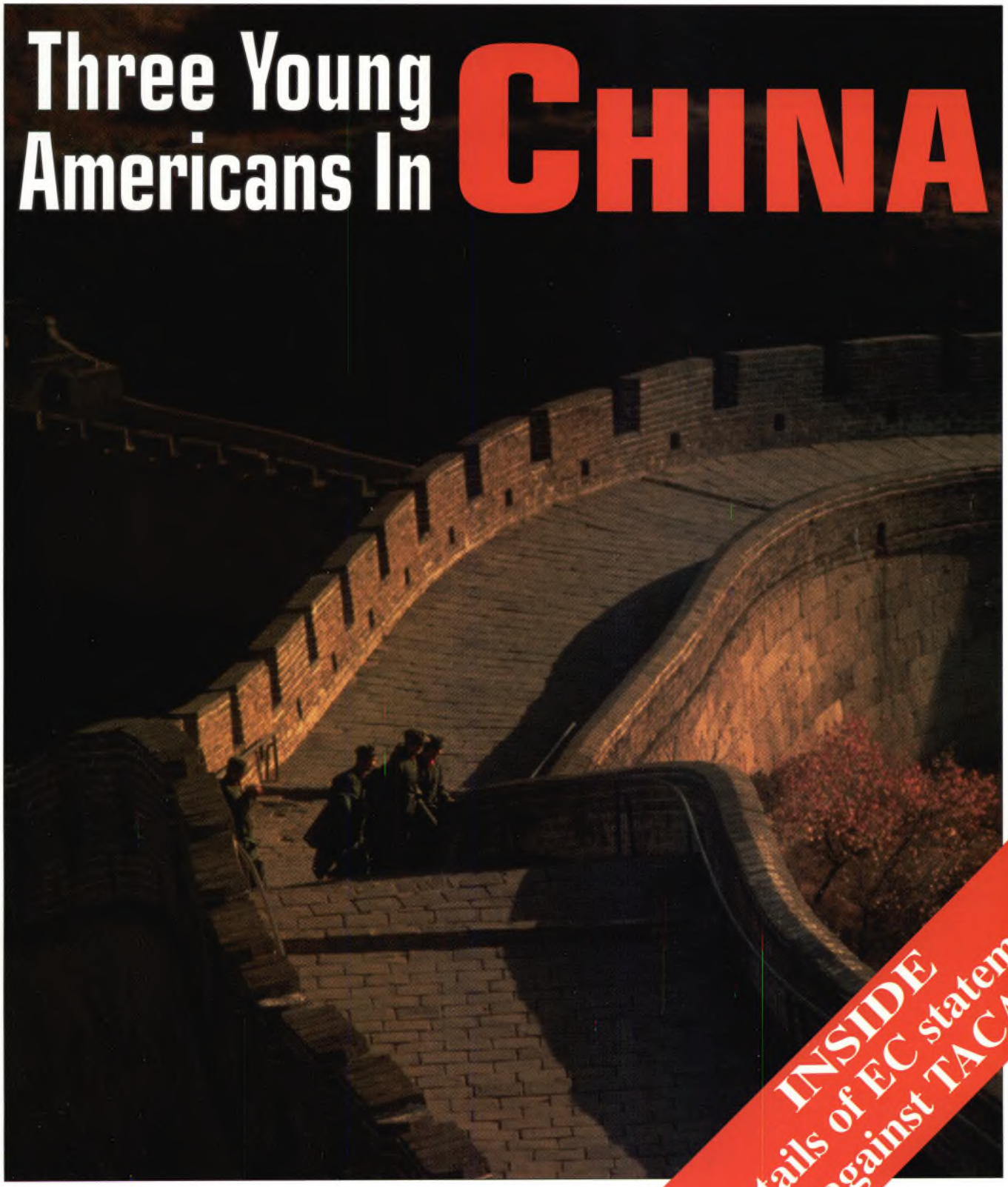
American Shipper

The Monthly Journal of INTERNATIONAL LOGISTICS



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Vol. 38, No. 8 **August 1996**

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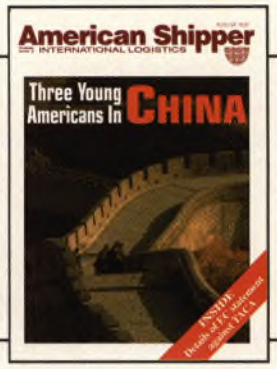

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Notes and Comments

By Joseph Bonney and Tony Beargie

■ ***Watch for the Federal Maritime Commission to intensify its scrutiny of the Trans-Atlantic Conference Agreement.***

The commission is not satisfied with the conference's response to requests for information on possible irregularities in TACA's tactics regarding non-conference carriers.

The FMC is concerned that TACA's 17 members may have forced Hyundai Merchant Marine to join the conference in order to enter a space-chartering agreement with Mediterranean Shipping Co., a conference member.

In 1995, TACA, under a settlement with the FMC, agreed that independent carriers would not have to give up their non-conference status to enter space-sharing agreements with TACA members.

The FMC will soon inform TACA that its response to questions is insufficient and that the commission will probably be digging deeper into the conference's activities.

■ ***The National Industrial Transportation League has won at least one port-authority ally in the NIT League's drive to reform the 1984 Shipping Act.***

However, it's a small port — Portland, Maine, which handles only about 5,000 containers a year from Hapag-Lloyd by way of a feeder service through Halifax.

"We're certainly not a player," acknowledges the port's director, Tom Valleau.

Nevertheless, Valleau, who is also chairman of the North Atlantic Ports Association's traffic board, said that the time has come for ports "to clarify our thinking" and address the issue of ocean shipping deregulation.

Some form of ocean shipping deregulation appears "inevitable," Valleau told *American Shipper.*

The issue will not go away, he said, because the cause is being promoted in Congress by shippers, who have a presence in all 50 states. "They all have congressional access," he said.

Valleau said he was not addressing the merits of the pending legislation, but was basing his views on political realities and the overall trend in the U.S. to deregulate.

■ ***Senate staffers hope to reach a bipartisian agreement on proposed ocean shipping reform legislation so that hearings can be held before the Aug. 2 congressional recess.***

The proposed "International Ocean Shipping Act of 1996" has been put together by staffers on the Senate surface transportation and merchant marine subcommittee.

The bill would prohibit conferences from entering confidential service contracts with shippers, but would allow confidential contracts between shippers and non-conference carriers.

The bill also would end requirements for tariff-filing and enforcement by the Federal Maritime Commission. Carriers and conferences, however, would be required to provide tariff information to shippers upon request.

Under the plan, the remaining FMC functions would be transferred to the Surface Transportation Board, which would carry a new name — the Intermodal Transportation Board.

The legislation provides for one maritime seat on the new board. That seat would go to the FMC's current chairman, Hal Creel.

In any event, there is strong support for maintaining the FMC's independent status. This conflicts with the House-passed bill which would transfer the agency's functions to the Department of Transportation.

■ ***Several sources say the Association of American Railroads opposes transferring transferring FMC functions to the Surface Transportation Board and provid-***

ing a maritime seat on the board.

"The railroads are opposed to having a maritime expert ruling on rail mergers," an industry source said. This was confirmed by other sources tracking the legislation.

AAR spokesman Tom White said that the association has not issued a formal position on the issue, but he added, "we do have some concerns."

AAR's expected opposition, coupled with labor's support for keeping the FMC as is, will add pressure to keep the FMC on its own. However, the number of commissioners would probably be cut from five to three.

■ ***Albert Pierce, managing director of the Transpacific Westbound Rate Agreement, says he expects the TWRA to eventually merge with the Asia North America Eastbound Rate Agreement.***

Pierce, who used to head ANERA, said the conferences haven't discussed a merger, but that it would be a logical way to reduce costs. The conferences, which have the same members, already share some administrative functions.

Pierce's comments came in response to a question at a meeting of a shipper group, the Agricultural Ocean Transportation Coalition, in San Francisco.

■ ***Conrad H.C. Everhard, chairman of Cho Yang America, says conferences and independent lines have reversed their traditional roles in pricing.***

Everhard told the Agricultural Ocean Transportation Coalition in San Francisco that independents are trying to keep rates up, while conferences are going for market share.

He said this is particularly true in the transpacific, where eastbound rates have fallen to as low as $900 per container.

"Independents are pricing with an eye to the bottom line, and conferences are pricing with an eye to the last slot on the ship. So much for stability," Everhard said.

■ ***Peter Gatti, director of policy and development of the U.S. National Industrial Transportation League, said that he broadly welcomed the European Commission's probe into transatlantic airline alliances.***

"Any move like airline alliances has to be carefully watched," he said. "But I don't think that it's necessarily something that requires fines or anything else," he added.

Through alliances, airlines can enhance their services to air cargo shippers and create efficiencies, Gatti said. He added that another benefit of alliances is that they are generally linked to moves towards open skies policies by the national governments concerned.

Gatti said that U.S. and European shippers want an end to "one-to-one relationships between countries" and restrictive bilateral agreements which characterize the airline markets.

Gatti suggested that alliances between commercial airlines are helping governments think along more liberal lines.

■ ***British Airways has sold all of its belly-hold capacity to its World Cargo division.***

The transaction puts the cargo division in a position to manage itself as a separate company within the airline. Under the agreement, World Cargo will pay all identifiable costs related to the carriage of freight by the British Airways fleet.

"The formula we have agreed for the purchase of all long and short-haul capacity means we will seek to fill the bellies of our aircraft before we source other capacity," explained Kevin Hatton, managing director of World Cargo.

In its year-end report in March, World Cargo reported revenues of £563 million, up 9 percent from the previous year. The airline carried 627,000 metric tons of freight, mail and courier traffic in 1995.

■ ***The International Federation of Freight Forwarders Associations (FIATA) says "the battle is still going on" to deregulate U.S. ocean shipping and repeal U.S. requirements for bonding of forwarders.***

"Readers of the trade press might have the impression that the war is over and that there is no longer any need for freight forwarders active as carriers in U.S. maritime trade to file tariffs and keep their bonds in place. The truth is that the freight forwarding industry is still not there," FIATA said in its monthly bulletin.

FIATA said the Federal Maritime Commission "could have done away" with tariff filing of NVOCCs by using its authority under the 1984 Shipping Act. Instead, FIATA said, the FMC fined three forwarders — Danzas ($55,000), Hellman International ($75,000) and Rohde & Liesenfeld ($80,000) — for alleged violations of tariff-filing requirements.

FIATA suggested that the FMC fines were designed to help keep the agency afloat and were partly "understandable in view of the FMC's rather desperate situation."

Joseph Polking, secretary of the FMC, called the FIATA's accusations on funding ridiculous. "We don't even keep our fines — they go into the General Treasury," he said.

■ ***The Surface Transportation Board is expected to announce a new, scaled-down user fee schedule as soon as Congress approves a $12 million budget for the board.***

The new fees will be much lower than those proposed a few months ago. With $12 million in its pocket, the board will only have to raise $3 million, rather than $15 million on its own.

■ ***Frank Wilner, chief of staff to Surface Transportation Commission member Gus Owen, will have a new book on the market this October tracing the history of rail mergers since 1830.***

Wilner, who served as assistant vice president for public affairs of the Association of American Railroads before joining the Surface Transportation Board a few months ago. His book's title is *Merge! A History of Railroad Unifications.*

■ ***Heard a really bad or outlandish excuse from your carrier lately? If you have, Australia-New Zealand Direct Line wants to know about it.***

ANDZL is conducting a "worst-excuse" contest as part of a new advertising campaign. Two winners were selected for the first half of the year. One was Karen Gutierrez of LEP Profit International, who heard from a carrier representative, "Booking? You never made a booking." The other was Brad Eddings of Fritz Cos., who was told, "I can't talk now because our computers are down."

ANZDL said it will select winners for the current round Nov. 15. Entries can be faxed to (310) 493-4297.

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Japan shippers oppose surcharge

Will seek investigation by Japan's Fair Trade Commission.

By Philip Damas

The Japan Shippers' Council planned in late July to present to Japan's Fair Trade Commission a detailed statement substantiating the council's opposition to carrier surcharge practices.

The move follows a decision by the council's surcharge committee. The council said the Fair Trade Commission "is keenly interested in examining the surcharge issue because of the anti-competitive nature of the imposition."

The statement contains the following five arguments:

- Surcharges are no longer restricted to temporary extra costs borne by carriers but have been extended to permanent items such as terminal handling, cleaning and documentation charges.
- There is no price competition between conference lines and independents on surcharges.
- Surcharges do not follow a cost recovery principle and can operate as a profit center.
- Non-conference carriers quickly follow conference surcharge pricing measures, thereby eliminating competition.
- The impact of surcharges can be demonstrated by the Japanese council's calculations of the level of surcharges as a percentage of base freight rates on major routes.

The Japanese council said the practice of surcharges as a joint action of conference carriers "stymies competition completely" and has "an immense effect on the market" through the mechanism of "super-agreements" between a conference and outsiders.

Toshio Suda, managing director of the council, told *American Shipper* that the Transpacific Stabilization Agreement, the Westbound Transpacific Stabilization Agreement, the Intra-Asia Discussion Agreement, the Far East/Mideast discussion forum and the Far East/South America discussion forum were all "super-agreements" with non-conference lines.

Suda said non-conference carrier Evergreen "is implementing the surcharges with the same amount and the same mechanism (as the conferences) all over the world."

Suda said the Japanese council would consider asking its members to boycott carriers who continue applying non-negotiable surcharges. "That will be the last resort," he said, adding that such a decision will depend on the outcome of the Fair Trade Commission discussions.

The anti-surcharge campaign of Japan Shippers' Council is expected to face resistance from Japan's Ministry of Transport, which has traditionally supported the country's shipping lines.

Suda said other Asian shippers' organizations — including the Hong Kong and Malaysian shippers' councils — were supporting the basic demand of the Japan Shippers' Council. He said carriers should abandon surcharges or incorporate them into a basic, negotiable freight rate. ■

ESC to combine maritime, inland work

Maritime and inland activities of the European Shippers' Councils have been merged again, less than three years after a separate inland transport organization was established.

The European Inland Transport Council, which coordinated the intermodal issues of many national shippers' councils in Europe, will disband as a result of decisions made by a senior ESC meeting in Antwerp on May 31.

Its activities will be folded into the ESC which since 1994 has operated as the maritime arm of the national council members. A wider umbrella organization called European Council of Transport Users, which covered air, maritime and inland activities, is also likely to cease to exist.

The ESC said the changes are to simplify the organization's structures. The ESC has also formed a coordination group of core members, which comprises the Dutch, French, Swedish and British councils. This group will advise the ESC chairmen's committee and steer the work of the various modal sub-committees. ■

FMC investigates Brazilian trade

Cites cross-trading restrictions, Brazil's failure to grant Crowley permission to operate bonded warehouse at the Port of Santos.

By Tony Beargie

Using its authority to combat unfair trade practices, the Federal Maritime Commission has launched a major investigation in the Brazilian trade.

The FMC said it is concerned over the inability of Crowley American Transport to obtain permission from the Brazilian government to operate a bonded warehouse at the Port of Santos. The FMC also cited possible restrictions on U.S.-flag carriers' ability to carry freight in the cross-trades between Brazil and other South American countries.

The FMC ordered 17 carriers in the trade to provide detailed trade information, including market share data, by Aug. 20.

Shipping lines ordered to provide information to the FMC were Amazon Lines, E.L.M.A., Chilean Line, Columbus Line, Nacional Line, Crowley, Di Gregorio, Alianca, Frota Amazonica, Ivaran, Maersk, Nedlloyd, Norsul, Pan American Independent, Transroll, Sea-Land and Zim.

The two U.S.-flag carriers in the trade are Crowley and Sea-Land.

Crowley has been trying for five years to obtain permission from the Brazilian government to operate a bonded warehouse at Santos, the FMC said.

Brazilian carriers have permission to operate their own bonded warehouses, which gives them an advantage in dealing with chronic congestion at Santos, where ships often are forced to wait up to a week for a berth space

In the U.S., there are no restrictions on Brazilian ownership or operation of bonded facilities, the FMC noted.

FMC said Brazil's "ongoing refusal" to grant Crowley a license could create unfavorable trade conditions for shipping lines.

Tecon, the public container terminal at Santos, is taking in more cargo than it can handle, and "thousands of boxes" lacking adequate container handling equipment are moving through Santos cargo terminals, the FMC said.

The FMC also said agreements by Brazil with Argentina, Uruguay, Chile and Peru may prevent U.S.-flag and other non-Brazilian shipping lines from operating in such cross-trades between Brazil and the other South American countries.

The agreements, which reportedly reserve cargo to national-flag carriers unless excused under a case-by-case waiver system, may hamper the ability of U.S.-flag carriers to expand their South American services, the FMC said.

The cargo-sharing agreements may be a violation of the U.S.-Brazil maritime agreement, the FMC said. ■

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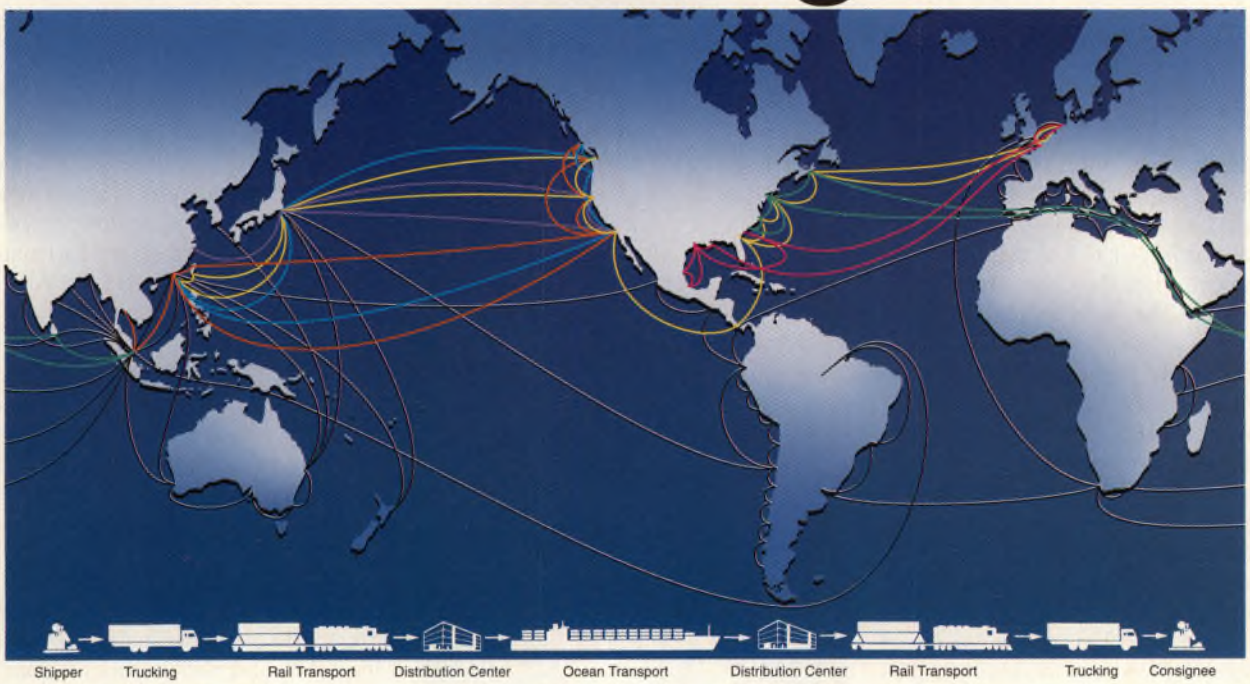

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Lykes 'fireman' stays busy

Carrier negotiates breathing room with creditors. Freeman says reorganization likely by early next year.

By Joseph Bonney

Joe B. Freeman, the turnaround specialist hired to to lead Lykes Lines out of Chapter 11 bankruptcy reorganization, compares his initial task to that of a fireman.

"The only time they bring me in is if there's a fire," he said. "and the first thing you do is to put the fire out."

Three months after joining Lykes, Freeman has doused several financial fires threatening the existence of the 96-year-old Tampa-based ship line.

Lykes has negotiated an agreement that temporarily reschedules the company's debt to a pair of Japanese shipyards which hold $160 million in mortgages on four 2,800-TEU Pacific-class containerships.

And the company has gotten its secured and unsecured creditors to agree on a plan allowing the carrier to operate for the next six months without having to seek periodic court approval for its use of cash.

Those developments provide the company with room to maneuver while it works out a reorganization plan for submission to the bankruptcy court and approval by creditors — an event Freeman said he hopes can be accomplished by early next year.

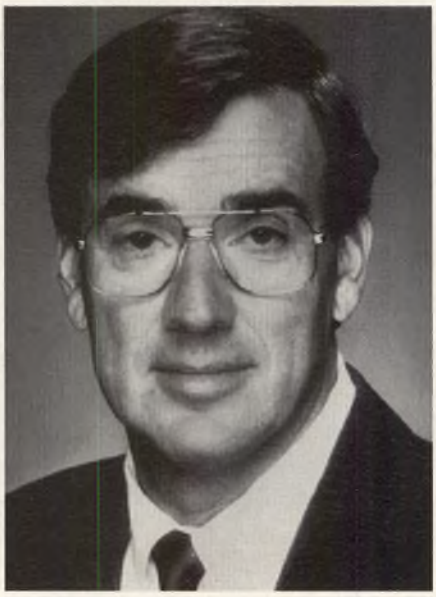
A key part of that plan is finding an external source of money to help Lykes survive after Chapter 11. Freeman said that financial infusion could take many forms. "In this case, some party affiliated with or already in the business, who would want to put money in for some percentage of the capital, might be appropriate," he said.

Japanese Shipyards. Lykes filed for Chapter 11 bankruptcy protection last October, citing a dollar-denominated debt to Japan's Mitsui and Mitsubishi shipyards, which built the Pacific-class ships for Lykes a decade ago.

Lykes ordered the ships for its transpacific service, but exited the trade and chartered the vessels to American President Lines.

Following the expiration of the charters to APL and a recent bankruptcy court ruling that Lykes owns the ships, the vessels are being deployed in Lykes' transatlantic service. Three of the ships already are in service; the fourth will be delivered this fall.

Lykes' new payment agreement with Mitsui and Mitsubishi temporarily reschedules the ship mortgage debt until Lykes' reorganization plan is completed and approved.



"The trend arrow is up. This is a company that will be reorganized."

Joe B. Freeman

In the meantime, Lykes will make "adequate protection" payments to the shipyards to protect them against any decline or depreciation in the value of the ships.

Freeman said it was "very significant" that Lykes and the shipyards were able to strike a deal through negotiation instead of litigation.

He also said the payment schedule was at a level Lykes could afford. The monthly payments begin at $500,000 during August and September, and increase to $895,000 (including $120,000 in deferred interest payments) in October.

"The agreement gives Lykes an extended period of time in which to operate the four vessels while it formulates a plan of reorganization," Freeman said.

The agreement with creditors on use of cash collateral, meanwhile, eliminates "a distraction of resources that need to be devoted to other things," he said.

It also shows that "the creditors have quit bickering and the banks and others are supportive of the reorganization," Freeman said.

In May, a dispute between banks and unsecured creditors over use of cash collateral led the banks to try to force Lykes into Chapter 7 liquidation. Bankruptcy Judge Alexander Paskay of Tampa rejected the banks' efforts and scolded them for trying to gain unfair advantage (June *American Shipper,* page 6).

Ships, Services. Lykes has operated without interruption since its Chapter 11 filing last October. Some shippers initially were skittish about committing cargo, but bookings soon picked up, and the company has signed a number of service contracts with shippers.

Lykes' first priority has been its biggest trade route, the transatlantic.

The four Pacific-class ships, combined with two 2,400-TEU vessels already there, will give the company six U.S.-flag ships in the trade, making it easier to attract military and other government cargoes that move on U.S.-flag ships.

Two new 2,480-TEU ships Lykes has been using in the transatlantic are being returned to their owner. Delivery of two others was canceled because of Lykes' financial problems.

Lykes' ownership of the Pacific-class ships is still being disputed by Blue Water Associates, the investment group involved in the vessels' initial financing. Blue Water has asked the U.S. District Court in Tampa to overturn the bankruptcy court's ruling that Lykes owns the ships, but did not seek to prevent Lykes from using the ships in the interim.

Reorganization No. 5. Lykes is the fifth reorganization Freeman has taken on.

The others were AM International, a Chicago-based graphics company; Gardinier Inc., a Tampa-based phosphate firm; Ken David Holding, a Dallas-Fort Worth oil and gas holding company, and Bicoastal Corp., formerly Singer Co.

Although his background isn't in shipping, Freeman said his turnaround-specialist role doesn't require him to be.

"Business issues are business issues," he said, and although each company has its pecularitities, the basic steps are the same.

First task is to make sure there's enough liquidity to operate. Next is identification of the business and legal steps needed to get out of Chapter 11. Then claims must be sorted out and agreements settled with creditors and others, and a reorganization plan submitted and approved.

Freeman said he's confident that the reorganization will succeed. "The trend arrow is up," he said. "This is a company that will be reorganized." ■

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Jerome P. Josselyn,
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UP-SP rail merger is approved

Surface Transportation Board imposes conditions, but gives unanimous approval to deal.

By Tony Beargie

Saying any reduced competition "will be heavily outweighed" by lower costs and public benefits, the Surface Transportation Board unanimously approved the merger of Union Pacific and Southern Pacific railroads.

The decision clears the way for UP and SP to go through with their $5.4-billion merger, which will create the nation's largest railroad. The combined railroads will have 31,000 miles of track covering every state west of the Mississippi River except North Dakota.

The Surface Transportation Board imposed 35 conditions designed to maximize competition by assuring access to UP-SP track by competing lines, principally Burlington Northern Santa Fe.

BNSF will gain 4,000 miles of trackage rights, including the first single-line rail system linking the Pacific Northwest and Gulf Coast and Los Angeles and Seattle.

Shipper groups and a number of state and federal agencies, including the Justice Department, had opposed the merger.

Kansas City Southern also gained concessions, principally trackage rights between Beaumont, Texas, and the Texas Mexican Railroad at Corpus Christi. The TexMex line, half-owned by Kansas City Southern, gives KCS access to the Mexican market at Laredo.

While the UP-SP merger is the biggest in U.S. railroad history, it may not be the last.

Some analysts speculated that the merger concessions that KCS won in the merger could make the Midwestern railroad an attractive merger partner for Norfolk Southern or CSX Transportation.

Opposition. Shipper groups and a number of state and federal agencies, including the Justice Department, had opposed the merger.

A shipper coalition formed to battle the merger criticized the board's 3-0 vote for the merger. "The final score was the STB 3, the public zero," said Jack Estes, executive director of the Coalition for Competitive Rail Transportation.

Estes said the board "missed an opportunity" to carry out the will of Congress to maintain rail competition in the U.S., Estes said. "Shippers will never forget."Congress also is not likely to forget," he said.

Estes predicted public pressure will spark Congress to strengthen oversight of the STB and re-evaluate the board's future role in rail transactions.

Five-Year Scrutiny. In approving the merger, the transportation board followed recommendations of its staff, which estimated the merger would produce $627 million in annual savings.

UP was more optimistic, predicting annual savings of $750 million.

The board will keep a close eye on the merged railroads for five years, to ensure that UP-SP "does not do anything to impede competition," said Linda Morgan, the board's chairman.

"If competitive harm appears imminent, we can and will act, " Morgan said. Such action could include a divestiture order which "will remain available during the entire oversight period," Morgan said.

"The board has taken this case very seriously from the beginning and will continue to do so," she said.

Both Morgan and UP's chairman, Drew Lewis, acknowledged the possibility of a court challenge, but predicted that the board's decision would be upheld.

Lewis said plans are to complete the merger by Oct. 1.

Estimated Savings. The board's staff said the merger will produce "very substantial" gains in efficiency.

The board said shippers will benefit from "tremendous service improvements brought about by shorter routes, extended single-line service, enhanced equipment supply, improved service reliability, and new operating efficiencies."

During the next four years, UP promises to invest $1.3 billion in the railroad, including $800 million in corridor improvements and $350 million for new facilities.

UP's first priority will be to improve locomotives, followed by track rehabilitation, technology improvements and route improvements, Lewis said.

'Rescue' For SP. In approving the merger, the Surface Transportation Board agreed with UP's claim that the merger is needed to save the financially weak SP.

UP argued that SP, which is losing $500,000 per day, could no longer compete with BNSF and would either "retrench or collapse" without the merger.

"Only UP offers the financial resources necessary to restore SP's services and routes," Citing its plans for the $1.3 billion in investment, Union Pacific said it "can fund those investments, but SP cannot."

The transportation board staff estimated the merger would produce $627 million in annual savings.

Denying the merger and risking a broken-up or downsized SP "is not a risk we should be willing to take," Morgan said. "We should do all we can to allow the efficiencies promised by this merger and to save the SP system as a viable competitive force."

Roger Fones, a Justice Department lawyer, argued that "there is nothing that shows that SP has a bleak future" and that other railroads could buy the line's assets.

"Just tell them no," Fones said in oral arguments before the board.

"It's not that easy," Morgan said. "We don't have four or five companies ready to buy SP."

Divestiture Rejected. Sen. Christopher Bond, R-Mo., urged the board to require UP and SP to sell their parallel lines to other carriers. He said ensuring "real, actual competition" is a "central responsibility" of the board.

Morgan said such an action would undercut benefits of the merger. "Railroads, with ther network economies, are different from other industries, and if you take away part of their network, you can take away part of their economies of operations," she said.

"Divestiture may be an obvious fix to some, but it is not an obvious fix for me in this case," she said. ■

Court: NVOs can arrest cargo

Judges rule NVOCCs have same rights as vessel owners when freight bill isn't paid.

By Richard Knee

Non-vessel-operating common carriers have the right to arrest cargo when the freight bill goes unpaid, a federal appeals court has ruled.

The opinion, issued in mid-June by the 9th U.S. Circuit Court of Appeals in San Francisco, reversed a U.S. District Court decision that only a vessel owner in possession of a shipment had the right to hold it. The case involved shipment of a pyramid tent in 26 containers from Felixstowe, England, to Las Vegas.

The containers had moved on a Maersk Line ship to Newark, N.J., and then by rail to Long Beach, Calif., where they were held by TWI Ocean Logistics Services, the NVOCC arm of Logistics Management, Inc.

The shipper, Diamond Entertainment II, had not paid freight and related charges exceeding $250,000, according to a summary in the opinion issued by Judge Diarmuid F. O'Scannlain of the 9th Circuit.

TWI's attorney is Thomas A. Russell, who is also counsel to the Steamship Association of Southern California.

Scanlain's decision drew praise from NVOCC circles, though it did not surprise them.

"It's nothing really new. We have that (arrest) right as a carrier," said Laurie A. Olson, executive director of the International Association of NVOCCs.

The right to hold cargo until freight is paid "to satisfy the account" is a standard clause in bills of lading, Olson said.

"Most states recognize by statute and common law that the NVOCC is a carrier and has lien," said Edward D. Greenberg, maritime counsel to the National Customs Brokers & Forwarders Association of America, whose membership includes NVOCCs.

A lien is a legal hold placed on property of a person or party in debt.

According to the court summary, Diamond had leased the tent from Pebbles Music, Inc., and had assumed responsibility for the shipping cost. TWI issued an intermodal bill of lading to Diamond; the bill of lading had been marked "Freight Prepaid," meaning TWI had forwarded payment to Maersk.

After receiving no freight payment from Diamond when the shipment arrived at Long Beach, TWI got the U.S. District Court to permit the arrest of the cargo.

The court also ordered that Maersk be appointed "substitute" custodian of the tent.

Pebbles then filed a claim to the tent and asked the court to order Diamond and Chariot to pay the freight and related charges to TWI. But Pebbles also argued that TWI was not the vessel owner in possession of the cargo and therefore lacked standing to place a hold on it.

The district court denied the injunction but agreed with Pebbles that TWI did not have jurisdiction over the shipment. The court dismissed TWI's action against Diamond and Chariot.

In overturning the district court's ruling, Judge Scanlain found that TWI had jurisdiction because the NVOCC's bill of lading was a valid maritime contract and the tent was physically within the "lawful custody" of the district court.

He cited a U.S. Supreme Court statement, issued in a number of cases, that "the question of a lien or no lien is not one of jurisdiction, but of merits." ■

AgOTC won't let up on antitrust issue

But Friedmann acknowledges Congress unlikely to lift conferences' antitrust-law immunity soon.

By Richard Knee

The Agriculture Ocean Transportation Coalition will continue pushing to make carrier conferences subject to U.S. antitrust laws, though that probably won't happen soon, AgOTC executive director Peter A. Friedmann said.

At its ninth annual meeting in San Francisco, AgOTC members voted to continue their efforts on the antitrust-immunity issue.

"There was a vote — it was not unanimous — that AgOTC should continue to strive for eliminating (ocean carrier) antitrust immunity," Friedmann told *American Shipper*.

The coalition knows the battle is likely to be long and will meanwhile seek other ways to weaken the power of conferences, he said.

At the same time, the shipping-act reform legislation pending in Congress is preferable to the current law, said Friedmann, who was a major architect of the 1984 Shipping Act.

The proposed changes would permit confidential contracting, eliminate requirements for public filing of tariffs and service-contract terms, and abolish the Federal Maritime Commission.

"There is no question that confidential contracting and independent action for contracting are incremental improvements," he said.

AgOTC members also voted to endorse and lobby for enactment by Sept. 1 of a compromise bill to amend the 1992 Intermodal Safe Container Transportation Act, which is aimed at overweight containers.

The overweight-container law is of tremendous interest to AgOTC members, Friedmann said. It was forged by the American Trucking Associations, the National Industrial Transportation League and the Intermodal Safe Container Coalition.

One of its major features would relieve truckers of liability in most cases where overweight containers move on roads and highways.

It would require initial certification by a shipper before a load was given to the first trucker. Without that certification, the trucker would assume that the container weighed no more than the legal maximum. The bill would raise that threshold from the current 10,000 pounds to 29,001 pounds.

Other matters discussed at the AgOTC meeting, Friedmann said, included:

• Efforts to repeal the Jones Act, which reserves domestic cargoes for U.S.-flag vessels built in the United States without federal subsidy. AgOTC put off taking a formal position on the matter to focus on Shipping Act reform legislation.

• U.S. Customs' Automated Export System, under which shippers or their freight forwarders transmit Shipper's Export Declarations to the agency before their cargo sails.

Most AgOTC members perceive AES as a barrier to exporting their products, Friedmann said. Seasonal cycles, and sudden changes in weather and in the marketplace make it difficult to submit documentation long in advance of lading, he explained. ■

TSA considers reviving capacity limits

Transpacific Stabilization Agreement discusses possibility. But FMC may be reluctant to go along.

By Richard Knee

Transpacific conference and independent carriers are talking about reinstating voluntary limits on capacity — a move that could be challenged by the Federal Maritime Commission.

The capacity-restriction plan is just one idea being floated in an ongoing series of meetings of the Transpacific Stabilization Agreement, which includes conference and independent lines.

The TSA scrapped a capacity set-aside program a year ago after having it in place for almost six years.

No formal proposal to restart the program has come forth at TSA shipowners' meetings, said Robert A. Peavy, the group's administrator.

"We're talking about how to solve the problem of (rate) instability in the trade. I wouldn't rule anything in or out at this point," Peavy said.

He was "not at liberty" to discuss other measures under discussion.

If the TSA does again restrict vessel space availablilty, it could face a court challenge from the FMC, judging from comments by the commission's chairman Harold J. Creel Jr. and member Delmond J. H. Won.

The percentage of ship capacity filled by cargo is below year-earlier levels, said Bob Magna, vice president of sales for North America at Hyundai Merchant Marine, a non-confererence member of TSA.

On average, ships were more than 85 percent full, but in any given week capacity-load factors ranged between 80 and 100 percent, Magna said. "We were a little stronger last year," he said.

Besides Hyundai, TSA comprises the 11 members of the Asia North America Eastbound Rate Agreement and the independent carriers Evergreen, Hanjin and Yangming.

The TSA abandoned its capacity set-aside program after the FMC started investigating practices by that group and the Westbound Transpacific Stabilization Agreement.

Separately, the Trans-Atlantic Conference Agreement scrapped a similar effort in October 1994 after it came under fire from European Union regulators.

Peavy said the TSA's decision to abandon its program was market-driven, and wasn't forced by regulators.

At the time, "capacity had come the closest to (supply/demand) balance that it had been in a long time," he said.

Capacity-load factors were then running between 85 and 88 percent, and the TSA was making 94 percent of its members' vessel space available, he said.

That was in line with a policy of keeping 50 percent of the overcapacity off-limits to cargo, he explained. The group adjusted its set-aside quarterly to accommodate forecasts for cargo traffic.

With capacity-load factors in the high 80s, Peavy said, there was "no point in arguing over a non-issue" when the FMC began scrutinizing the TSA and WTSA.

Creel and Won told *American Shipper* they might look unfavorably at a reinstatement of the capacity set-aside program.

Creel, emphasizing he was voicing his own views, said he would have a problem with carriers' "artificially restricting capacity." He acknowledged, however, that he did not know whether there is any prohibition of capacity restriction either in current shipping law or in proposed shipping-act reform legislation. ■

Washington Briefs

U.S. lines win China forwarding rights

After four years, U.S. negotiators have persuaded Chinese officials to permit Sea-Land Service and American President Lines to establish their own freight-forwarding services in China.

Under an agreement signed in Beijing, the two largest U.S.-flag containership operators each will be able to establish one main forwarding office and six branch offices in China.

The carriers, which are developing a business plan for submission to Chinese authorities, have not yet decided on locations.

The carriers expected to file their applications by the end of July, and win approval of them by October, said Michael M. Murphy, APL's vice president of government affairs.

The breakthrough gives both APL and Sea-Land the opportunity to provide shippers a full range of intermodal services, he said.

For years, APL and Sea-Land had to turn over their forwarding business to China's government-owned forwarder, Sinotrans. Now, the U.S.-flag carriers will be able to offer their services to not only their own customers, but to third parties.

APL's and Sea-Land's operations will run on a three-year trial period. No shipping lines of other flags will be permitted to set up similar operations during the period.

Under the agreement, the facilities will be known as "container transportation service companies" which will be allowed to:

- Book space.
- Unstuff and stuff containers.
- Provide warehousing and storage.
- Sign and issue cargo receipts.
- Collect freight and other charges for authorized services.
- Repair and maintain containers and other equipment.
- Arrange and conclude contracts with trucking companies for trucking services.

Each carrier will be allowed to invest $1 million in its main Chinese forwarding office and $120,000 in each branch office.

The agreement also allows China Ocean Shipping Co., and any other Chinese carriers that may enter the U.S. trade to have quicker entry into 12 U.S. ports which, since 1988, have required four days' notice due to national security reasons.

Chinese vessels will now be able to call at these previously restricted ports on 24 hours' notice: Honolulu; Port Hueneme, Calif.; San Diego; Port St. Joe, Pensacola, Panama City and Port Canaveral, Fla.; Kings Bay, Ga.; Charleston, S.C.; Hampton Roads, Va.; New London and Groton, Conn., and Portsmouth, N.H.

Chinese ships previously had permission to call at all other U.S. ports on 24 hours' notice.

At the request of the Chinese, the Maritime Administration will ask the Federal Maritime Commission to consider allowing Chinese ships to file rate adjustments on 24 hours' notice. Under the U.S. Controlled Carrier Act, COSCO must give the FMC 30 days' notice on rate changes.

New trucker bill of lading approved by Justice Dept.

The Justice Department has approved a new standard truck bill of lading. The new format is designed to make it easier for shippers to detect hidden surcharges, pricing rules and other information that used to be available from the Interstate Commerce Commission.

The new bill-of-lading, the Shippers Bill and Common Carrier Rate Agreement, will be an alternative to the Uniform Straight Bill of Lading of the National Motor Freight Transportation Association.

The Justice Department said the new bill of lading contains all contract terms and conditions instead of merely referring to them, as the current format does.

Shippers and truckers would have to voluntarily agree to use the new format, which was developed by the Transportation Consumer Protection Council, a Huntington, N.Y.-based group that represents 500 shippers.

The new bill of lading option will provide the means of allowing shippers and truckers to reach "a real understanding" of their contracts, said George Carl Pezold, the Transportation Consumer Protection Council's assistant general counsel.

The council's authority to create new motor carrier-shipper guidelines will "help avoid costly legal disputes," the Justice Dpartment said.

The new option will give shippers and carriers the right to bypass the long-standing uniform bill of lading, which the Justice Department called "a cumbersome contractual document."

Assistant Attorney General Anne K. Bingaman, who approved the new bill of lading, noted that its use would be voluntary on the part of both shippers and motor carriers.

This condition eased antitrust concerns, she said, because parties will not be required to use the new system and shippers will not be urged to boycott motor carriers who insist on using the uniform bill of lading.

Also the new bill of lading will not establish rates or prices since the agreement provides for the negotiation of rates and prices between shippers and carriers, she said.

APL seeks more slots from TMM

American President Lines has asked the Maritime Administration to allow APL to increase from 50 to 195 FEUs the number of container slots the carrier charters each week from Transportacion Maritima Mexicana.

APL charters the slots from TMM between Asia and Mexico. MarAd approval of the slot-charter allocation is required under the 1936 Merchant Marine Act, which prevents subsidized U.S.-flag lines from operating foreign-flag ships that compete with essential U.S.-flag services.

APL's current slot charter from TMM is allowed under a waiver from the 1936 act.

Water resources bill advances in House

The House Transportation and Infrastructure Committee has cleared a $4-billion port and inland waterway improvement project bill for House action.

If it is enacted this year, the bill will be the first water resources legislation to come out of Congress in four years.

The legislation authorizes 22 port and inland waterway projects, including commercial navigation projects at Humboldt Bay, Calif.; Wilmington, N.C.; Port Fourchon, La., and Houston.

DOT grants antitrust immunity for Delta's Euro link

Transportation Secretary Federico Pena has given Delta Air Lines approval to set up a network of worldwide service with Austrian Airlines, the Belgian carrier Sabena, and Swissair.

The action, which was expected, gives the four airlines immunity from U.S. antitrust laws, allowing them to plan and coordinate services. The carriers can operate as a single airline, but will continue to be independent entities with separate corporate and national identities.

Notes and Comments

By Philip Damas

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For non-U.S. trades, there is no overseas equivalent to the FMC. And except for official conference tariffs, no source of detailed information on market rates of contract rates exists.

Will some pull out of TACA and seek a less risky settlement before they lose their immunity to fines?

Wanted: freight rates benchmarker

American Shipper received a thought-provoking query from a major U.S. shipper.

"We are looking for a firm that can evaluate the ocean rates we've managed to negotiate for shipment of our various goods around the world," this shipper said.

Looking at benchmarking freight rates?

This is definitely the shipper's objective — and it makes sense.

This benchmarking consultancy firm would advise "whether we've done an excellent, average or poor job (in rate negotiation)," the shipper said.

Shippers operating in U.S. trades are used to scrutinizing the essential terms of service contracts and rates filed with the U.S. Federal Maritime Commission. This can be a time-consuming and insufficiently comprehensive exercise, but it's a good start.

"Everything is on computer now," said Theodore Zook, chief, office of service contracts at the FMC. Zook said shippers registered on the Automated Tariff Filing Information system can have access to the FMC's data "on a computer from anywhere in the world."

And there are the "tariff watching services" provided by private firms such as D.X.I., he noted.

For non-U.S. trades, there is no overseas equivalent to the FMC. And except for official conference tariffs, no source of detailed information on market rates or contract rates exists.

American Shipper admitted to the shipper that it did not have the perfect answer to his question. No, we don't know of any stand-alone consultancy firm which provides this kind of operational freight-rate benchmarking advice.

However, we suggested four avenues to the shipper, in addition to the "tariff watching services" already mentioned:

- Some international forwarders outside the U.S. keep a close eye on freight rate levels in U.S. and non-U.S. trades. They measure freight rates systematically and we have asked some of them if they could provide this advice to shippers/importers without actually moving their cargoes.
- Some shippers also have close links with "friendly" NVOs. We told the shipper it could be useful to ask a major NVO — which it may be using on some routes — to give indicative benchmark prices for the trades where the NVO has negotiated its own rates or contracts.

If the comparison is based on port-to-port price only, it could work.

- Particularly for the U.S. trades, where shippers' associations are most developed, a shipper may — or may not — be willing to approach and consider joining one. A shippers' association can give information on the rates that it has negotiated.

There is, of course, the issue of whether the shipper wishes to join the association and hand over rate negotiations. In the Netherlands and in France, there are also new informal shippers' associations where shippers (generally small shippers) compare notes and seek to leverage their volumes.

- Finally, as reported in the July issue of *American Shipper,* more and more multinational shippers put out formal international tenders for their global freight transportation and invite carriers to submit bids.

This tender system is meant to coincide with the renegotiation of service contracts and the like, but big shippers can also activate international bids of this kind while existing contracts are still running, to validate or renegotiate rates.

Ethics and contract commitments say that a deal should not be rescinded, once signed. But it would not be first time that shippers or forwarders ask carriers to renegotiate contracts to reflect changes in market conditions. If you invite more bids, you'll get real-life benchmarks direct from the marketplace.

Except for the U.S tariff-watching companies and for potential advisory help from certain forwarders, the options suggested above are not equivalent to an audit of freight rate levels for contracts already negotiated.

If your company belongs to this rare species of freight rate benchmarking advisors, or if you use one, let us know!

What next for TACA?

So, TACA has received from the European Commission a long list of accusations that it engaged in anticompetitive practices (June *American Shipper,* page 14).

The list was accompanied by "a proposal" by the EC to withdraw TACA's right to set inland *and* ocean rates. It also contained a warning that fines can be levied to punish TACA's allegedly serious infringements of competition.

Experience has shown that threats generally guarantee immediate reactions. Will all TACA lines continue to challenge the EC with the same united, confident stance of "the EC has got it wrong — see you in court"? Or will some pull out of TACA and seek a less risky settlement before they lose their immunity to fines?

It now seems unavoidable that the EC will confirm its proposal to withdraw the immunity to fines of TACA carriers.

American Shipper estimates that TACA carriers and their parent companies have worldwide annual revenues of some $42 billion. This is important: the EC can impose fines of up to 10 percent of the group revenues of "guilty" companies — that would be $4.2 billion for TACA lines.

For individual carriers, TACA's maximum fines could range from $36 million, for a niche TACA carrier like Atlantic Container Line to $970 million for a large company like NYK.

This looks frightening but these fines are *not* certain. The EC didn't say it will go full blast and impose the 10 percent maximum price and TACA can, of course, win.

By Gerard Verhaar

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EC strategy: political Utopia

In its recent maritime strategy paper, the European Commission's policy creativity went overboard.

The European Commission's recent paper "Towards a New Maritime Strategy" demonstrates the frequent inability of authorities to support and defend their policies by sound, relevant arguments, as Daniel C. Dennet wrote in "Darwin's Dangerous Idea"(1995).

"There is no such thing as a sound argument from Authority, but Authorities can be persuasive, sometimes rightly and sometimes wrongly," he wrote.

Unfortunately for the Commission, the thoughts and policy concerning liner conferences in the March 1996 paper are rather old and more or less repetitive of what had been said in previous Commission documents.

What is new in this context is that — unintentionally — the document makes it abundantly clear that, as a legal measure, the 10-year-old Regulation 4056/86 (the group exemption for conferences, known as the "competition rules") is irreconcilable with the much older principle of free and fair competition in the EU Treaty, which is now the engine of the new strategy.

High quality, low-cost claim

Alas, the Regulation being there as it is, the document demonstrates tremendous imagination on the part of the Commission in suggesting that the competition rules (i.e. the Regulation) are being applied "to ensure the existence of effective competition in liner shipping trades serving the Union and the provision of high quality, low-cost services to shippers" (paragraph III.3 introduction).

How on earth can anybody in his right mind claim that effective competition in liner shipping can be ensured by granting some sixty-odd shipping cartels serving EU inbound and outbound trades the permission to establish compulsory tariffs (at least in principle), which cover not only maritime carriage per se, but also scores of ancillary charges, additionals, surcharges, adjustment factors and the like?

A long rhetorical question usually invites a very short answer: this claim is.... unfounded.

Inefficiencies

But, now, what about the provision of high-quality, low-cost services to shippers also presented as the result of granting immunity to conferences? If there was such a link, sacrificing a degree of competition could perhaps be tolerated in exchange for these better conference services.

To find an answer to this question, there is no need to ask the views of shippers and their organization, the European Shippers' Councils (their comments might be seen as biased, anyway).

The answer was given by the Commission itself in a statement which showed that its courage and straightforwardness is boundless.

It said: "Inefficiencies may have been engendered by conferences with all operators charging the price determined by the conference, sometimes at the expense of the more innovative operator who could not charge the remium price for a premium service.

"Conversely, in conferences, the more cost-efficient operator is not allowed to charge a lower price to its customer, as it is bound by the common tariff.

"Furthermore, it is possible that tradelane based conference rules hinder the provision of global services by consortia...

"Especially with regard to liner shipping, the possibility of increasing freight rates or managing capacity in times of low capacity utilization may tend to foster uneconomic investment decisions, the consequences of which would ultimately be borne by the transport user," the Commission wrote in the paper (paragraph III.3.c).

Note the euphemistical use of words such as "may" (twice), "it is possible," "the possibility," "tend to." No doubt, these were chosen to give the impression that the conference system had some sporadic or occasional side effects and nothing more serious.

Conference immunity

Those who are familiar with the contents of 4056/86, including the civil servants of the Commission, should admit that the Regulation cannot make conferences provide high-quality, low-cost services. This acknowledgement would not be surprising, since the Regulation is nothing but an offshoot of the UNCTAD Code for Liner Conferences (the use of Code in the EU Regulation was extorted from the Commission by certain EU member states and carriers which threatened to ratify the Code despite its conflicts with the EU Treaty).

Thus, 4056/86 deals with pre-UNCTAD Code conferences and strengthened them in several ways. The conferences of that type were certainly not geared to ensure any degree of service quality as this responsibility was left exclusively to individual member lines.

Neither the Code nor the Regulation compel conferences to provide high quality, low-cost services.

One of the anti-competitive features of conferences should have been eradicated by the EU competition rules: joint conference inland pre-/postcarriage rate-setting. So far, only one conference has been told by the Commission to stop that and this was several years ago. The case is still pending before the courts, as the conference concerned has appealed against the Commission decision.

Furthermore, joint conference terminal and loading/unloading charges have not even been effectively challenged by the Commission.

At the very least, one would have expected a "new strategy" to deal with these anomalies decisively.

EC influence on the industry

The EC's imagination borders on self-importance when it says that it "believes" that the competition rules applied to shipping "have already enhanced the productivity of operators."

This enhanced productivity and "a customer-oriented approach to the provision of maritime services should further increase

opportunities for operators to provide shippers with high quality services at low prices," it added.

No, don't give up reading just now — the best is yet to come.

"This may lead to improved (for the operators, that is) freight rates for certain advanced services, reflecting a normal commercial pricing strategy," it said.

"Higher returns can lead to better safety management and replacement or scrapping of ships than is currently the case," it added.

The Commission's hopes and belief expressed above are filled with so many improbabilities and even contradictions that refuting them would take a whole page. It is easy to demolish this mispresentation.

True, the Commission could argue that the effects cited above are the result of not just Regulation 4056, but rather of the combined application of the three regulations 4056, 4057 and 4058 (the latter two dealing, respectively, with dumping and with securing free access to trades).

In that event, we still have a case of self-overestimation. By the Commission's own confession, each of the latter two regulations has been applied only once. Surely, these two isolated cases of penalties for anti-competitive practices (Hyundai and the Europe/Central and West African trade) have neither scared all the other conferences, their non-EU-membership and third country governments nor created the laudable results cited above.

There is also the question of whether competition problems similar to the Korean and West African cases did occur, undetected and perhaps on a large scale, elsewhere.

The true story

It would have been easier and more honest of the Commission to state the much simpler truth, which is that 4056, in permitting cartels to eliminate competition, has contributed to the occurrence or the continuation of the age-old and universally acknowledged economic features of cartels: overcapacity has been structural and official prices too high.

These two features have led to the opposite situation from common conference tariffs, because they have enabled and often forced conference lines to compete mutually in terms of freight rates (by secret undercutting), which is contrary to conference rules and, in some countries, in conflict with the law.

This alternative view, honest though it is, would have been a rather embarrassing message to the European Parliament and to other EU Authorities, if the Commission had adopted it in its "new strategy" document. ■

WTO shipping talks end without agreement

U.S. refused to offer to liberalize its shipping rules until other countries agreed to open their markets.

By Philip Damas

World Trade Organization talks on liberalization of shipping have ended without an agreement, and international negotiators have postponed further discussion until 2000.

The failure to agree on a multilateral pact by the June 30 deadline marked the end of two years of difficult discussions on maritime transport services.

The decision effectively suspends further talks on shipping liberalization until the WTO holds its next global trade round of talks on liberalization of other service industries and sectors.

The WTO said that when negotiations were suspended, 42 governments were participating (counting the European Union and its 15 member states as one).

The EU, Japan and 22 other countries had submitted conditional offers of liberalization measures.

But the talks were thrown into disarray in early June when the U.S. representatives refused to submit an offer until other countries presented offers that significantly widened access to their shipping markets.

The International Chamber of Commerce and the Council of European and Japanese Shipowners' Association (CENSA) had feared the WTO could reach an agreement that excluded the U.S.

"The EU wasn't prepared to do a deal without the U.S.," a WTO source told *American Shipper*.

The EU and Japan had favored resuming the talks before 2000, but other participating nations pushed for a longer suspension.

The next round of talks will start from scratch. The provisional offers during the just-ended negotiations are invalid without the approval of a multinational agreement. Norway and Iceland, however, said they would implement their programs of liberalization voluntarily, despite the collapse of the talks.

The WTO said its member governments "agreed that members wishing to modify commitments in this sector" could do so through July.

"Thereafter, governments have agreed not to apply any measures affecting trade in maritime transport services in such a manner as to improve their negotiating position and leverage, except in response to (restrictive) measures applied by other countries," the WTO added.

The agreement not to introduce new barriers in shipping until the talks resume is the only positive outcome of the talks, but it fell short of their intended ambition to liberalize shipping worldwide.

A CENSA spokesman said that the suspension of the talks will allow commerce to progress naturally toward an open shipping market.

He said restrictions in shipping already are few and marginal and may disappear by the time WTO shipping talks resume.

The European Union's commissioner of trade policy, Sir Leon Brittan, called the outcome of the talks "a rescue operation rather than a step forward. We would have liked something more comprehensive and fought hard to achieve it."

"We are disappointed not to have achieved more, but even securing the outcome we adopted was not easy," he added.

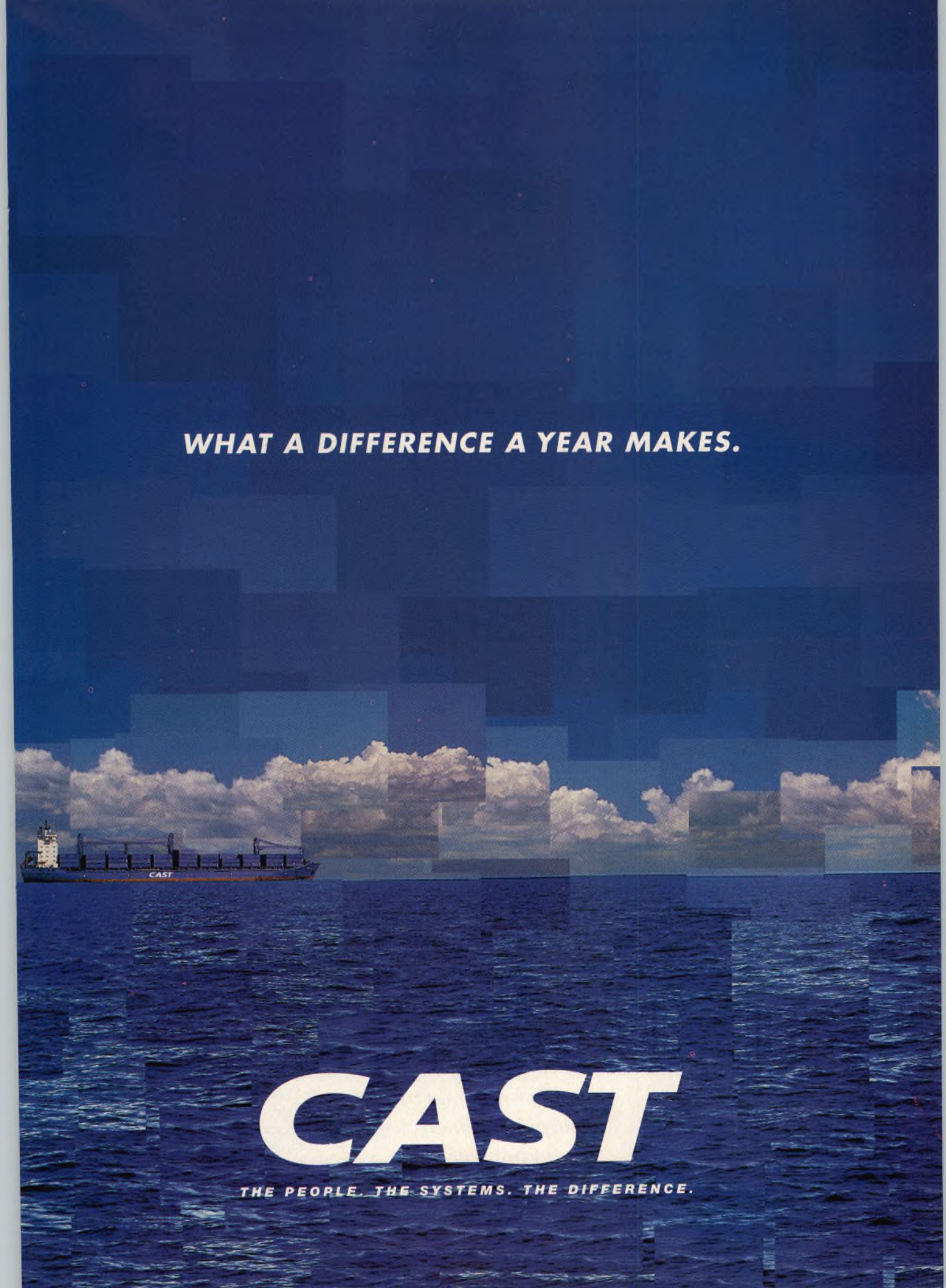
"We do have a commitment to return to negotiations no later than 2000 and not, meanwhile, to take trade restrictive measures except in self-defense."

The WTO negotiators also agreed to allow governments to continue applying policies which do not respect the most-favored-nation principle in shipping under which all governments must treat all their trading partners the same.

In shipping, governments can still have preferential bilateral agreements and exercise the right of unilateral retaliation against a single country.

During negotiations, the U.S. had sought to widen the scope of the discussions on maritime transport services to include port and intermodal services.

It is possible that the next round of negotiations could look at these shipping-related areas for future liberalization measures, according to shipping sources. ■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THE PEOPLE. THE SYSTEMS. THE DIFFERENCE.

Details of EC accusations against TACA

Confidential EC statement cites rate hikes, lack of IAs, dealings with NVOs as evidence of TACA abuses of market power.

By Philip Damas

In its latest statement of objections against the Trans-Atlantic Conference Agreement, the European Commission says TACA's market dominance is demonstrated by the way independent carriers follow the conference's pricing lead.

The EC statement includes the most serious accusations yet against TACA, the 17-carrier agreement formed in an effort to shore up transatlantic shipping rates.

Details of the EC statement, which proposes to end the conference's authority to jointly fix ocean rates (July *American Shipper*, page 14), have not been issued publicly but were obtained by *American Shipper*.

Besides accusing TACA members of abusing their market position, the EC said the conference still maintains a dual-rate system for dealing with non-vessel-operating common carriers.

TACA also was accused of restricting the use of service contracts and independent actions, under which individual conference members depart from conference pricing.

Follow The Leader. The text of the EC statement of objections points out that TACA's 1996 business plan called for increases in tariff and service contract rates, before discounts, of $110 per 20-foot container and $140 per 40-foot container.

The EC statement noted that last October, after TACA announced its business plan, the Continental Canadian Westbound Freight Conference and the Canadian North Atlantic Westbound Rate Conference announced increases in their general-cargo tariffs of $110 per 20-footer and $160 per 40-footer, effective Jan. 1.

On Dec. 1 Evergreen, the leading non-conference carrier in the trade, announced eastbound transatlantic rate increases of $110 per 20-foot container and $140 per 40-foot container.

But members of the Mediterranean Canadian East Coast Conference — whose members, in the EC's view, don't compete with TACA services — announced lower increases of $75 per 20-footer and $125 per 40-footer.

Market Domination. "For the last three years the TACA parties have had over 70 percent of the available capacity on the direct North Europe/U.S. trades," the EC statement said.

The biggest competitor, Evergreen, has had 11 percent in each year, according to the EC.

"This pattern of concentration allows the TACA to exercise a disproportionate degree of influence over the pricing policies of its competitors who are likely to follow price rises," the EC statement said.

"The price leadership of the TACA is also likely to be reinforced by the fact that it is one of the most restrictive agreements between liner companies in the world and has acquired a reputation as the price leader in the market.

"This situation is also reinforced by the fact that the tariff schedules and rate structures in this market are complicated and have been developed over a long period of time. The independent lines set their rates by reference to the TACA's tariff and are accordingly price takers.

"TACA has taken steps to neutralize potential competition. The steps in question include the accession of new parties, the agreement of the TACA parties to allow dual rate service contracts and the fact that the former unstructured TAA members did not compete for certain service contracts with NVOCCs."

> ***"This pattern of concentration allows TACA to exercise a disproportionate degree of influence over the pricing policies of its competitors."***

"A chronology of TACA party membership shows that every significant potential competitor that has entered the transatlantic trade since the inception of the TAA has done so by joining the TAA/TACA ... It is especially important that not one of the four Asian carriers which have entered the trade since 1992 (NYK, Neptune Orient Lines, Hanjin and Hyundai) has done so as an independent carrier operating in competition to the TACA parties.

"The Commission ... considers that the members of the TACA have abused their collective dominant position ... and have thereby infringed Article 86 of the (EC) Treaty on various occasions. From an economic point of view, because the majority of European exporters to the U.S. are or may be affected by these abuses, the Commission considers that these infringements are of a serious nature."

Rate Increases. The EC said TACA's predecessor, the Trans-Atlantic Agreement, raised rates by 10 to 65 percent after it was established at the start of 1993.

TACA raised rates by about an additional 15 percent in 1994, and "according to the European Shippers' Councils, the increases imposed in 1995 therefore give an overall increase over a period of three years in excess of 80 percent," the EC said.

TACA quoted the European Shippers' Council as reporting increases in transatlantic service-contract rates in 1995 by an overall rate of 10 to 15 percent.

The shippers' council furnished the ESC with these examples:

- **From Germany:**
  Automobile spare parts, 16.9 percent.
  Automobile electrical equip., 14.0 percent.
  Computers, parts, 11.4 percent.
  Electrical, medical equip., 11.3 percent.
  Machinery parts, 11.3 percent.

- **From the Netherlands:**
  Flower bulbs, 5.4 percent.
  Dairy products, 13.9 percent.

- **From Denmark:**
  Beer, 12.8 percent.
  Meat, 5.3 percent.
  Dairy products, 10.1 percent.
  Cookies, 10.6 percent.
  Furniture, 14.1 percent.

- **From France:**
  Iron and steel, 22.0 percent.

Agriculture (average), 15.0 percent.
Chemical (high value), 6.0 percent.
Paper, 23.0 percent.

- **From the U.K.:**
  Chemical products, 10.0 percent.
  Beverages, 7.9 percent.

- **From Belgium:**
  Steel wires, 18.2 percent.
  Chemicals, 14.0 percent.

Two-tier Structure. Contrary to TACA's assertions, the EC said that the agreement still has a two-tier membership structure under which former non-conference lines price their services at a lower level than former conference lines.

When TACA was formed in 1994, it said that the agreement would no longer have the two-tier membership of its predecessor, the TAA.

The EC said that TACA's hidden two-tiered structure — which it had specifically prohibited during the proceedings against TAA — has allowed TACA to increase its membership by attracting non-conference lines.

The EC said: "It is apparent from a review of TACA's 1995 service contracts that a very large (number) of service contracts with NVOCCs has been entered into only by those TACA parties which were formerly unstructured members of the TAA. These lines were in fact the former independent, non-conference lines operating on the transatlantic."

"It is also apparent from a review of TACA's 1995 service contracts that a significant number contain a dual rate structure whereby the former 'unstructured' members of the TAA charge lower rates within the same service contract than the former 'structured' members of the TAA. The reduction varies between $50 and $100 per FEU.

NVOCC. The EC said that TACA was violating European competition laws by setting a maximum level for commissions paid that TACA lines to freight forwarders.

The EC reached the following conclusions:

"The fixing of maximum levels of freight forwarder compensation is likely to eliminate competition between the TACA parties to win the customers of such intermediaries by offering higher commissions ....

"The effect of the reservation of the NVOCC service contracts to the former non-structured TAA members and the systematic inclusion of dual rate prices in service contracts for the benefit of the former non-structured TAA members is to lead to an extension of the membership of the TACA to a much wider number of shipping lines than would otherwise be the case."

Service Contracts, IAs. The EC cited a reduction in independent actions by TACA members.

"In the first six months of 1995, the parties to the Vessel Sharing Agreement and related agreements took a mere 41 independent actions between them," the EC statement said.

"The Federal Maritime Commission has publicly stated that no significant independent rate action took place in 1994. Thus the effect of these agreements has been to contribute to the elimination of intra-TACA competition particularly by leading to the curtailment of IA.

The EC said that on Nov. 17, TACA members said that as of Nov. 10, "no unilateral action has been taken (by individual TACA lines) with respect to TACA service contracts in 1995.

"The absence of IA on service contracts and the TACA rules on the terms of service contracts, including the rules requiring disclosure to the other TACA parties, mean that less price competition is brought about between the parties than would be the case if the lines offered genuine time/volume rates rather than time/volume rates disguised as service contracts."

TACA prepares response to EC

Carriers compile market data to rebut EC allegations of market abuse.

By Philip Damas

Trans-Atlantic Conference Agreement said they will present a market analysis as part of their reply to the European Commission's allegations that TACA abused its position.

Senior owners' representatives of TACA lines met in New York on June 26 and agreed to the new strategy in their long-running battle against the EC.

"The lines discussed the statement and agreed very clearly how to react," John Pheasant, legal counsel to TACA, told *American Shipper.*

The market analysis will describe the level of competition in the North Atlantic trade and focus on material evidence for 1995 and 1996.

"I am hopeful that when the facts are on the table, we will make some progress," Pheasant added, claiming that the EC statement was based on shippers' outdated comments from 1994.

"We will be replying to the statement in writing," he said.

Pheasant and Olav Rakkenes, chairman of TACA and of Atlantic Container Line, met with EC officials in Brussels on July 3.

They told the EC that TACA lines were taking the issues raised in the statement of objections very seriously and would need time to compile a market analysis.

Under the initial deadline, TACA was to respond to the EC statement by the third week of July. However, the commission was expected to grant TACA an extension of several weeks.

Pheasant said the EC statement contained "a rather simplistic and inaccurate position."

He said the EC's proposal to remove TACA's right to collectively set rates is serious and brings into question the long-established antitrust immunity of liner conferences.

Pheasant said that TACA lines "would focus on their defense" of antitrust immunity.

During the New York meeting, TACA representatives did not discuss potential amendments to the TACA agreement, Pheasant said.

"That's not appropriate at this stage," he said.

The TACA lawyer confirmed that the group had sought to reach a compromise with the EC on how to amend certain aspects of the agreement, but this discussion has been suspended.

The adamant, common position of TACA lines contradicts what certain shippers' councils in Europe perceive as unavoidable cracks and differences of opinions in TACA's ranks.

"What is required now is an analysis of the effect of (the EC's) proposals against the background of the marketplace," Pheasant said.

He did not tell *American Shipper* how TACA would rebut the EC's claim that joint service contracts are illegal, a sensitive point which will have to be tackled.

He said that the proposed market analysis for TACA's reply is a large undertaking. Pheasant said that complaints lodged with the EC by European shippers' councils put "an enormous burden on TACA" to prove that it wasn't guilty of alleged anticompetitive practices. ■

EC probes alliances of airlines

European Commission to investigate six transatlantic alliances of U.S. and European airlines.

By Philip Damas

The European Commission said it will investigate six transatlantic alliances involving a total of four U.S. airlines and eight European airlines.

It is the EC's first attempt to act on airline alliances beyond intra-European routes.

The commission said it would investigate the agreements between:

- American Airlines and British Airways.
- United Airlines and Lufthansa.
- United and SAS.
- Delta and Swissair, Sabena and Austrian.
- Northwest and KLM.
- USAir and British Air.

The EC said transatlantic code-sharing agreements, under which carriers book cargo for each other, appear to cover "very close commercial cooperation" on capacities, commercial policy, tariffs, schedule coordination and sharing of revenues.

"On the basis of the information available, it appears that these agreements will substantially restrict competition on the routes between the U.S. and Europe, as well as on some intra-Community (intra-EU) routes," the EC said.

"The agreements under consideration will have as object and effect the elimination of competition between the companies concerned, whose market shares are significant," the EC added.

The commission said anticompetitive effects of the alliances will be strengthened by the fact that U.S. carriers have "fifth freedom" rights to fly between European Union member states.

"Conversely, the European airlines do not have traffic rights inside the U.S. which would enable them to compete with the American companies," the EC said.

Chris Welsh, spokesman in Brussels for the European Air Shippers' Councils, welcomed the EC investigation. "Clearly, any diminution of existing service or diminution of competition would be of concern," he said.

Welsh added that the EASC isn't opposed to cooperative agreements as such.

The shippers' group favors liberalization of inter-continental airline markets, to complement measures already introduced in the U.S. and in Europe toward deregulation of their domestic markets.

The EC proposed to to send a "statement of objections," followed by oral hearings involving the carriers.

These proceedings will be similar to those adopted in competition cases against carrier agreements in the ocean shipping industry.

Such investigations in the airline industry are normally handled at national level by European Union governments. The EC said that it cooperate with EU member states' competition authorities.

The EC also appears to want to bundle under its authority all responsibities for air transport policy and for competition policy.

In Europe, member states have traditionally had the power to individually negotiate open-skies agreements with non-EU governments. Individual European governments were also responsible for approving airline alliances involving non-EU airlines.

In late June, though, EU member states delegated to the EC the power to negotiate jointly with the U.S. a new open-skies policy, with the exception of aspects related to traffic rights (still handled by European governments).

The EC's negotiations with the U.S. Transportation Department are expected to begin in October. Depending outcome of its investigation, the EC could order changes to existing transatlantic alliances, some of which were formed several years ago. ■

U.S.- Japan air talks collapse

Breakoff in bilateral talks raises prospect of U.S. sanctions.

By Tony Beargie

Aviation relations between the United States and Japan took a nose dive with the recent collapse of bilateral aviation negotations.

The talks foundered over disputes involving "beyond" rights — the ability of each country's carriers to serve points beyond their first stop.

The Japanese disagree with the U.S. view that the nations' 1952 bilateral accord guarantees U.S. air carriers unlimited flights to fly beyond Japan.

These rights "are no longer recognized as vested rights," the Japanese government said.

The breakoff of the talks raised the prospect of U.S. trade sanctions, and jeopardized several announced expansions of service between the countries.

United Airlines and Northwest Airlines delayed plans to extend service from Osaka to Jakarta, Indonesia. Federal Express also delayed the start of its cargo flights to Asian points beyond Japan.

The breakdown also forced United to cut back service between Los Angeles and Tokyo from 14 weekly flights to seven. Likewise, Japan Airlines will not be allowed to increase services from three to seven flights weekly in the Hiroshima-Honolulu market.

United criticized the Japanese actions, saying that "unfortunately, Japan seems more interested in gaining control over these markets than in responding to the needs of consumers and communities."

The U.S. and Japan blamed each other for the collapse in negotiations.

U.S. Transportation Secretary Federico Pena left the door open for future talks, but cautioned that Japan would have to show that "it will respect its obligations" under the 1952 bilateral agreement.

"This would give us confidence that any new rights we might negotiate would also be respected. In view of Japan's apparent unwillingness to approve services authorized by the agreement, we must now consider our options as to how we should respond," Pena said.

Japan said it proposed expanded opportunities for carriers of both nations "on the basis of equal opportunity, but the U.S. "refused to discuss" the issue.

Japan Airlines wants to be able to fly to Detroit and Dallas, and All Nippon Airways is seeking approval to fly to the U.S. mainland and Hawaii from Kansai International Airport in Japan.

The Japanese accused U.S. carriers of "continuously abusing" their rights to fly to points beyond Japan, in violation of the 1952 air transport agreement.

The U.S. aims for an open-skies accord "without any safeguards," the Japanese said. The U.S. also wants to retain its domestic markets for U.S. airlines "exclusively," the Japanese said. ■

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Made in Macau — or China

Customs says Chinese-made goods are secretly routed through Macau, Hong Kong. Importers claim agency's current effort is election-year politics.

By Richard Knee and Robert Mottley

U.S. Customs is stepping up efforts to halt the inflow of Chinese-made clothing that is transshipped through Macau or Hong Kong for country-of-origin relabeling.

The agency is increasing pressure on importers to be able to prove certain merchandise came from Macau or Hong Kong if it is so labeled.

On June 3, a few days after a Customs verification team visited a number of Macau factories, the agency announced toughened entry procedures for apparel shipments from that country, which is perceived as a smugglers' haven.

A week later, Customs announced the new requirements applied to Hong Kong-origined apparel as well.

Affected are nightwear (category 351), underwear (352-652), dresses (336-636), skirts (342-442-642), and men's and boys' suits (443-643).

Both the suddenness and the nature of the June 10 action have textile and apparel importers breathing fire at Customs. And the episode has further chilled relations between Customs and two importer associations.

One of them, the U.S. Association of Importers of Textiles and Apparel (USA-ITA), says it wants Congress to investigate what the group terms harassment by Customs at the behest of the White House and domestic manufacturers.

Many of those manufacturers are based in the South, which the White House is courting for the November election.

The other group, the American Association of Exporters and Importers, has distanced itself from any frontal assault on Customs.

Some importers say privately they doubt USA-ITA will be able to get Congress to investigate Customs' action. They cite the importers' overriding need to negotiate with the same Customs officials whom some of them would like to tar and feather.

In fact, it is a handful of Southern congressmen — and domestic producers — whose complaints have prompted Customs to clamp down, according to Robert Dorsett, an import specialist at the agency's headquarters in Washington.

Dorsett said such transshipping has occurred for years, and it skirts visa and quota regulations and results in duty misassessments.

But no one is saying by how much the federal coffers are being shorted by such misassessments. Dorsett said Customs could not use those numbers for enforcement purposes if they were disclosed.

The Census Bureau has the dollar values of textile and apparel imports from China, Macau and Hong Kong through last April (see box), but an official with the bureau's Foreign Trade Division said the agency has no way of divining how much of the Macau- and Hong Kong-labeled merchandise actually came from those countries.

Domestic apparel manufacturers say transshipments account for 25 percent or more of imported goods. Importers of Asian apparel say transshipments comprise only 3 or 4 percent of product brought in.

New Entry Requirements. The new requirements include original signatures by factory managers and subcontractors on textile declarations; certifications by importers that such declarations were accurate, and a single entry bond for all entries.

"It is likely that individual importers have been unaware of any supplier malpractices."

George Menendez
president,
Sack & Menendez

Under a conditional release procedure effective through Sept. 1, Customs may collect a penalty equal to the value of the goods for failure to redeliver goods upon demand.

There was no warning of the June 10 expansion of the new rules to shipments from Hong Kong. Customs did not even post notice of the impending change on its

Value of textile, apparel imports

Official statistics on value of textile and clothing imports to the U.S. from China, Hong Kong and Macau. What the figures do not show is how much merchandise purportedly from Hong Kong and Macau actually originated in China.

Textile yarn, fabrics and made-up articles
(Standard International Trade Classification Code 65)

	China	Hong Kong	Macau
1995	$1,150,608,000	$200,978,000	$6,139,000
1996 (Through April)	$300,092,000	$59,478,000	$237,000

Articles of apparel and clothing
(Standard International Trade Classification Code 84)

	China	Hong Kong	Macau
1995	$5,854,219,000	$4,343,924,000	$757,565,000
1996 (Through April)	$1,394,563,000	$1,009,640,000	$219,782,000

Source: U.S. Census Bureau, Foreign Trade Division

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own bulletin boards on Friday afternoon, June 7, in a departure from its usual practice.

"It just hit us out of the blue," Laura E. Jones, USA-ITA's executive director, told *American Shipper*.

A Customs spokesman said that "a thorough review of data available to Customs has revealed import patterns from Hong Kong similar to those found in Macau."

The Macau rules were imposed on Hong Kong goods "as the next step in the fight against unlawful transshipment.

Another Customs source used the analogy of a speed trap: "Cops don't warn you that they're monitoring a stretch of highway."

"Did something new happen?" Jones asked. "No one is telling us anything. Hong Kong has regularly informed Customs whenever a transshipment is discovered. Why the sudden change in strategy?"

Importers howled loudest over a single-entry bond requirement.

"A large-volume importer may pay premiums of as much as $5,000 for a continuous bond with a face amount in the millions of dollars," Jones said. "The cost of a single transaction bond is much higher. For an entry with a value of $100,000, the single entry bond could be anywhere from $85 to $550."

George Menendez, president of Sack & Menendez in Tampa and a leading spokesman for the nation's customs brokers, said that Customs advised "that importers of textiles and apparel from Hong Kong and Macau must closely examine vendor-provided documents and must be able to verify the authenticity and accuracy of those papers."

"It is likely that individual importers have been unaware of any supplier malpractices," said Menendez, who chairs the customs committee of the National Customs Brokers & Forwarders Association of America.

"The treatment of single bonds by Customs reportedly varies between the East and West coasts," he said. "The charge per bond may range between value of merchandise plus estimated duty and (up to) triple the value of the merchandise."

Reportedly, Customs port directors on the West Coast set the amount at value-times-three, while those on the East Coast are setting it at value-plus-estimated duty, further confusing importers.

Customs Softens Stance. Customs lost no time in reassessing the single-entry requirement.

On June 19, the agency declared it would "adopt measures to ensure that legitimate trade by Hong Kong manufacturers is not impeded by steps taken earlier this month against certain textile goods transshipped through Hong Kong ... "

> ***"Customs harassed importers, pure and simple, without any basis in fact."***
>
> **Laura E. Jones**
> *executive director, USA-ITA*

The corrective measures included "waiving the single entry bond on textile shipments cleared by joint verifications teams" in Hong Kong.

Customs promised also to try to verify within 72 hours shipments detained in the United States and to review Hong Kong's factory verification system for possible inclusion in an overall system designed to stop transshipments.

Groups' Differences. The episode points up the differences in perspective and strategy between USA-ITA and the AAEI.

Jones and AAEI president Eugene J. Milosh have been at odds since she broke away from his group eight years ago.

Milosh said he believes corrective efforts can continue in a climate not rocked by accusations of wrongdoing.

But Jones, who also has had a hand in softening the new Hong Kong-Macau rules, isn't going to drop the whip.

"Customs harassed importers, pure and simple, without any basis in fact," she said. "I still believe Congress should look into why Customs takes such politically motivated actions without giving importers advance notice.

"The assumption that all importers of Hong Kong and Macau apparel are bad actors and should be penalized is wrong, and it should not be tolerated in this country."

Not for the first time, importers accuse domestic apparel manufacturers of urging the White House, in an election year, to make life tougher on importers.

"This is just one more instance of protectionism to appease the domestic industry," Jones said.

The General Accounting Office, which is the investigative arm of Congress, is already probing the Committee for the Implementation of Textile Agreements over allegations of overstepping its quota-setting duties to unduly favor domestic manufacturers. ■

"No one in China cares about a foreign shipper, except the shipper. You must look out for your own goods."

Gregory L. Gibson, Michael McCune and Jason Foster

Young China Hands

Walking the streets of Shanghai pays off for logistics expediter

By Robert Mottley

China has become the itch that won't go away for U.S. manufacturers. It offers the largest consumer market in the world and, contrarily, the hardest to crack.

The logistics of doing business in China can frustrate even multinational companies that introduce new products with relative success around the globe, yet see their 'best practices' wrecked when attempted in China.

Here's a recent example. A U.S. company used its regular freight forwarder to ship several containers of microwave ovens to Shanghai. The Western forwarder worked by fax and e-mail through a reputable Chinese counterpart. No problems occurred until the container arrived at Whampoa, the port of Shanghai. Then everything went wrong.

Customs Quandary. The containers sat by the water for weeks during a prolonged wrangle with Chinese customs. The Western forwarder finally learned that there had been two problems. The duty was six times the amount expected, for reasons the Chinese forwarder couldn't explain. And the microwave ovens were not the models ordered originally by retailers.

The Western forwarder then went back to the shipper. After a hasty shuffle through order forms, the shipper admitted that the retailers in China had asked for model X, since superseded by model Y.

"We sent them model Y, our latest product, in good faith at no extra cost," said the shipper, holding a bill of lading that clearly stipulated model Y.

The Western forwarder, after another three weeks of faxes to Shanghai, then had to explain to the shipper that Chinese customs would not allow a substitution.

There was no dispute — after repeated phone calls, often mysteriously cut off after the first "wey?" on the Chinese end of the line — that the containers held model Y and that the bills of lading properly defined it. But the original order specified model X, so the containers would have to be returned.

The shipper asked the retailers to fax an

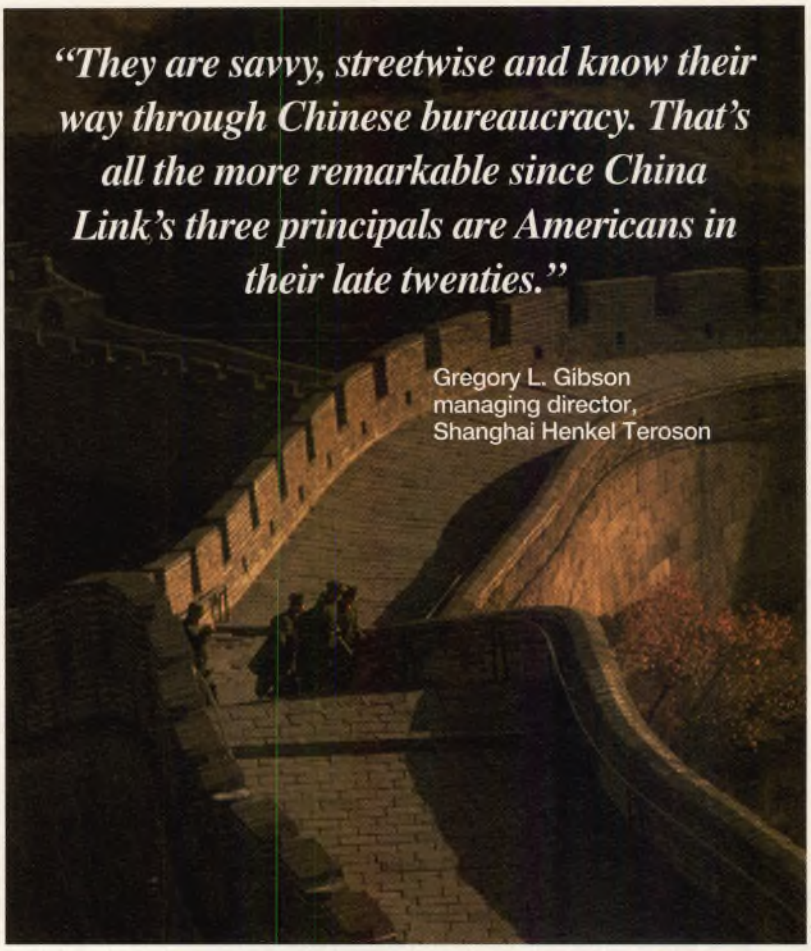
order for model Y. The retailers balked, thinking they would have to pay more for the newer model, and no pleading from the U.S. end could change their minds.

Goods Returned. As a result, the containers had to be shipped home. The shipper then discovered, due to reduced inventory, that there were not enough model X units left to fill the Chinese retailers' original order.

Although shippers may find Chinese logistics inscrutable, they are not impenetrable. The nightmare described above could have been avoided if the U.S. shipper or the Western forwarder had used a logistics expediter in Shanghai.

Such firms increasingly function as middlemen to ease the strains of getting goods through Chinese customs and into the hands of retailers. They are logistics providers in the most basic sense of the term, and can fill an awkward gap created mostly by Western ignorance of Chinese ways.

A skilled expediter could have reversed the outcome of the scenario above in several ways. Knowing in advance that the U.S. company would offer model Y instead of X, the expediter could have assured retailers that they would get model Y at no extra cost. The incoming shipment could have been "walked" through Chinese customs, and the higher duty negotiated down by verbal bargaining.



Savvy Middlemen. *American Shipper* interviewed the directors of China Link, a logistics expediter in business in Shanghai since 1994, to find out what shippers should know about venturing into Chinese markets.

China Link has served clients as diverse as Coca-Cola, Hershey, Smuckers, CIB — a Canadian construction company, and Henkel-KGaA, a multinational chemical manufacturer based in Dusseldorf, Germany.

CIB used China Link for a one-time market survey. The other clients named, confirmed independently because China Link would not release their identities, have had regular business with the company. Each has successfully established products on the mainland, often after considerable competitive joustling that has not gone unnoticed. The Chinese seem to prefer Coca-Cola over sweeter-tasting Pepsi; Hershey spars with Mars in on-going candy wars.

Why would a company with an established presence need a logistics expediter?

Gregory L. Gibson, managing director of Shanghai Henkel Teroson, who spoke with *American Shipper* while on U.S. home leave in Kentucky, said "there's a simple answer to that. China Link has a targeted, focused expertise that we need, and they are now a permanent part of our long-term planning in China."

"For Shanghai Henkel Teroson, China Link deals with Chinese customs," Gibson said. "Their people interpret the harmonized duty rates for imports, so that officials understand exactly what should apply to our products, and they walk our shipments through the entry process. They also train our staff."

"They are savvy, streetwise and know their way through Chinese bureaucracy. That's all the more remarkable since China Link's three principals are Americans in their late twenties."

"China Link has worked for us in the past," a Smuckers spokesperson said tersely, "and we'll use them in the future. Because of the proprietary information involved, we have no further comment."

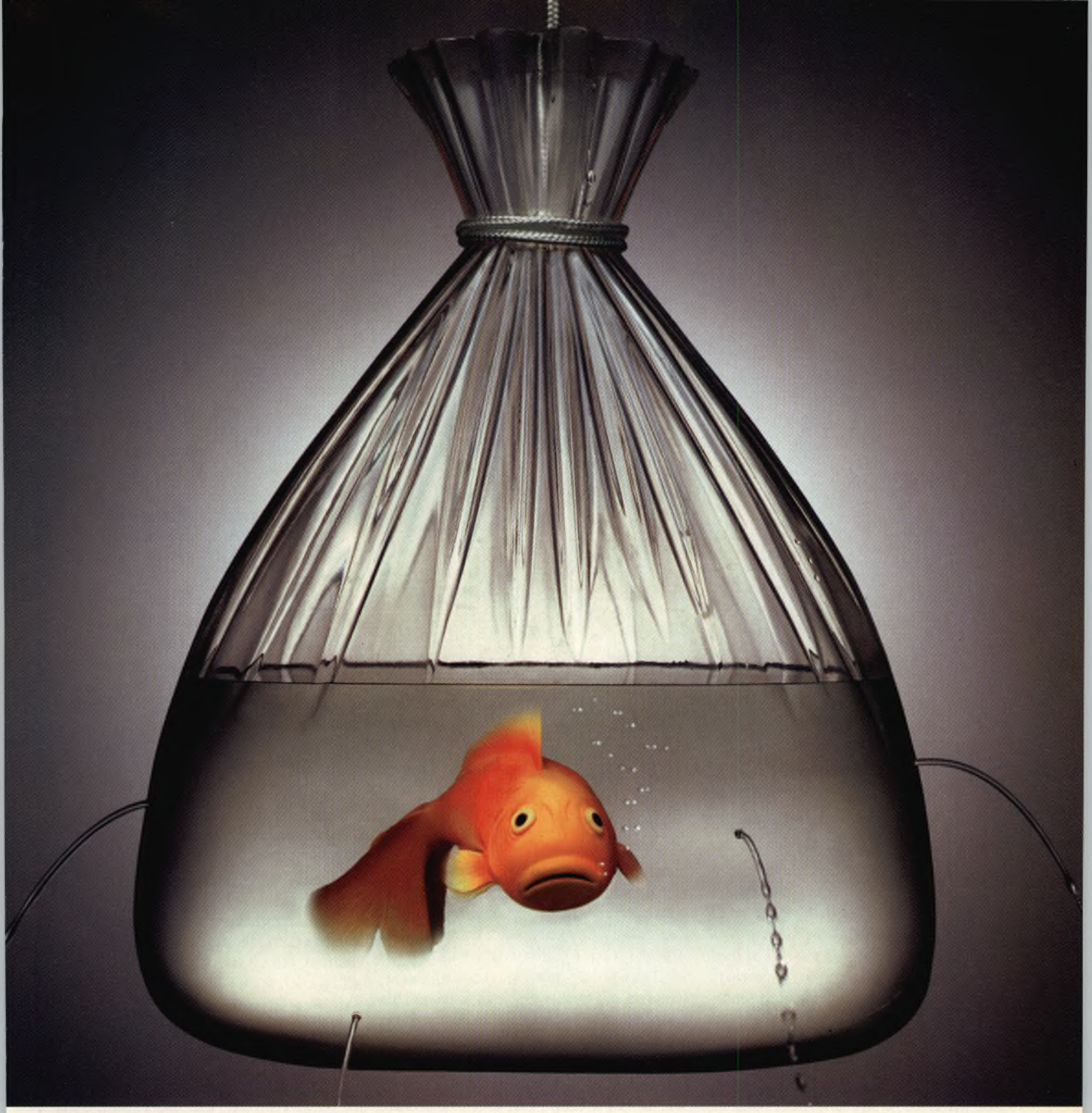
Diverse Backgrounds. China Link's three founding partners — who call themselves directors — Ira Bloom, 28, Jason Foster, 27, and Michael T. McCune, 26, grew up in families well acquainted with business.

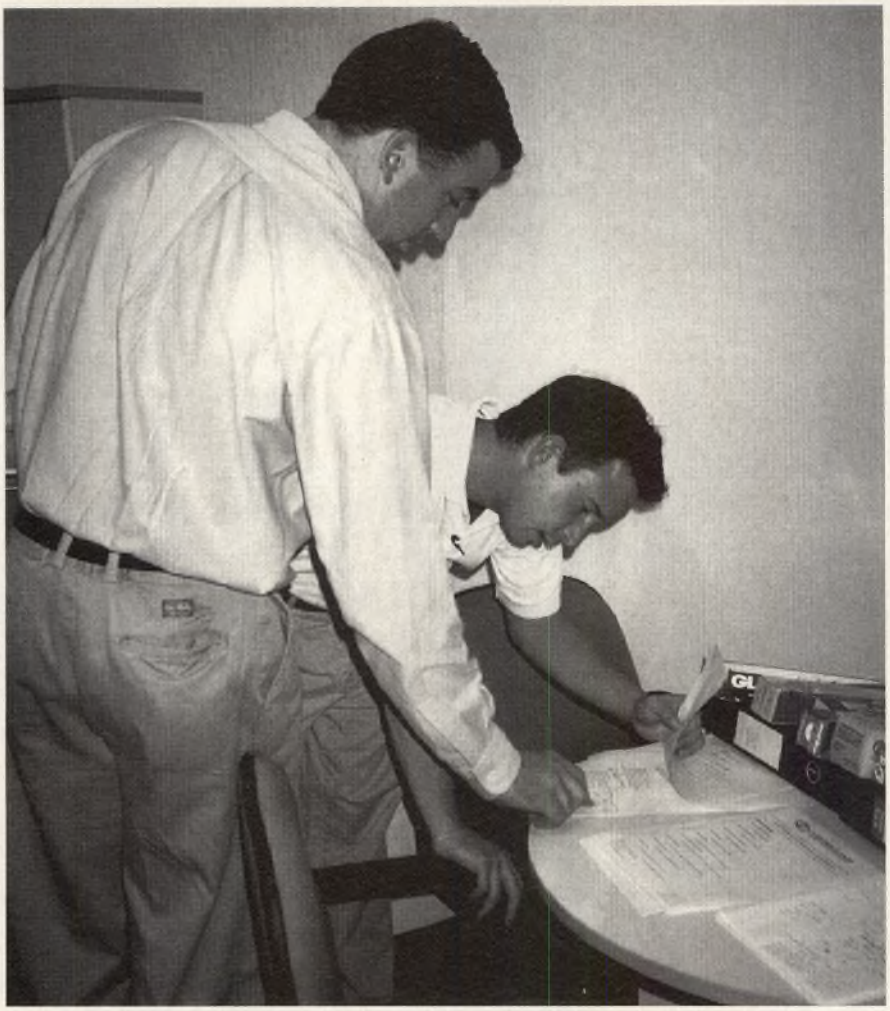
Bloom's father retired recently as a top-level overseas executive for the May Company. Foster's dad is a manufacturer in New Mexico. McCune's father is an admiralty attorney in San Francisco who knows the Far East. Each has provided support and advice, if not fully understanding their sons' obsession with China.

What brought three young Americans together to form a Chinese logistics company?

Ira Bloom had lived in Hong Kong as a child. After graduating from the University of Pennsylvania, he studied Chinese for a year, and then went to Hong Kong in 1989 to work as an intern with the American consulate. After a two-year stint in the commodities exchange on Wall Street, Bloom moved to Shanghai, handling product distribution for Mundi/Westport Corp., an American leather goods manufacturer.

Jason Foster, having earned a degree in finance from business school at Emory University, first went to China as an English teacher. "I had one year of Chinese in high school, and another in college. I taught business and conversational English at the China University of Technology in Beijing," he said. "The school was very conservative, and watchful. Every young American male teacher they'd hired before me had married one of their students. They didn't encourage that at a very model Communist school. I had to be in a guest house every night by 10:30."





Michael McCune and Ira Bloom edit a market survey.

Country Life. Foster soon moved out of the city, commuting by subways and bus. "I lived in a peasant village in the environs of Beijing. You could smell the nightsoil," a euphemism for human excrement spread on the fields. There were no Westerners around to interpret for Foster in the markets, restaurants and post offices.

"If you didn't speak Chinese, you didn't eat or get along very well," he said. "I had a lot of incentive to become fluent, and as a result, I speak a very practical but peasant-inflected Chinese."

He then worked in Taiwan for a year as marketing manager for a quality-control consulting company, and in 1993 became chief project manager in China for International Medical Care, a subdivision of International SOS Assistance. That involved establishing Western-standard medical clinics in Beijing, Shanghai, and Guangzhou (formerly Canton).

Michael McCune studied Chinese at the University of Michigan. "I was hooked by Chinese culture," McCune told *American Shipper*. "Ira, Jason and I discovered, before we met each other, that speaking Chinese doesn't leave you many options. Where else do you go but China?"

McCune went to Taiwan, working in marketing for a local manufacturer. "I liked it, but it wasn't really what I was looking for," he said. So he took a plane to Shanghai, and within a week had a job in the commercial section of the U.S. consulate there.

For two years, McCune helped American manufacturers who came to the consulate seeking help with their marketing development in China. He immersed himself in the local culture, learning to speak Mandarin with a subtlety that impressed natives.

Casual Meetings. McCune met Bloom by chance, and the two of them encountered Foster at a party. "We found each other compatible," Bloom said by phone from Shanghai. "We could be easy and serious together," McCune said while visiting New York with Foster to meet clients.

"We talked about the experiences we'd had in our various jobs," Foster said, "and we decided to start a company focused on distribution and logistics."

What was the lure in China? "A future booming economy. The largest market in the world," McCune and Foster answered together.

"For one thing, we were in the right place," McCune said. Shanghai is the largest and most prosperous city in China, with a population of almost 14 million (Beijing has about 11 million). "If you are launching a product in China, do it in Shanghai," he said.

Other commentators have found parallels between Shanghai and New York City. Chinese in the heartland are not fond of Shanghai. Their antipathy is mutual, for the city is sophisticated and quick to mock peasant ways. Yet products that appeal in Shanghai are likely to be popular in the hinterlands.

Shanghai also bickers constantly with Beijing, carping in the way that New Yorkers scoff at Washington's "inside the Beltway" mentality.

Both New York and Shanghai, Foster and McCune agreed, share a palpable energy "that you can feel on the streets, except that those in Shanghai are safer."

Setting Up. Bloom, Foster and McCune quit their jobs and formed China Link as equal partners. They registered their company in Hong Kong, and established themselves there with a agent who acts as attorney, accountant and confidant. In mainland China, they have the legal status of a representative office of a foreign company. China Link pays taxes in China and Hong Kong. This structuring is not uncommon.

The three directors ran China Link at first out of a house they all shared, with the help of two Chinese assistants. At the beginning of 1996, China Link leased an office on Yan An West Road and two residential apartments, a three-bedroom flat for Bloom, Foster, and McCune, and a smaller apartment for Western employees working for the company.

China Link now has nine full-time employees. Eight are Chinese, one is American; and the company is about to hire an additional American as the office's project manager.

"There's no mystery to how we operate. We're out there looking all of the time," McCune said, "and we see opportunities for products."

China Link prepares marketing surveys for specific locales, listing available retail outlets, the inventory on hand at those outlets from possible competition, what's selling, and suggestions to expedite distribution.

"How do we get that data?" If it's for consumer goods, we walk into retail outlets

and look around," McCune said. "I talk to clerks first, because they usually tell us more than supervisors. The management view is more party-line formal."

Initial Planning. "When a client gives us a project, we first sit down as a research team, and review objectives, methodology, and deliverables," Foster said. "Then, we create a project schedule, keeping in mind that we need a particular result by a certain date."

"On one retail survey, we may have to break down a cross sampling of retail outlets in each of Shanghai's 12 districts. What's the competition doing? Say a company wants to bring in tape cassettes. Now, how are we going to know, instantly, who else is distributing tape cassettes? We have a data base, but we don't want to start with last week's data, or even Monday's data if it's Friday in the same week," he said.

"That's how fluid the market can be here. We'll take a sample of our client's product out and compare it to products from 15-20 competitors everywhere in the city. To create a market base, we classify retail outlets as A,B, C and D," Foster said. "A and B comprise the largest, most prestigious outlets with high volume, and there are at least 300 of them in Shanghai. Our C and D - sized outlets consist of smaller convenience stores and kiosks, some of them found along side alleys well off the fashionable shopping streets."

A market study can take up to a month, depending on the scale. "We also provide clients with logistics information regarding import and export channels, customs clearance and duty rates. We anticipate trouble shooting in advance of shipments arriving," Foster said.

"We tell clients, 'we need to become experts on your product and on what it or similar products are doing in China, rather than trying to advise you about everything at once," Bloom said. "Let's learn as we go, see what's in the market first, and then analyze the information one step at a time."

"If our fee is $30,000 for a three-month project, then we're paid $10,000 a month. Sometimes a client will hold back a percentage of payment until deliverables are in," Foster said. "That never really becomes an issue. We'll bend to whatever their practice happens to be. If we can set policy, I like to divide payments equally through the life of a project."

Staff Research. China Link's Chinese employees include a computer manager, office manager, research manager and project researchers, more male than female (three are women). Salaries are incentive-based. Are possible employees always knocking at the door? "We have to beat the bushes to find extremely qualified people," Foster said.

"In our business, it's not as simple as going out, obtaining information, and coming back. There are analytical and qualitative skills needed. That's where it's hard to find people with a qualitative mind. They haven't been trained in qualifying information the way Ira, Michael and I have been trained."

"If our researchers are going into, say, ten different stores or retail outlets, we'll discuss with them, when they come back, 'what did you find, what does it mean to you?' Our challenge is to ask the right questions and being able to interpret what they say — of course, they are all fluent in English, but there are still gray areas. Gradually they learn, from our questioning of their data, what our client really wants to know. Eventually, our researchers come to think along the lines we do, but it does take time."

"We have to respect differences in ways of looking at business. They have to understand that our clients are not Chinese and are outside the looking glass, with expectations that the normal way of doing work locally doesn't always meet their needs."

Bilingual Meetings. China Link's directors conduct these meetings with researchers in a mix of Chinese and English. "We tend to use English to reiterate a concept, and then Chinese to ask, colloquially, 'did you understand that?'" Foster said. "Any misunderstandings are cleared up in Chinese — using everyday language. In explaining a heavy hypothetical concept, 70 percent of what the three of us need to say will be said in Chinese, while 50 percent of what they, the researchers, need to say, will be in English."

Very rarely is there a problem with the research. "If we're clear up front, they do it," Foster said.

Bloom and McCune normally work full-time in Shanghai. At least 70 percent of their time is spent implementing projects, and 30 percent on management issues. All three directors, including Foster when he's back from making client rounds in the U.S., do the same research they assign to staff members.

China Link occasionally brings in "younger guys like ourselves who've been in China for a year or two, with exposure to the system," McCune said. "We insist they speak Chinese. They are usually highly educated in the States. They have a mind for business. We've had one full-time American, but he wants to go back to the States for law school. We'll be bringing on two more Americans in the next few months."

Wages Paid. "Our Western employees are here for hands-on logistical experience," Foster said. "They know the money we make goes back into the company." China Link pays its employees an average of U.S. $375 a month, "which is currently in the middle range for the work we do," Foster said.

Although China has recently adopted a five-day week, China Link's directors and staff, like many professionals, will work on Saturdays or Sundays as a matter of course. "We're out during the daylight hours and more," McCune said. "Ira, Jason and I always joke about someday being able to work nine to five. That's not going to happen anytime soon."

In its first year of business, China Link grossed $120,000. In its second year, the company has experienced a high growth rate, but wouldn't comment about potential year-end revenue.

Did Foster and the other directors understand logistics before beginning China Link? "I thought I did," Foster said. "The nitty-gritty details of how to move products I did know, at least to some degree. I learned a lot more as we started specific projects. Making mistakes, which we did, getting over the humps. Looking back, I think that was invaluable. If someone had given us a lot of money to make the start-up easier, we wouldn't have gone out on the streets as much, and China Link wouldn't be the company it is today."

"In our first year, we had the attitude, okay, if we flop, we can all go back to doing something else," McCune said. "That's changed. We're grounded now, building a reputation. And we have people on our payroll and clients depending on us."

Maxed Out. "The flashpoint for China Link was last April," Foster said. "We were maxed out. We were always ready for more business, but growth happened too quickly and overwhelmed us to some degree. We could not compromise a project by signing on five more, because we were all pushed as far as we could go by the work we had in hand."

"We always said that the three of us combined could take on five to six projects at once. Well, we learned, when the work poured in, that wasn't so. So we expanded, hired our researchers, and adjusted accordingly.

"In terms of what we can take on, I'm definitely the most aggressive of the three of us," Foster said. "Ira and Michael were always pushing me to set ourselves up for

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growth. They have much more leverage now, because I can see the harm we could get into if we aren't geared up properly."

"We have to structure projects so that we aren't overextended. This year, we had to tell people we couldn't take any work for June, July and August. Our clients understood, and slated assignments for us in the fall," he said.

"Despite that, we haven't missed a deadline yet," Bloom said.

All For One. Among themselves, the three directors of China Link interact more like fraternity brothers than aloof corporate types. "We listen to each other, but no one is a silent partner," Foster said. "In arguments and debates, voices are raised."

How do they make business decisions? "One of us expresses a strong opinion, and the other two either instantly agree, or not. We talk out an issue, but in the end, there isn't just one person who dominates. Everyone says you have to have one dominant executive. Well, we do, but it's never the same person. One of us takes the lead on an issue. That's how it works with us."

"You have to have a good reason to be adamant, but if each guy fights enough on solid ground, the others will back off to hear him out.

Each director of China Link is perceived by the others as being strongest in one area of responsibility. Blooms handles operations; Foster, finance; and McCune, marketing.

"If a client comes to Ira with a particular project, I trust Ira knows the best way to break that project down, to organize it, Foster said.

"We all don't have to be in agreement so much for firing and hiring. We pretty much always are, which amazes us. In the end, we always see on a level field.

"If we bring other partners, it wouldn't be quite the same," Foster said. "They'll be looking out for their own interests. Mike, Ira, and I always put China Link first. Personally, we come second as individuals, for all of our individual assertiveness."

"It helps now that we actually have a track record to go on. If Ira is for or against something, we can look back after six months and say, 'well, Ira was right' or 'Ira was wrong.' After two years, we're sensing where each of us has a good feel for something or a particular strength where the other two don't," Foster said.

Just Facts. China Link has found particularly ready ears in the U.S. because of the outsourcing frenzy that has swept many corporations. Senior people with Asian experience, who in former days would have been called "old China hands," have been let go in downsizing or re-engineering initiatives, or have been persuaded to take early retirement.

A number of them have set up their own consultancies, but not many actually live in China, and very few of those who do walk about every day checking retail stores. "Other China consulting companies have subcontracted work to China Link," Foster said.

If China Link excels at details, its three directors are very much aware there's a good reason the company sticks to specifics in its pitches to clients. "We haven't had the decades of experience you seem to need to bulls—t with a lordly overview," said one of them. "We wouldn't get any business if our market surveys were generalized in a way that almost anyone could have written them."

That said, the three directors talked candidly about new China truths that they have seen borne out in their work. "We're not pontificating," McCune said. "This is just what we see now. In China, everything can change daily, and often does."

"It takes longer to get delivery routines established in China. You have to be patient. If you take the time, then you can bring drivers around."

Jason Foster
China Link

Contracts. U.S. shippers should know that in China, written contracts are signed, or chopped, for specific throughput services. Contracts are proffered in Chinese and English. A prudent English contract will often include a clause stating it has the same legal weight as its Chinese counterpart, but the fact remains that the English form is basically a translation of its Chinese peer.

"A Chinese court will favor the Chinese contract," Foster said.

In distribution contracts, there is generally no penalty clause for delay in delivery, because the Chinese are often late making delivery.

Truck drivers, for example, often see only a need to deliver goods and receive a chit for having done so," Foster said.

"They lack any concept of why a container has to arrive at a depot or cargo gathering area at a specific time. They don't understand why there's a demand at point B for timely arrival."

"It takes longer to get delivery routines established in China. You have to be patient," he said. "If you take the time, then you can bring drivers around."

"It's very hard to explain in China what an intermodal route means, that in other countries, cargo moves precisely on track from truck to rail to ship. A through bill of lading is a difficult concept," he said.

"Most cargo in China goes by truck and rail, but the logistics of how it goes is something left to bureaucracies and the military."

China's national carrier, the China Ocean Shipping Company (COSCO), is officially part of the Beijing government's Ministry of Communications. In theory, COSCO controls the land routing of all foreign domestic shipments in China.

In practice, rail and truck routing are turned over to local entities, usually on the basis of who happens to be available and willing for a shipment en route to a particular destination. Rail service is excellent, but getting shipments to meet scheduled trains is the problem.

Letters Of Credit. In selling to China, U.S. shippers should be aware of the nature of letters of credit in China. When a Chinese corporation or agency purchases goods, the Bank of China (BOC) issues a letter of credit. The BOC is not a member of the International Chamber of Commerce, and is not legally bound to conform to chamber practices. As a rule, the Bank of China follows the chamber conventions in letter of credit payments, except for the nuance of confirmation.

Shippers should know that the Bank of China's letters of credit are only advised. The participating bank on the shipper's end acts only as a collecting agent for the shipper, forwarding documents to Beijing for negotiation. In effect, the shipper extends credit for the twenty days usually required to collect documents.

Experienced companies arrange to extend the validity of a letter of credit for an 15 days beyond the expiration date stated in the contract. This extension costs more, but less than arranging a second letter of credit should extra time be needed.

Getting Approval. In most business dealings, the Chinese stand behind their contracts and are scrupulous about details being honored to the letter. Established rules are often clear enough, but their interpretations are very fluid. "Nothing is consistent," Foster said, "and you're constantly told different things. A different person in

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the same office will tell you something else. Yet the rules themselves make sense, Everything is written down and it's supposed to be enforced that way, but that doesn't strictly happen."

"But I've found that the person with the chop, the person with approval, has the final practical say in interpretating the rules. As in, 'Okay, 10 percent duty,' chop, that's it. "Once the chop is done, you're home free, because they won't usually be jerking that from under you." A chop in China is used to stamp a crest or name on documents. They are made from a variety of stones. A shipper regularly closing contracts will want his own chop for additional "face."

Federal Oversight. Does the federal government in Beijing monitor the activities of logistics expeditors? "The government has not interfered with China Link's work. We've had to meet their requirements by hiring a local CPA organization," Foster said. "They've been straight with us as a company,"

"They say, 'if you want to obtain approval to remain in business here for three years, you have to register with us, pay this amount of taxes, and you can't just tell us that's what you owe,' you have to go through an organization that the government at least oversees to check your records."

Wouldn't the government be more concerned about China Link, since its foreign principals seem free to range far and wide, observing any part of Chinese life?

"We are free to do that," said Foster. "There are no restraints keeping you from walking into a retail store and talking to a clerk. As for the company, we're not high-profile, we don't manufacture, we just offer logistics services. We bring work to local distributors. I don't know how any one would see us as a threat."

Other sources in the Shanghai importing community told *American Shipper* the government does selectively tap phones and read mail. "Just assume," one informant said, "that any business message, sent by phone, fax, or by means other than coded e-mail, may be read by a third party."

Shared Purchasing. "There's no question that the Chinese favor Western products," Foster said. "They like them. What they import from us has sharpened their own domestically manufactured goods, which have to compete."

"The first marketing consideration, on the Chinese side of things, is pricing. The price counts for more than the product. When they do get past the price to look at the product, Chinese will still buy if they see value added," McCune said.

"Think of this way: how often do you, in New York City, buy a color television? Maybe once every 10 years. Perhaps less today, if you're upgrading into home theater. You have the purchasing power to cover the cost of that set over that period of time, probably acting alone, meaning that it's not a group purchase."

"In China, in the cities, you may have ten people comprising several families, under one roof," Foster said. "If they need something for the community, such as a microwave oven, they'll pool money from all of the wage earners, usually in direct proportion to the amount earned."

"That means if you have the biggest paycheck, you'll pay proportionately more for that oven. When you have sharing like that to buy a needed product, that's a lot of saving power. When a delegation goes out from that multiple household to choose a microwave oven, they want more options in the market. They'll pay for a competitive American product."

> ***"You don't lose face with the Chinese by persisting with them. And at the end of the day, if you wear them down, you win."***
>
> Jason Foster

In a nutshell, "that's why China is such an awesome market," Foster concluded. "Suppose, as time goes by, the families in that household can afford to live as separate entities under their own roofs, each with accelerating purchasing power. The stark figures, a market of 1.2 billion people, really don't give an idea of what a substantial market share could mean for a foreign manufacturer in ten or 15 years."

What is generally not understood by logisticians outside of China is that there's a distinct imbalance in the distribution of population. It's not like the American West, where there seems to be endless land available. In China, over half of the country is covered with mountains higher than the Rockies. Two-thirds of the land is arid. Actually, 90 percent of the people live in 15 percent of the total area of China.

That's a workable, finite area in which logistics can be improved. For example, eight million people live in the immediate city of Shanghai, a population density of 45,000 per square kilometer. "The sheer numbers of bodies can slow down service as it's presently understood," Bloom said, "which is not at all in the Western sense of the term."

Haste Is Costly. What specific advice does China Link have for U.S. shippers?

"If you're sending product to China, don't rush into it. Don't let your CEO or some marketing whiz — maybe an expert in Venezuela, France, South Africa and thus, by extension, China — put pressure on you to start product moving there overnight," Foster said.

"Take the time to research the whole distribution system, or you'll learn the hard way. A U.S. company making consumer goods in southern China planned a major expansion north in 1995, *before* it figured out how to transport product."

"The company realized, too late, that no one could deliver what it had manufactured. The expansion had to be abandoned, at considerable cost, not to mention loss of 'face.'"

"Take China region by region," McCune said. "Each of the provinces is different. It's helpful to remember that no one in China cares about a foreign shipper, except the shipper. You must look out for your own goods."

"Above all, U.S. shippers must have their paperwork straight, down to the smallest details," Foster said. "The Chinese are absolute sticklers for correctness there. They don't care if it's gold or peanuts in a container. If you screw up the papers, with so much as one tiny detail wrong, then you can't bring the cargo in."

Guerrilla Tactics. China Link's clients understand that. However, even if care is taken, trouble can develop out of the blue. "If a procedure isn't clear to an official," Foster said, "or something looks out of order, that'll snowball in China. There's a saying heard around customs sheds: 'if one thing goes wrong, 20 things will then go wrong.' It's true. That's the Chinese equivalent of Murphy's Law — if something can screw up, it will."

When that happens to one of China Link's logistics plans, the company's three directors go into "our guerrilla consulting mode," Foster said. "The three of us will go directly to the source of trouble, and start speaking with the officials concerned. We talk forcibly with them: Ira the iron-logic organizer, Michael our super-fluent schmoozer, and me with my tough peasant accent."

"More than once, I've actually stood inside a container with a customs official, saying 'tell me that it isn't what it says,' " Foster said.

"You don't lose face with the Chinese by persisting with them. And at the end of the day, if you wear them down, you win." ■

Danzas refines 'core carriers' policy

Big forwarder tries to make operations more efficient by focusing on handful of carriers, hubs. Asia is key target.

By Philip Damas

The giant Swiss forwarder Danzas has caught the headlines lately because of its poor financial results and the departure of its former CEO, Bernd Mensinger.

But these negative reports shouldn't overshadow the company's new operational objectives and the "core carriers" approach assigned by the Danzas group to its new Intercontinental Division.

Established last March, the new dedicated Intercontinental Division took over the air freight and sea freight forwarding activities of the group from the previous Danzas Europe and Danzas Overseas divisions.

In May, Danzas group chairman Peter Gross listed four key objectives of the new division:

- Increase market share in Asia.
- Strengthen sales effort in Europe.
- Concentrate on gateways and hubs.
- Bundle the purchasing of services by dealing with "core carriers."

But why should a very large international forwarder restrict its operating policy by working with few hubs and carriers?

Renato Chiavi, head of Danzas' Intercontinental Division and a member of the group's corporate management, told *American Shipper* that a policy of "core carriers" selection is suitable in the ocean shipping sector.

The air freight activities are based on a looser, "preferred carrier" policy, he said.

"Bundling buying power by working with 'core carriers' is only for ocean freight container buying," Chiavi said.

"Core carriers are companies with which we negotiate rates centrally, on a global basis," he said.

Core Ocean Carriers. The core approach of Danzas for ocean carriers is rooted in its need to have access to quality carriers who can guarantee "a service and a price you can keep."

Chiavi commented that these ocean carriers can reserve a certain amount of capacity for Danzas. This can be critical at peak periods of the year, particularly in September/October and January/February.

"We also look for a certain stability of ocean prices," Chiavi said.

He explained that negotiations with core ocean carriers take place direct between the "trade route management" department of the Danzas group headquarters and the head offices of the "core carriers" concerned.

Core carrier negotiations involve very large volumes of freight over several trades. The Danzas group controls a total worldwide freight of several hundred thousand TEUs a year, a volume which is believed to exceed those of the world's largest multinational shippers.

In 1995, Danzas' ocean freight forwarding services generated total worldwide sales of SFr1.0 billion ($870 million). Total net sales excluding Customs duties were SFr641 million ($557 million).

The core approach of Danzas for ocean carriers is rooted in the need for quality carriers which guarantee price and service.

Although managed by the head office of Danzas, the negotiations are "based on local information obtained from local offices," Chiavi said.

He observed said that U.S. regulations require a specific approach for agreements with core carriers involving U.S. trades. Yet he said Danzas could still "favor core carriers" in these trades.

The core carriers of Danzas include Hapag-Lloyd, DSR-Senator Lines, Cho Yang and Mediterranean Shipping Co.

He referred to these global agreements as "umbrella agreements." Moreover, Chiavi acknowledged that local offices where free to renegotiate if market conditions change.

The negative point of these global negotiations with core ocean carriers, according to Chiavi, is that "you constantly have to renegotiate" when market prices fluctuate.

He described these contracts as relatively long-term and rarely "spot" in nature.

"If you can have a spot deal with the freight in hand, you can make money," he said. "Ocean carriers do spot deals, but it is less common than in airfreight," he observed.

Preferred Air Carriers. "In air freight, you cannot negotiate with head offices (of carriers) on a worldwide basis, unless you can give them schedule and firm commitments — which nobody can," Chiavi said.

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Therefore, Danzas buys air freight space and enters space contracts at local level.

Chiavi also said there were more opportunities for air freight buyers to play the market on a spot basis. "Many airlines have yield management systems," he said, referring to their willingness to discount prices to secure late, but marginally profitable, bookings.

Chiavi cited six airlines as the preferred carriers of Danzas for air freight: Air France, Lufthansa, KLM, American Airlines, United Airlines, Korean Air Lines and Cathay Pacific.

In 1995, Danzas' total worldwide sales on airfreight services were SFr792 million ($689 million), with net sales excluding Customs duties of SFr584 million ($508 million).

Margins. Danzas said intense competition in the maritime transport market had reduced both rates and forwarders' margins.

As a forwarder and NVO, Danzas is a customer as well as a competitor of shipping lines.

"There's nothing we can do (about reduced margins)," Chiavi said.

"We are entirely in the hands of the market and the shipping lines.

"But by having bigger volumes, we can obtain reduced rates," he added.

Danzas competes for both full-containerload and less-than-containerload freight.

"FCL is what shipping lines consider their business," he said.

On shipping lines' willingness to work with forwarders. Chiavi commented: "There are forwarder-friendly carriers and forwarder-unfriendly carriers."

The list of core carriers given by Danzas is one of such forwarder-friendly shipping lines and these are primarily non-conference operators or German carriers. (Germany is known to be a forwarders' market.)

Chiavi also said Danzas does a fair amount of business with the Korean shipping lines.

Hubs, Gateways. The focus of Danzas on hubs and gateways is a complementary operational policy to the core carriers strategy.

Chiavi said the concept of hubs and gateways — two words which he sees as synonymous — is to "create cargo concentration in order to have a maximum return on loading 'devices' such as trucks, pallets, containers and railway wagons (railcars)."

He said Danzas could reduce its operating costs by moving these loading devices full, whenever possible, during their mainhaul transport leg.

At selected hubs, Danzas deconsolidates and reconsolidates less-than-truckload or less-than-containerload shipments for onshipment to the final delivery point.

Renato Chiavi
Intercontinental Division, Danzas

"We are entirely in the hands of the market and the shipping lines. But by having bigger volumes, we can obtain reduced rates."

In airfreight, where the hub concept is dominant, Danzas' main U.S. hubs are located in Miami, New York, Chicago and Los Angeles.

Chiavi cited an example of cargoes shipped from Europe to the Miami hub, where they are reconsolidated and combined with other Latin America-bound air freight from other parts of Europe, from various origin points in the U.S. and from local Miami sources.

The use of hubs, according to Chiavi, applies mainly to air freight and, to a lesser degree to sea/air and sea/sea. In the latter case, which involves only LCL freight, the use of co-loading — putting multiple shippers' freight in the same container — is common to optimize container usage.

By contrast, FCL containers generally move direct from port of loading to port of discharge and bypass the hubs.

Chiavi said that Danzas' main hub in Asia was Singapore for both air freight and for LCL sea freight.

"There is no other hub (as such) in Asia," he said. Chiavi added that other ports generally act as the point of entry or exit for one country only. One possible exception is Hong Kong, which combines a local and a gateway role for mainland Chinese cargoes.

Chiavi said that the hubs and gateways policy was applied not only to his Intercontinental Division, but also to Danzas' intra-European overland transport arm, called Eurocargo.

Specialized Sales. Danzas' Intercontinental Division appears to benefit from more leeway and resources than the group's loss-making intra-European transport and warehousing operations. The intra-European operations were blamed for the group's disappointing financial results for 1995 and they going through a rationalization program.

By contrast, the company has decided to boost the sales force of the Intercontinental Division.

Chiavi said the Intercontinental Division, covering air and seafreight, now has its separate sales team in Europe and elsewhere. In the past, sales representatives of Danzas were mainly focused on its large intra-European services and did not give to intercontinental activities the attention they deserved, he said.

"I consider intercontinental sales to be very different from intra-European (transport services) sales," Chiavi said.

Each country also has its intercontinental area manager, whereas Danzas previously had one national legal representative responsible for all product and services in a given territory.

Chiavi said the "key accounts" unit of the group, which sells multi-product services to large corporate clients, was the only one where sales had not been separated.

He also commented that sales leads will be passed from one division to the next if opportunities arise and there will be incentives to encourage some cross-selling.

Market Share. Chiavi said increasing market share, particularly in Asia, and raising productivity are among his top divisional objectives.

"We have to accelerate the revenue growth in Asia," he said.

In 1995, combined net sales on all Danzas services performed in Asia and in Australia amounted to SFr249 million ($217 million), or just 6 percent of group net sales.

Danzas aims to expand its Asian operations at the pace of the Asian transport market's organic growth. Chiavi said that Asia's demand for transport services is expanding by 17 percent a year.

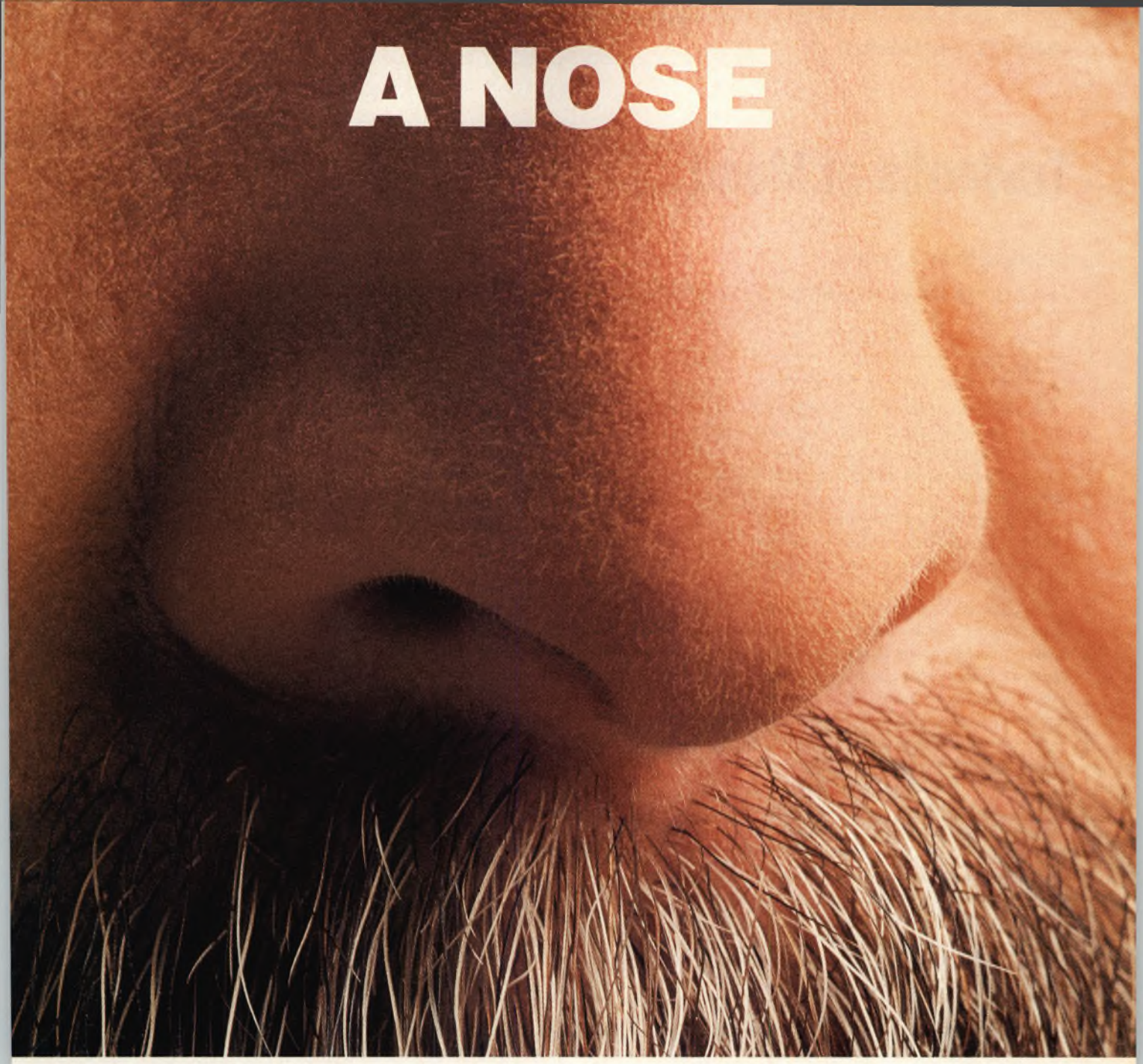
He stressed that growth would have to be generated in the Europe/Asia/Europe transport corridor. in the Asia/Americas/Asia and in the intra-Asia markets.

Chiavi said Danzas has a high market share in its traditional Asian bases, Japan and Taiwan. Having established itself in Indonesia, Malaysia and Thailand in recent years, Danzas now expects to see its efforts rewarded by an increase in market shares in these countries.

Danzas plans to open offices in Laos and in Myanmar. Furthermore, the present sales delegation in South Korea will be replaced by a full-fledged Danzas subsidiary within a few months, Chiavi said.

Asia is the fastest-growing area for international freight transportation and Danzas would like a larger piece of the action.

In fact, besides its focus on "core carriers" and on main hubs, even a traditional European forwarder like Danzas wouldn't mind if Asia became one its "core" markets. ■



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Tradeoffs at Mead

Breakbulk or container?
Longshore or plant labor?

By Chris Gillis

Through a logistics program called the Coated Board System, Mead Corp. has improved European supply chain by reducing transit times and tightening the gaps at handoff points.

The program brings together the individual logistics efforts of Mead's two fastest-growing divisions, coated board and packaging.

The company's goal for the Coated Board System is to keep its European business competitive. Mead is facing increased competition as more paper companies take advantage of the weakened U.S. dollar in Europe.

"The more you get into it, it's not as simple as it looks,' said John L. Parrish, director of logistics and purchasing for Mead's packaging division. "Paper is a competitive commodity, so you want to keep logistics costs down."

Over the past five years, Mead's annual shipments to Europe have increased from 40,000 tons to 120,000 tons per year. A large volume of this freight is shipped to the company's Europe-based packaging plants.

Nearly all the coated board for Mead's European business is manufactured at its Mahrt mill in Cottonton, Ala. The plant produces more than 850,000 tons of paper for its world markets.

"The Coated Board System is working well," Parrish said. "We're now to the point where we're tightening up the gaps."

Rail Connections. Coated board is mostly manufactured in 54-inch rolls, but some measure 81 inches in diameter. Because of the product's heavy, bulky qualities, Mead prefers to ship by rail to the ports.

"Wherever we can get rail service, that's what we'll use," said William Wiggins, international logistics manager for Mead Coated Board. "At the Mahrt mill, we have direct rail service."

Mead's primary rail carrier is Norfolk Southern, which handles the freight to the ports. Interchanges with other rail lines appear seamless to Mead, which receives a single bill of lading from Norfolk Southern.

There is some trucking, but it is used sparingly. "If we load 100 percent trucks, we'll end up bottlenecking ourselves," Wiggins said.

Mead prefers moving loads on rail cars because truckers would have to take the time to secure overweight permits for most loads. "With rail, we can load 100 tons and go," Wiggins said.

Even the cost of unloading rail cars at the piers and restuffing the rolls into ocean containers does not deter Mead's desire to use primarily rail transport.

"We've thought about loading our own ocean containers, but bottlenecks at the plant would surpass the cost of having pier labor loading the containers for us," Wiggins said.

Bottlenecks caused by loading ocean containers at the plant exceed the cost of using dock labor for that job.

To Europe. Mead's European shipments are mostly handled through the ports of Jacksonville, Savannah, Mobile, and Charleston. Paper rolls are shipped in containers or breakbulk.

Mead numbers each roll and electronically tells the terminals which rolls to load into specific containers. The system also helps Mead track shipments to its customers.

For shipping in the transatlantic, Mead has service contracts with the Trans-Atlantic Conference Agreement, providing scheduled sailings into Jacksonville, Savannah and Charleston. Mead uses non-conference carrier Cho Yang and Hanjin occasionally for shipments to Mediterranean ports.

The Port of Mobile is mostly a breakbulk center for Mead. Non-conference bulk carriers, such as Wilhelmsen and Star Shipping, serve this port.

Last year, Mead shipped about 162,000 tons of coated board to Northern Europe and about 20,000 tons to Italy and Spain. Almost 12,000 twenty-foot-equivalent units are shipped yearly.

Improved Service. "Breakbulk is the most economical way to ship, but we are still dealing with some damage and handling issues," Wiggins said.

Rolls of coated board generally are not wrapped for breakbulk shipping. The first couple of plies are used for protection.

"Naturally, the customer doesn't want to pay for damaged products," Wiggins said. "Most rolls are made to fit processing machines, so there's no room for damaged ends."

To provide better customer service through breakbulk handling, the company developed a transit loss program to improve in-transit performance.

"Ocean transportation has become more consistent, whether its containers or breakbulk," Wiggins said. "Traditionally, breakbulk used to travel on a tramp schedule. We never knew for certain when the next ship was coming. Now Wilhelmsen, Star and other breakbulk carriers offer scheduled services."

For 1996, the coated board division plans to ship more than 35,000 tons of rolls by breakbulk.

Breakbulk Choice. Mead's decision to use breakbulk or containers for shipping rolls of paper depends on the customer's freight-buying power, less the tradeoffs inherent in both types of handling, Wiggins said.

The tradeoffs of breakbulk and the containerized shipments include the quality and reliability of transportation, the desired level of inventory required by the customer at a given time and the cost the customer is willing to pay.

"In some cases, there is no tradeoff. The quality of breakbulk is equivalent to containers," Wiggins said.

Containers are generally shipped weekly, while breakbulk orders move about twice a month. "It depends on how the customer wants to handle it," Wiggins said.

Mead's breakbulk shipments can range between 800 and 3,000 tons per load. Container shipments weigh about 20 tons each, but customers usually order 20 or more containers at a time.

The company's packaging plants in Bristol and Chateauroux traditionally order freight in breakbulk loads.

Hand-Offs. The coated board division has two methods of selling product to Europe, either to customers direct or through the packaging division.

In the case of selling to non-Mead customers, it will ship rolls direct to customers or to its distribution centers in London, and Venlo in the Netherlands. The London operation sells paper only in roll form, while the Venlo operation does some sheeting.

Most of Mead's coated board rolls, however, are shipped to its internal customer, the packaging division.

"We treat the packaging division as a high-value customer," Wiggins said. "The buying is done through the Coated Board System to offer the best value to the end user of Mead."

Packaging Operations. Mead has six converting plants in Europe at Trier, Germany; Roosendaal, the Netherlands; Chateauroux, France; Bristol, in the United Kingdom; Aviocart, Italy; and Bilbao, Spain. The plants at Chateauroux and Trier are the largest.

Traditionally, the packaging plants have produced mostly cartons. Mead is now selling more of its capacity and technology to its customers as complete packaging systems.

Cartons are shipped on pallets by truck. Rail service is sparse and air freight is used for emergencies.

> ***"We treat the packaging division as a high-value customer. The buying is done through the Coated Board System to offer the best value to the end user of Mead."***
>
> William Wiggins
> *international logistics manager, Mead Coated Board*

"We have tried some barging, but we settled back to trucks," Parrish said. "When you're trying to keep the time factor down, you have to settle for a faster more reliable service, particularly from warehouses."

Though most of the packaging division's improved logistics are a direct result of changes made by the coated board division, there are still some logistics issues specific to packaging.

Reducing Cycle Times. A top issue for Mead packaging is how to reduce cycle times for inventory. In general, mills do not have the flexibility to produce every grade of paper every day. Thus cycle times are created when producing a certain grade of paper.

At Mead, for example, it usually requires a 14-day cycle to produce an order for the packaging division, and another 28-day cycle to ship it to Europe. Packaging is finding ways to tighten the gaps between these individual cycle times.

"We once had a three-week cycle for inventory for ocean transit. Now with transit times being more consistent, we've been able to reduce that gap some," Parrish said.

Packaging has also shaved a couple days off warehousing and customs clearance due to careful selection of suppliers.

Still, the biggest problem for packaging is trying to spread the benefits of improved logistics across all of Mead's Europe plants.

For example, packaging once required containers of rolls to be stripped at Rouen and hauled by truck to Chateauroux. Now, containers can be shipped direct to the plant.

"We've been successful in some locations like Trier and Chateauroux. But it's not the same for every plant, because we face different handling issues unique to each location," Parrish said. ■

Double Agent

ABC Containerline's former agents are the latest liner agents to become NVOs. Some agents believe they can choose between selling service in the name of the carrier and selling to shippers independently, as NVOs.

By Philip Damas

Liner agents had much to fear in recent years, when many of them were dismissed by shipping lines to be replaced by new carrier-owned sales offices.

Being an agent became an uncertain business and it was carriers who pulled the carpet from under their feet.

But it must be a sweet revenge when they see the opposite situation, exemplified by the former agents of ABC Containerline.

These agents established their own non-vessel-operating common carrier and painlessly took over the freight previously carried by their bankrupt principal.

"We represented ABC for 18 years," said Derek W. Johnson, chairman and managing director of U.K. agent Johnson Stevens Agencies Ltd. "We were moving 300 TEUs per sailing."

Johnson said his company resigned as liner agent shortly before ABC went bankrupt and its ships were arrested.

And he doesn't look particularly sad about it.

"Shippers came to us and we went to the shippers and said: 'Do you want us to handle your containers?'" he said.

His agency company, Johnson Stevens Agencies, set up a new NVO company, JS Containerline. It took out the additional cargo insurance policies required and became "a carrier" vis-a-vis the shippers.

JS Containerline, which issues its own bill of lading, is "very successful," according to Johnson.

Since its launch in May, JS Containerline has bought space from a variety of vessel-operating lines in the trade between the U.K. and Australia/New Zealand. Johnson said the NVO business retained around two-thirds of ABC's market share in the U.K.

Derek W. Johnson
chairman, managing director, Johnson Stevens Agencies Ltd.

"By virtue of the fact that we're moving so many containers, we're getting attractive rates."

Johnson Stevens Agencies continues to operate as a liner agent for shipping lines in trades other than the U.K./Australia/New Zealand market.

But no agent has jumped in to take over ABC's former business between Australia and the U.S. Gulf and East Coasts, or between the U.S. and Europe. *American Shipper*'s calls to ABC's former agents in the U.S. were met with "this number has been disconnected" or "we are closing down the business."

Conflict Of Interest. "In years past, popular thinking was that a liner agent couldn't be an NVO because of the conflict of interest" with the carriers it represents, said W. Grove Conrad, president of Norton Lilly International, based in Secaucus, N.J.

"Modern thinking has gotten past that conflict-of-interest issue. Traditionally, the role of liner agent is to get close to the cargo to serve his principals. One of the better vehicles to get close to the cargo is through the vehicle of NVOCC," he said.

In 1993, Norton Lilly launched Norton Line, an NVO business believed to control around 7,000 TEUs of cargo a year. Concurrently, Norton Lilly retained its substantial liner agency activities with its carrier principals.

"We were the first and the only major (liner agent) company to have set up an NVO operation," Conrad said.

"Our NVO complements our liner agency representation," he added.

World Shipping Inc., based in Rocky River, Ohio, also set up an NVO unit, Newport Tank Containers. Jack E. Hunger, president and CEO, described the specialized unit as a "rifle approach" to deal with the niche tank sector.

He said World Shipping Inc. had also considered launching more general NVO services in the past. "But there is the problem of conflict of interest with shipping lines that agents represent," he said.

Hunger commented that liner agents could be forced to start working as NVOs by "economic necessities."

"The number of lines that have set up their offices have negatively impacted the liner agencies," he explained.

Trend. Karl-Heinz Knief, general manager of the German liner agent Gebruder Specht, said the trend of liner agents moving into the NVO business "has already happened."

Gebruder Specht itself has a limited involvement in the NVO business, but its main activity is liner agency.

"Whenever a shipping agent has no direct connection with a shipping line (in a given trade), it is forced to do something like that," he said. "I prefer to have a direct representation role."

Many agents represent eight or 10 different shipping lines involved in complementary trades, which enables the agents to offer to shippers an extensive range of destinations.

If an agent doesn't work for a principal in a given trade, the NVO option may be tempting.

In May, A&S Shipping GmbH, another German liner agent, was appointed by Norton Line to represent its NVO services in Hamburg and Bremen.

"We were previously agent for American Contract Freight Line and Alliance Navigation," said Thomas Schaafberg, joint managing director of A&S Shipping GmbH.

The German agent already had a limited involvement in the NVO business, but landing the Norton Line contract is a major development for this company.

However, Schaafberg said there isn't a trend toward agents becoming NVOs. "It's

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the opposite," he said. "Shipping agents who are operating as NVOs are facing more competition from the shipping lines — they have (in-house) NVOs."

B.F. De Lange, managing director of Dammers Agenturen, the Dutch liner agent, told *American Shipper* his company is considering the possibility of working with Johnson Stevens Agencies and get involved in the Europe/Australia trade again, as an NVO.

Dammers Agenturen is a former agent for ABC Containerline, like Johnson Stevens Agencies. "Our involvement does not have to be as principals," he said. "Dammers Agenturen could be a sales agent for the NVO operation."

The U.K. agent no longer is tied by an agreement giving a carrier the entire freight payment less commission and the expenses. Now it pockets the freight rate and negotiates a slot payment with the carrier it decides to select.

"We are also operating as an NVO, but not to Australia," De Lange said. Dammers Agenturen offers NVO services via Hudig, its associated forwarding arm.

Johnson said Johnson Stevens Agencies was discussing with liner agents in Scandinavia and in continental Europe the possibility they could get involved in the JS Containerline NVO venture.

In Australia, JS Containerline has appointed liner agent Patrick Sleigh Shipping Agencies. In New Zealand, TNT New Zealand, ABC's former agent there, now works as agent for the new NVO operator.

The contractual relationships between these companies and entities are complex. Patrick Sleigh Shipping Agencies and TNT New Zealand are agents for an NVO, itself an offshoot of a liner agency company. On the other hand, JS Containerline also calls itself a carrier.

Difference Blurred. Johnson said there isn't much difference between work as a liner agent and as an NVO.

"We do the paper work; we pick up the cargo; we do the fumigation (of certain cargoes) required for Australia," he said. "It's the same as before... It's like a liner service."

Johnson said his customers see no noticeable difference in their dealings with the agency company, except they obtain a more frequent service. JS Containerline buys space from several carriers, whereas ABC's sailings were previously only every 16 days.

"We're literally working as an NVO, but similarly to a liner agent," he said.

Of course, the major difference is that, via JS Containerline, the U.K. agent no longer is tied by an agreement giving a carrier the entire freight payment less commission and expenses. Now it pockets the freight rate and negotiates a slot payment with the carrier it decides to select.

An NVO also has more liability risk with shippers than a liner agent.

Norasia Line, the Swiss shipping line trading in the Asia/Mideast/Europe trade recently asked its agents to become quasi-NVOs (March *American Shipper*, page 44). It requested them to pay a fixed slot cost and take responsibility for margin maximization. Norasia also said its agents should become liable for any shortfall in bookings, effectively turning them into part-vessel charterers (instead of mere sales representatives paid on the basis of commissions).

At JS Containerline, though, Johnson suggested that this NVO did not take the business risk of buying a fixed number of slots from shipping lines on a "whether used or not" basis. It has an "agreement" with lines to purchase slots from them at a pre-determined cost, but no number of slots is guaranteed.

For liner agents, becoming NVO also implies that they are no longer responsible for ship's husbandry in port, which usually forms part of their contract with shipping lines.

Johnson said JS Containerline uses the container equipment of shipping lines. This shows liner agents and NVOs can both be "asset-light" organizations. They have a hand in the liner shipping business without carrying the burden of vessel and container asset ownership.

Even better, JS Containerline can select which ship it wants to use. "We choose the carrying line depending on the pickup date and the transit time required," he said. In some cases, the NVO will opt for a transshipment service via Singapore or Hong Kong, in order to cut the freight cost.

Johnson said Johnson Stevens Agencies doesn't plan to launch an NVO line anywhere else — because it has many NVO customers in those trades where it acts as a liner agent.

The JS Containerline service is only for full containerloads. If shippers request a Less than Container Load service, they will be told to contact certain consolidators "whom we recommend," Johnson said.

"In years past, popular thinking was that a liner agent couldn't be an NVO because of the conflict of interest....Modern thinking has gotten past that conflict-of-interest issue."

W. Grove Conrad
president,
Norton Lilly Int'l

Margins. "Buying and selling is the principle of being an NVO," said Schaafberg, at A&S Shipping.

"Margins are too small," he said. "There is no profit left in the main trades to the U.S. (from Europe) and to the Far East."

Schaafberg believes few liner agents can compete against carrier-affiliated NVOs or against the very large NVOs owned by freight forwarders such as Kuhne & Nagel.

"NVOs can get good rates and then pass them on to small shippers," said Martin Richards, shipping director of the British Shippers' Council.

"In my understanding, the NVO concept is... particularly attractive to small shippers," he said.

"By virtue of the fact that we're moving so many containers, we're getting attractive rates," Johnson said.

Other agents work as NVOs, he said. "But usually they do it under a different name." ■

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Ray Miles

'Virtual integration' for CanMar, Cast

Canadian Pacific subsidiaries share space in transatlantic, but say they'll still operate as discrete companies.

By Philip Damas

Canada Maritime and Cast have begun exchanging space on their north Europe/Canada services. But the longtime rivals, now fellow subsidiaries of CP Ships, say they'll remain competitors.

Since last year's takeover of Cast by the Canadian Pacific group, the carriers have continued to operate with distinct services, different corporate names, different ships and different port rotations.

But the St. Lawrence Coordinated Service (SLCS) of CanMar and Orient Overseas Container Line has now agreed to exchange a fixed number of slots with Cast, in what amounts to a partial integration of their port rotations and schedules.

Within SLCS, CanMar and OOCL now buy space on Cast's four ships on this route, but only to and from Liverpool. Meanwhile, Cast takes an equal number of slots on SLCS vessels to and from Hamburg and Felixstowe only.

The deal enables all three carriers to streamline the port rotation of their ships, which will continue to be operated separately by SLCS (two loops) and Cast (one loop).

At one fell swoop, the two lines of SLCS can also withdraw three ships from their joint service, increase loadings on their three bigger new ships, end the third SLCS weekly loop and replace it by the Cast slot charter (see Table).

With all these changes, SLCS is expected to reap substantial savings, without reducing the number of direct calls served by CanMar and OOCL and without materially changing the SLCS service in the eyes of shippers.

By buying slots on the SLCS service, though, Cast improved its service and gained access to direct calls at Hamburg.

"We are able to offer faster transit times to and from Germany and the U.K.," said Frank Halliwell, chief executive officer of Cast.

No Merger. Ray Miles, president of CP Ships, which owns CanMar and Cast, is adamant that this integration based on cross slot-charters isn't a merger of the two companies.

"We have kept separate marketing, separate sales, brand names and service products," he said in an interview.

Do customers perceive the cross slot-charters as a loss of Cast's and CanMar's distinct identities? "That seems not to have happened," he replied. "Our customers still consider us to be different lines."

Miles explained that CP Ships decided to retain CanMar and Cast as separate companies "to maximize the amount of business (they handle) and create economies of scale."

CP Ships feared that a full-scale merger would result in a loss of combined volumes, as shippers would take some of their freight elsewhere to preserve a spread of carrier competitors with whom they book cargoes.

CanMar and Cast also retained separate head offices, agency networks and sales teams and they have separate managements. Their managements, though, are now both educated in the CanMar mold: many senior executives of Cast, including its CEO, are ex-CanMar managers transplanted to Cast. The old Cast senior management was purged shortly after the takeover.

Miles said the competition between CanMar and Cast is real and alive. "They go out and compete for business in the market," he said.

Miles said that although the competing sales teams don't hate each other, it isn't a cozy relationship, either, he said. "They are very professional," he said.

Although intriguing to the outsider, this split/togetherness formula between the two related companies seems to work, judging from the on-going rise in cargo volumes carried by the two-carrier CP Ships group.

In 1994, prior to the Cast takeover, CanMar moved 244,000 TEUs between North America, north Europe and the Mediterranean. In 1995, with nine months of carryings contributed by Cast since the takeover, group volume reached 394,000 TEUs. In 1996, Miles expects the figure to jump to 450,000 TEUs.

"Customers vote with their feet," Miles said about their positive response to changes within the CP Ships group.

Last year, Cast had also entered the Joint Mediterranean Canada Service of CanMar, Jadroplov and DSR-Senator Lines, while marketing the service independently of CanMar.

On the financial front, Miles said that Cast had incurred five years of heavy losses before the takeover but has been turned round under CP Ships' management. Cast turned a profit last year, and has shaken from its reputation as a company with financial problems, Miles said.

Synergies. Miles said every service change adopted by CP Ships in recent years has met three criteria:

- Reduction in operating costs per TEU.
- Improvement in the service product.
- Adjustment in capacity to reflect trade changes.

He said the latest fleet reshuffle exercise of SLCS and Cast met these criteria.

"SLCS couldn't have moved to the new system of big ships on just two routes (operated with SLCS ships) without Cast," he said.

Miles said that the recent change added efficiency to CanMar and Cast by "improv-

ing the economics" of SLCS and by "improving the service product" of Cast.

Miles added that many areas of Cast's and CanMar's operations have been reviewed or are under review to generate more synergies and cut costs:

- Terminal operations in Montreal (where the group seeks to optimize the use of the two terminals controlled by Cast and CanMar).
- Documentation.
- Empty container equipment logistics and positioning.
- Inland and intermodal operations in North America and Europe.

"The next big area we have under study is North American intermodal," Miles said. He added that a "big study" involving CP Ships, sister company CP Rail and the port of Montreal is under way "to see how we can reinvent the intermodal system."

"Important decisions will follow," Miles said. "The last time we did such a study was seven or eight years ago."

Miles said that the growth of CP Ships and, more generally, of the Montreal gateway, had put capacity pressures on the port and on intermodal facilities.

CP Ships also plans to do "a lot on European logistics, on trucking, barges and intermodalism in Europe."

With a 13 percent return on assets in 1995, which topped a recent industry survey on carriers' profitability (June *American Shipper*, page 48), CP Ships is also investing heavily in vessels and terminals.

Having taken delivery earlier this year of two new 2,200-TEU ships for CanMar, Miles said CP Ships is "already thinking of ordering new ships."

And with annual carryings of some 450,000 TEUs this year, Miles said bullishly that CP Ships is not only one of the most profitable, but also the largest transatlantic operator.

Miles said generating synergies and economies of scale will allow CP Ships to compete against global carriers.

Med Restructuring. One area where all is not for CP Ships is the Mediterranean/North America trade.

Miles said competition in this trade is intense and many carriers suffer from overcapacity.

In June, the Joint Mediterranean Canada Service of CanMar, Cast, Jadroplov and DSR-Senator Lines announced a fleet and route restructuring program for the joint service. Currently under implementation, the plan will remove some excess capacity from the trade.

The restructured joint service will retain two weekly loops, but with smaller vessels.

New SLCS vessel deployment

Route 1
3 x 2,200-TEU newbuildings
replacing 3 x 1,800-TEU ships
Added capacity: 400 TEUs a week.

Route 2
3 x 1,800-TEU ships (shifted from Route 1)
replacing 3 x 1,000-TEU ships
Added capacity: 800 TEUs a week.

Route 3
Slot charter with Cast for 350 TEUs a week
replacing 3 x 1,000-TEU ships
Reduced capacity: 650 TEUs a week.

Overall change
1 loop with 3 ships pulled out
Total capacity increased by 550 TEUs, to 4,350 TEUs a week.

"Services themselves don't change much," Miles said.

New Regulations. On June 1, the Canadian government introduced a maritime service fee payable by all shipping lines calling at Canadian ports. The user fee is designed to finance the cost of the coast guard's activities in Canada and reduce the public deficit.

"It will cost us something, but it will not be dramatic," Miles said.

On the other side of the border, the U.S. may also affect indirectly the Montreal gateway operators when and if it adopts laws deregulating ocean shipping.

Miles expects that some form of tariff-filing requirement will continue in the U.S. Montreal operators are exempt from these requirements for their U.S. intermodal activities.

But Miles does not agree that the regulatory freedom of Montreal operators like CanMar played a role in its past success in attracting large volumes of U.S. cargoes.

"The reasons were our improved service products and the fact that we have driven down costs effectively," he said.

Future. Looking ahead, Miles said: "We think there will be opportunities to develop the company in other trade lanes, either by doing it ourselves or by acquisitions."

Miles couldn't say which shipping line would be the next target of CP Ships, because "there is no plan under study" at the moment.

"We've had quite a good period in the North Atlantic, with a better balance between supply and demand," he said.

Referring to China Ocean Shipping Co.'s reported intention to enter the Atlantic trade, Miles said that the addition of "significant extra capacity" could have an adverse impact on the trade overall.

Carriers are concerned about this risk, Miles said. "But if it happens, we're prepared for it," he added. ■

SafBank: happy in its niche

SafBank's core market is the small U.S./southern Africa liner trade, but that keeps it busy and happy.

By Philip Damas

Thanks to Nelson Mandela, South Africa is, once again, a politically correct country with which to do business.

By returning to the international trading community, post-sanctions, post-apartheid South Africa has also given shipping and traders a tremendous economic boon.

"Growth in the U.S. to South Africa trade was 15 percent in 1995," Mike Veary, CEO of SafBank, told *American Shipper*. "It continued into the first quarter of 1996, when it was around 20 percent."

That's good news for SafBank, a joint venture of Safmarine and Bank Line (Andrew Weir Shipping) which specializes in the U.S./Southern Africa market.

If rapid growth continues, according to Veary, SafBank and its joint service partner Mediterranean Shipping Co. will add ships to their U.S. East Coast/South Africa "express" service or raise the average vessel capacity from around 900 TEU to 1,250 TEU.

SafBank and Med Shipping have operated this weekly U.S. East Coast cellular service since 1994.

"Since the startup in 1994, the express service has settled down very well," Veary said.

In conjunction with Lykes Lines, SafBank also runs a U.S. Gulf Coast/South America/West Africa/southern Africa multi-purpose service. The multi-purpose/breakbulk operation has two sailings a month and a fleet of five ships.

On the back of their U.S./South Africa cooperation, SafBank and Med Shipping

launched a weekly, non-conference service between the U.S. East Coast and Australia.

This operation involves transhipping containers at Durban, South Africa, from the SafBank/Med Shipping cellular ships onto other vessels of Med Shipping bound for Australia (and vice versa).

SafBank's containers on this long route cross both the Atlantic Ocean and the Indian Ocean.

Veary recognized that the U.S./Australia service via South Africa, which competes against all-water operators, had "a slow start."

All-water carriers send their ships in the opposite direction, via the Panama canal and across the Pacific Ocean — a shorter transit than SafBank's in many cases.

Veary

SafBank said that its transit times from West Australia (Fremantle) to the U.S. are competitive against those of all-water operators, but they are slower from the U.S. East Coast to Australia.

"We are targeting a section of the market that is not necessarily looking for faster transit times," Veary said.

"The service is beginning to deliver the sort of volume we had envisaged," he commented.

"We are heading for a market share of 10 percent."

But continued growth in the South African trades came with a price — acute congestion in the port Durban since 1995.

Veary said that SafBank introduced "better operations control" in Durban to limit the impact of port delays, which affected particularly its transshipment service.

"The fundamental problem of the port of Durban, namely capacity, is being addressed this year," he said.

He cautioned that the northbound trade from South Africa to the U.S. had slowed down this year.

He also stressed the adverse impact on trade prospects which could follow from the recent, sharp depreciation of the South African Rand against the U.S. dollar.

"The volatility of the Rand is a concern," he said.

Nevertheless, Veary says that SafBank's outlook for 1996 remains positive.

Breakbulk. Despite the launch of its cellular service in 1994, SafBank plans to continue with its multipurpose/breakbulk operation to and from the U.S. Gulf Coast.

"We believe that a fundamental portion of our trade is not containerizable," Veary said. He cited mining equipment, paper products and agriculture machinery.

Veary also said that SafBank's cooperation with Lykes, its partner in the multipurpose service, will continue despite the latter's bankruptcy reorganization proceedings.

"We have said that Lykes is a partner of ours, a partner of standing," Veary said.

North/South Customers. Veary was guarded in his description of shippers in the U.S./southern African trades, compared to those in the high-speed, large volume east/west markets.

Are they less demanding? Less switched on?

"There are customers who, in our market, are more traditional in nature and who see Electronic Data Interchange and other service enhancements as less important," Veary replied.

"But there are shippers like Du Pont, who are asking for more EDI," he added.

Veary said that SafBank and its U.S. agent, Gulf and Atlantic Maritime Services, were "looking at EDI" and considering paperless applications for manifest information and cargo booking.

"We are too small to embrace the sort of computer approach that some other lines have," he said.

Veary, who was appointed CEO of SafBank in January, also sees customer service as a priority.

During his first months at the head of the company, he met key customers in North America and in South Africa and plans to do the same in Australia.

Veary was previously general manager of SafLink, the agency and client service division of Safmarine.

Size. This year, SafBank expects to carry around 36,000 TEUs on its express cellular service (including both southbound and northbound cargoes) as well as some 240,000 freight tons on its multi-purpose operation.

That's not the same order of magnitude as a 2-million-TEUs-a-year Maersk or Sea-Land Service.

But SafBank is still the largest carrier in terms of market share in its U.S./southern Africa core trade.

Veary also reported that capacity utilization was tight and that the U.S./Southern and Eastern Africa Conference introduced a small general rate increase in January 1996.

Major carriers do compete against SafBank, Med Shipping and Lykes, by offering U.S./South Africa, non-conference services with transshipment in north Europe.

But these indirect services are slower than the all-water direct option offered by niche operators.

And there is the possibility for SafBank to tap into the fleet and the resources of Safmarine to capitalize on economies of scale with its corporate big brother, Safmarine. ■

Why SafBank moved to Cape Town

SafBank moved its headquarters last year to Cape Town from London, where the line had been based and managed from since 1985.

SafBank is owned not only by South Africa's Safmarine (which controls 75 percent of SafBank), but also 25 percent by the U.K.'s Andrew Weir Shipping group.

However, under normal circumstances, there would be no reason for the operator of a service between America and Africa to be managed from a third continent, Europe.

The reason for this "offshore" location was, of course, the need for SafBank and for many other South African-related companies to be free from the stigma and the trading restrictions associated with apartheid politics since the mid-1980's.

With the lifting of those restrictions, SafBank moved its headquarters to Cape Town, where Safmarine is headquartered.

"The reason for relocating the company was to recognize that it should be in one or the other of the main markets where we operate — the U.S. or South Africa," Veary said.

He added that SafBank could also benefit from "obvious synergies" with either Safmarine or with Safmarine's new joint liner organization with CMB Transport, called Safmarine and CMBT Lines (SCL).

Bomb-proof air-cargo containers

FAA ready to begin testing designs. But air-cargo industry wants to make sure they meet commercial needs.

By Chris Gillis

The Federal Aviation Administration says it's ready to start testing new designs of air-cargo containers built to withstand terrorist bombs.

But the effort is being watched cautiously by forwarders, airlines and container builders. They agree stopping terrorist attacks is a laudable goal. But they also want to make sure commercial needs aren't overlooked.

"You can build a container strong enough to restrain a blast. The question is how do they perform on the practical side?" said Richard McLennan, vice president of El Segundo, Calif.-based Satco, one of the largest U.S. air-cargo container manufacturers.

The air-cargo industry worries that the new bomb-proof container designs could add weight and expense, while reducing space available for cargo.

The FAA said it is sensitive to those concerns, but is pursuing designs for a bomb-proof container in response to a congressional directive to study the effects of explosions on planes.

Congress ordered the study after Pan Am Flight 103 exploded over Lockerbie, Scotland, in 1990.

In 1993, the FAA was awarded funding to create the Aircraft Hardening Program for reviewing container designs. Last November, the agency asked container manufacturers to submit designs for a bomb-proof container.

A half dozen manufacturers responded, but only one — Century Aero, based in Compton, Calif. — has come up with a design which meets FAA approval for further testing.

Starting With LD-3. The FAA's effort has begun with the LD-3, the most widely used container for air freight and baggage. LD-3s are also commonly used in the belly compartments of widebody passenger planes.

"We've done a whole lot of work on what size of explosion the containers will take," said Ken Hacker, program leader of the Aircraft Hardening Program, based at the FAA's William J. Hughes Technical Center in Atlantic City, N.J.

For security reasons, details of that work are classified. But Hacker said the most successful prototypes for containing bomb blasts are made from super-hard composite materials.

The designs seek to keep a bomb's explosive force inside the container. "There will probably be some damage to the cargo hold, but the point is to prevent the bomb from destroying the plane," Hacker said.

One design submitted to the FAA offered a different approach. All sides of the container would be bomb-proof, except for one. Inside the plane, two of these containers would be placed together with the soft sides touching. The theory is that if a bomb explodes in one box, the force of the blast would be absorbed by the second.

"We'll buy a couple of these containers to test at our facility, but we're not convinced yet that they'll work," Hacker said.

The effect of explosions on composite-based boxes is being reviewed by the FAA with the help of the Great Lakes Composite Consortium, based in Columbia, S.C. Consortium members include Northrop, McDonnell Douglas, Rockwell and Lockheed.

Most of the manufacturers that submitted bids to the FAA are not traditional container builders but are composite-material specialists.

Major air-cargo container builders include U.S.-based Satco, Century Aero Products and Air Cargo Equipment Corp., and European-based Nordisk and Alusingen.

"We have not spent much time in developing them, because we don't think the industry will go in that direction," Satco's McLennan said. "If we're wrong, we wouldn't be far behind anyway."

"The FAA has been working on this project for several years. They have to spend the money that has been allotted them for research. Odds are it will stop when the money runs out," he said.

By 1998, the FAA must be ready to show the results of its study. "The R&D effort will be over at that point," Hacker said.

The FAA's early efforts to develop a bomb-proof container were slowed by the composite-materials companies' unfamiliarity with the air-cargo industry.

"In the beginning, we received prototypes that weighed as much as 600 pounds," Hacker said. That's twice the weight of a typical LD-3 container.

"We have since reduced the tare weights of the containers to 150 to 250 pounds. We realize that every extra pound adds cost to the airlines' operations," Hacker said.

Besides the problem of extra weight, forwarders and carriers worry that the new super-strong boxes may be too expensive.

"The airlines are doing the best they can right now to minimize operation costs," said Ted McEvoy, manager of unit load devices for the International Air Transport Association. "Carriers would have trouble affording to replace their fleets with bomb-proof containers."

The average LD-3 costs $1,000 to $1,300. Estimated costs for a bomb-proof box exceed $2,500 each, McEvoy said.

Today, when a typical aluminum LD-3 is badly damaged — for example, punctured by a forklift — the airline usually finds it cheaper to replace than to repair.

McEvoy said, however, the bomb-proof containers "will be too expensive to consider as disposable assets. Maintenance cost will definitely be a concern."

Another problem with a bomb-proof box is how to design its door. Most LD-3 doors are made of lightweight folding fabric, while many bomb-proof boxes feature sliding doors. "Sliding doors will be difficult to work with in tight spaces," McEvoy said.

Forwarders worry the bomb-proof boxes will reduce cargo capacity. But Hacker said most forwarders use only about 70 percent of a LD-3's capacity under normal circumstances, because the containers usually reach the maximum weight before they're filled.

Put To Test. The FAA is expected to get the first 10 of Century Aero's prototypes in July, and said about 80 boxes — from Century and other companies — are expected to be in use by various airlines next year.

U.S. airlines testing the containers are American, United, Delta, Trans World Airlines and Northwest. Federal Express is also likely to receive a few.

Century Aero calls its container the Mark I. It is made of polycarbonate, a composite material known for its tensile strength and flexibility. The container is held together by interlocking joints, rather than traditional riveted joints.

"We've subjected our Mark I container to bombs twice as strong as the one used in Pan Am Flight 103 and they've contained the blast," said Ted Dunwoodie, president of Century Aero.

Dunwoodie concedes even his Mark I design has its limits. "Nothing is foolproof," Dunwoodie said.

Other industry officials say the best way to fight this type of terrorism on airlines is on the ground before cargo reaches the planes. This may include more use of x-ray scanners and specially trained dogs. ■

Back to basics for United Air

Adds freighter capacity, invests in automation, training, upgrading facilities. Sees air cargo as growing profit center.

By Chris Gillis

When Jim Hartigan asked shippers and forwarders what they wanted from United Airlines, they listed automation, capacity and a return to the basics.

"One thing I've heard is that this is not only a product business of moving shipments from point A to point B, it's a relationship business," said Hartigan, vice president of worldwide cargo at United.

"People like to have dealings with the same people consistently," he said. Until recently, they couldn't do that at United. "In our old system, you could dial up our reservation center and deal with any one of 125 people on duty," Hartigan said.

Now United has restructured its cargo reservation service by breaking down the group into nine regional sections, each staffed by seven to 10 people.

"By doing this, we're seeing more efficiency, because as our people get to know the shipper better, they don't have to ask as many questions. Things just start to flow better." Hartigan said.

The reservations-center overhaul is one of several changes that United has made in its cargo division.

"If you don't have the product to support what the shipper needs, you're going to lose," Hartigan said. "That's why I've put so much effort, since I've entered this job, into product quality. It was clear to me that when I came in that United's cargo product was average. Average product quality will not make it by 2000."

Early Days. Hartigan started with United 30 years ago as a sales representative in San Francisco.

"In those days, talking to a supervisor was like trying to get access to the president of the airline," Hartigan said. "So people didn't ask and you tended to have very inefficient systems."

Last year Hartigan started a program called "Working Together," which brings together all employees from cargo reservation staff to pilots and plane fuelers.

"We're trying to show our cargo staff just how complex the air cargo business can be," Hartigan said. "They realize that there is a lot of money involved in moving freight. We're already seeing positive changes in the attitude of our cargo staff."

So far, United has put 4,000 employees through the program. The airline plans to continue the program through next year.

"People take ownership of a process when they work together to do it themselves. They know where the problems are and can correct them," Hartigan said.

More Automation. United sees automated information systems as a key to cargo efficiency.

The airline recently contracted with Transport Data Network International (TDNI) for domestic distribution of shipment data via electronic data interchange.

Forwarders now can track shipments in three ways: Cargo Plus One for PC-equipped offices; Cargo Plus EDI for host-to-host environments; and TDNI for customers who want to use an EDI network provider.

The TDNI system will provide United's customers with immediate access to data for all domestic and international shipments.

United's oldest system, Cargo Plus One, was developed in-house about five years ago. About 100 forwarders nationwide use this system to monitor their shipments.

Last year, United implemented EDI standards for its information systems.

Forwarders with access to United's information systems by EDI can get replies within five to six minutes, Hartigan said.

Instant status updates are available for shipment check-in, shipment manifest to flight, freight departures, freight arrivals, shipments availability for pickup, delivery date and time, and shipment offload.

The airline is studying other electronic cargo community systems, such as Traxon, which would provide more access to cargo information for United's international forwarders, Hartigan said.

By 2000, United would like to see paperless transmission of nearly all cargo-related documents, such as air waybills.

Rebuilding Terminals. United has invested heavily in upgrading its major cargo terminals — although Hartigan doesn't like to call them that.

"We're trying to do away with the name 'terminal' by calling them 'cargo transit buildings,'" Hartigan said. "Cargo storage on airport grounds is probably one of the most expensive forms of warehousing. We want to get cargo quickly in and out of these places to save the shippers money."

United recently opened a transit building in Narita, Japan. In the U.S., it has built new stations at Denver and at Dulles airport near Washington, D.C. Terminals are being rebuilt or refurbished at ather U.S. locations — San Francisco, Los Angeles Chicago and Miami.

The revamped terminals will be automated from the standpoint of bar code scanning and vertical storage. But United avoids from robotic-driven warehouse systems.

"We see others spending millions of dollars in keeping robotic systems running,"

United has put 4,000 employees through its "Working Together" program.

Hartigan said. "We think that if you keep the floors clean, you can handle a warehouse just as efficiently without it."

Tough Years. United also is rebuilding its freighter fleet.

Like many U.S. airlines before the mid-1970s, United operated freighters only on domestic routes. The airline once had a fleet of 12 DC-8 freighters.

Freighters were phased out between 1978 and 1982, after the U.S. airline industry was deregulated and the market was flooded with new, low-cost competition.

"The simultaneous deregulation of trucking and emergence of companies like Federal Express made it too difficult for our freighter service to make money," Hartigan said

Since deregulation, United has changed dramatically. "In 1982, our only international destination was Vancouver. We have since expanded into the Far East, Europe and South America," Hartigan said.

United entered the booming Pacific market when it bought the operating rights of defunct Pan Am. An important piece of this purchase was rights to fly freighters into Narita and Osaka, Japan.

Hartigan said the Pacific air-cargo market has been growing at a consistent rate of about 7 percent a year since 1985, and that Boeing Co. and MergeGlobal, an airline-industry consulting firm, project that growth to continue to 2014.

Besides the growing market, the North America/Asia market currently provides balanced payloads. Traditional rate differentials have also started leveling off.

Return Of The Freighter. United recently announced that it will start a freighter service to Japan by next March. "We ran the numbers and it looks quite profitable," Hartigan said.

United will initially operate four DC-10-30s, each with 175,000 pounds of capacity. The airline is studying whether to buy or lease these planes.

Hartigan said the freighters will fly six days a week on two routes. One route will start in Chicago and continue to New York, Anchorage and Tokyo. The second will begin in Los Angeles and continue to San Francisco, Anchorage and Osaka. Three days a week the two Japanese destinations will be extended to Taipei and Manila.

Coming back, the aircraft will meet on the ground in Anchorage. "We'll have a mini-hub in Anchorage so that freight coming out of Osaka can either go to Chicago, New York, San Francisco or Los Angeles. We'll be able to sell multiple destinations on each of our departures," Hartigan said.

Fleet Growth. United is also putting other new planes into the fleet.

In 1990, the airline ordered 34 new Boeing 777s, with options for 34 more. United began receiving the first of these planes last year.

The B777 can hold up to 32 LD-3 containers in its belly and has another 600 cubic feet of space for bulk-loaded cargo. "They'll carry about 50,000 pounds of freight in their bellies, which is about of capacity as one our old DC-8s had," Hartigan said.

This year United will take four B777s and two B747-400s. Next year, the airline will receive 13 more B777 B-models and two B747-400s. There will be 29 B777s in the fleet by 1997. The B777 B-models are structurally different in the bellies to carry more freight than the B777 A-models.

The new planes will replace aging DC-10-10s and B747-100s in the airline's 559-plane fleet. "In our fleet, the DC-10-10s and B747-100s are not cargo-friendly because of their lower deck galleys and the capacity constraints with older engines," Hartigan said.

The widebody B747-400s will be used primarily on long-haul Pacific routes. A combination of B767-300s and B777 B-models will fly to Europe and South America. The B777 A-models are reserved for domestic flights.

United also has orders to replace aging narrow-body planes. This year the airline will receive seven Airbus 320s and four B757-200s. Five additional A320s will arrive next year.

Alliances. Like many of big carriers, United is scrambling to forge international alliances with other airlines.

"One carrier cannot serve all the needs of the shipper," Hartigan said. "Partnerships with other airlines is how we can best serve the shipper in the future."

But for any partnership to work effectively, there must be some commonality between the airlines involved. United is looking for ways to come closer to the automation and cargo handling standards of its alliance partners, such as Lufthansa German Airlines, Air Canada, Scandinavian Airlines System and Thai International Airways.

Most of these alliances are focusing first on the passenger side. But cargo managers such as Hartigan are working to make sure freight isn't overlooked.

"If you look at United's fundamental route structure combined with its aircraft orders coming in over the next two years, this may be one of the most valued freight franchises in the world," Hartigan said. ■

Alaska Airlines expands cargo services

Seattle-based niche carrier looks 'south of the border' for more cargo business.

By Chris Gillis

While many large airlines greedily hunt for new international markets, Alaska Airlines sticks at improving what it knows best — the Pacific Northwest market.

"We're a low-cost operator," said Jerry Johnson, Alaska Air's director of cargo and charter marketing. "We have controlled growth."

That's not to say that Alaska is not growing or adding new services. In June, the airline started a twice-weekly freighter service from Sitka, Alaska, to Seattle.

The two all-cargo flights were added to satisfy the increasing demand from Sitka seafood shippers to expand distribution, Johnson said. The flight will add 30 tons of capacity a week to this route.

Alaska Air also recently started a guaranteed service that will allow shippers to specify the flight or the delivery deadline for their shipments.

Previously, the ability to make flight-specific or time-specific cargo bookings was limited to Alaska Air's next-flight-out express package service, while larger shipments were handled on a space-available basis.

"We plan on fully utilizing the reservation capabilities of our cargo system to book cargo more efficiently," Johnson said. "This is the next step. And it's what our customers tell us they want."

"It surprised us that there would be so much demand for capacity on our northbound flights from Mexico."

Jerry Johnson
director of cargo and charter marketing, Alaska Airlines

Seattle Market. Though Alaska is part of the U.S., logistically it often appears to shippers as a foreign market. Seattle-based Alaska Air has been helping U.S. West Coast shippers move freight to Alaska since 1932.

"Seattle to Alaska is our strongest cargo market," Johnson said. In addition to its numerous passenger flights, the airline offers thrice-daily freighter flights to Alaska — two stops in Anchorage and one in Juneau.

The airline operates 737-200 combis which carry a mix of cargo and passenger during the day and operate as full freighters at night. "We can change the configurations in the planes in 45 minutes," Johnson said.

Northbound, Alaska Air carries mostly general freight, including perishables, boat parts, auto parts, computers and grocery items.

Southbound flights consist mostly of seafood products such as salmon, halibut and live crabs. "We carried over 22 million pounds of seafood last year," Johnson said.

Alaska Air also handles freight for other airlines and express carriers. The airline provides capacity to both Federal Express and United Parcel Service on its southwest Alaska flights to Juneau and Ketchikan.

The usual practice of express carriers is to operate in a market such as Alaska using other carrier's capacity. Once they discover that they provide enough cargo to fill the carrier's capacity, they may add their own freighters to the market.

This is a likely possibility for UPS in the Juneau market. "Eventually UPS will fly to Juneau," Johnson said. "We might as well enjoy their business while we can."

Below Canada. More and more of Alaska Air's cargo business is being found below the Canadian border. The carrier operates more than 100 flights a day from Seattle to destinations on the West Coast, including Los Angeles, San Francisco, Portland, Sacramento and Spokane.

Alaska Air operates a fleet of 44 MD-80s, eight B737-200 combis and 22 B737-400s. Many smaller airports in the Northwest are served through partnerships with regional airlines, such as Horizon Air, PenAir and Trans States Airlines.

Alaska Air has started placing more emphasis on the potential cargo markets of Mexico. It has daily flights from the U.S. West Coast and Vancouver to Los Cabos, Puerto Vallarta and Mazatlan, with cargo loads balanced in both directions.

"It surprised us that there would be so much demand for capacity on our northbound flights from Mexico," Johnson said. "Usually resort markets have a lot of gourmet products going in and not much coming out."

In Los Cabos, for example, Alaska Air handles large volumes of organically grown vegetables, such as basil and tomatoes, to be sold at markets in Los Angeles and San Francisco.

Russian Specialty. The Russian Far East is not known to be a cargo magnet for most large airlines. Few airlines venture to that desolate part of Russia.

But Alaska Air has found some cargo opportunities there. The carrier has been providing scheduled service to the Russian Far East from the U.S. West Coast since 1990.

"You won't get rich quick in this market," Johnson said. "It will take you a lot of time to get a cargo service going."

Alaska Air operates three MD-80 flights a week to the Russian Far East. Two flights are flown from Seattle to Petropavlovsk and Khabarovsk. A once-weekly flight is provided between Seattle to Magadan and Vladivostok. All of Alaska Air's Russian flights stop in Anchorage.

"Too often, we have more demand for cargo capacity than we can satisfy," Johnson said. "We're usually limited by passenger levels."

Heavy baggage loads from business travelers, many going to the Russian Far East for extended periods, take up most of the space in the cargo holds.

But Alaska Air doesn't actively promote its capacity between Seattle and the Russian Far East. "We try to work with a few customers that have steady business rather than take everything that comes through the door," Johnson said.

The airline has a number of handling arrangements with companies that are setting up operations in this part of the world, particularly among oil, natural gas, mining

and fishing companies. For example, Alaska Air has worked closely with Caterpillar to supply tractor parts to the gold mining area of Magadan.

More Business. A potential hotspot for business may soon be Sahkalin Island between Japan and Russia. Companies such as Mobil and Shell are looking to tap oil and natural gas on Sahkalin.

Khabarovsk is used as a staging ground for flying to Sahkalin. "It may be a new destination for us, if the oil companies can get some assurance from the Russian government to let them have the profits," Johnson said.

The airline also handles a number of finished goods to the Russian Far East, including computers, pharmaceuticals and telecommunication equipment. Eastbound goods mostly include animal hides and caviar.

One of the problems still facing Alaska Air in the Russian Far East is the lack of modern ground handling facilities. Russia's biggest carrier, Aeroflot, controls most of the operations at the airports.

"Aeroflot does our handling," Johnson said. "It would be too expensive for us to hire our own people."

Another avenue for expanding its Russian Far East business is through partnerships with other Russian carriers.

"Alaska's Russian operation is modest today, but it's possible that Russia's Baykal Airlines, which soon may serve the U.S., may want a U.S. partner," said Steve Lewins, transportation analyst for Gruntal Investment Research. "Unlike ARIA (Aeroflot Russian International Airlines), Baykal seems to be a more solid operation."

Alaska Air also has a code-share agreement with Northwest that includes Vladivostok and Khabarovsk. The agreement may soon extend to Petropavlovsk-Kamchatski.

"Bureaucratic layering of the Russian approval process has delayed full implementation of the Russian portion of the code-sharing agreement," Lewins said.

Anchorage. The airport in Anchorage has been used as a fuel stop for years by airlines transiting the Pacific to the U.S. and Europe.

Both FedEx and UPS are building large transloading hubs in Anchorage. Fairbanks also offers similar possibilities, Johnson said.

Competition for cargo in the Alaska market may intensify for Alaska Air. But Johnson foresees Anchorage dwindling as an international crossroad for airlines.

"As we build more fuel-efficient planes like the Boeing 747-400, there will be less reason to stop in Anchorage," he said. ■

Cultural change at Canadian Airlines

Struggling amalgam of five carriers works to unify network, develop alliances, improve technology.

By Chris Gillis

When Barry Rempel became Canadian Airlines' vice president of air cargo in 1995, he had a fast start.

Tough decisions had to be made, such as reorganizing the division's management and eliminating two transcontinental Boeing 737 freighters.

"We had to focus immediately on improving the cargo division's contribution to airline's bottom line," Rempel said. "One of the primary ways was to put our focus back into our core business, which is filling plane bellies."

Rempel also is dealing with longer-term issues stemming from the carrier's formation nine years ago as an amalgamation of four carriers — Pacific Western, Canadian Pacific, Eastern Provincial Airways and Nordair. (A fifth carrier, Wardair, was acquired in 1991.)

Each of these airlines had handled cargo on domestic and international routes in its own way for almost 40 years.

"We're trying to find a joint culture," Rempel said. "It takes time to get everyone on sight with that vision."

The financial downturn of the airline industry during the late 1980s hurt Canadian Air, which has been losing money since 1988 while struggling under a heavy debt load and stiff competition from its larger rival, Air Canada.

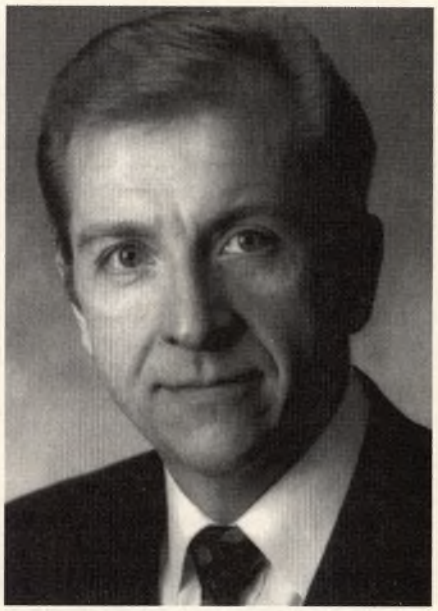
Canadian Airlines attracted attention in July when its chief executive, Kevin Jenkins, resigned and was replaced by Kevin Benson, the airline's chief financial officer.

Alliances. A key to Canadian Air's survival strategy has been to forge alliances with other carriers, often through code-sharing agreements in which the airlines book space on each other's planes.

When Canadian Air was formed in 1987, it instantly gained a global network, including route authorities to North America, the Far East, South America and Europe.

Some of these markets have been expanded through code-share agreements with carriers such as Alitalia, Air New Zealand, Japan Air Lines, Lufthansa, Malaysia Airlines, Mandarin Airlines, Qantas and Varig Brazilian Airlines.

"Each code-share is different," Rempel explained. "With Alitalia, we have a code share from Canada to Rome. We operate a DC-10 or B767 for nine months of the year, while Alitalia flies a B747 the rest of the year. We basically block space on each other's planes which gives us both lift year around."



"We're trying to find a joint culture. It takes time to get everyone on sight with that vision."

Barry Rempel
Vice president, air cargo, Canadian Airlines

Some agreements are more involved, such as the airline's code-share with Malaysia. In this case, Canadian Air is responsible for filling the entire capacity of Malaysia's flight from Vancouver.

The most promising code-share agreements for Canadian Air are those recently signed with American Airlines and British Airways.

British Airways, which formerly had authority to serve only Toronto and Vancouver, will now have access to multiple Canadian markets. Canadian Air, meanwhile, will have access to BA's exten-

sive international network. "We'll be able to enter European markets that we used to only dream about," Rempel said.

Canadian Air also will have access to American's U.S. network. "If a shipper wants to ship something from Yellowknife to Dallas, we can do it," Rempel said. "We couldn't offer this service before the American code-share."

Canadian Air is especially interested in the developing alliance between British Air and American.

"I think the BA-American alliance is going to be strong all the way around," Rempel said. "The strength of this type of family coming together is what the industry has been talking about for 10 years — real worldwide networks."

Far East. Canadian Air's strongest market remains the Far East, which Canadian Pacific began developing 40 years ago.

Vancouver is the airline's primary cargo hub for the Far East, though Toronto handles a fair share. Far East-bound cargoes are flown in bellies of B747-400s and DC-10s.

Canadian Air has daily flights to Hong Kong and Tokyo from Vancouver and Toronto. The airline also provides service to Nagoya, Japan, six days a week. Its code-share agreement with JAL has helped Canadian Air grow in the Japanese market.

Canadian Air's Hong Kong flights stop in Bangkok, while its Taipei flights continue to Kuala Lumpur. Each of these connections are made about five times a week. Canadian Air is concluding negotiations for authority to make additional stops in Manila, Ho Chi Minh City and Delhi.

"Outbound from North America has been our strongest market," said Norbert Kotscha, Canadian Air's general manager of domestic cargo. "It's beginning to surpass outbound from Japan."

The airline carried 59,180 tons of freight between Canada and the Far East in 1995.

Canadian Air is also a big player in the Australia-New Zealand market, which is served daily in partnership with Qantas and Air New Zealand. "We have dedicated space on their planes," Kotscha said.

Domestic Connections. Canadian Air is a longtime operator in the European market, with daily flights to Paris, London, Frankfurt and Rome. Most European shipments are handled through Toronto.

Last year, the carrier handled 36,613 tons between Europe and North America. Rempel expects European cargo volumes to increase after the proposed British Air-American alliance takes effect.

In the South American market, Canadian Air uses routes it inherited from Canadian Pacific. The carrier flies from Toronto to Sao Paulo, Brazil, six times a week. Freight to Santiago and Buenos Aires is transferred to Varig planes from Sao Paulo.

Canadian Air shipped 3,240 tons between South American and Canada in 1995.

For freight moving to interior points in Canada from foreign markets, the airline has access to a domestic network of 113 destinations. Canadian Air also has partnerships with regional operators, including Canadian North, Inter-Canadian, Air St. Pierre, Calm Air, Air Alma, Air Atlantic and Canadian Regional Airlines.

"A shipper coming into Canada has the benefit of widebody connections between Vancouver and Toronto, so we don't have to worry about reloading freight. For example, flights from the Far East come into Vancouver at 8 a.m., and we can have most of it in Toronto by the early afternoon," Kotscha said.

"Shippers will be able to book space the same way they would a passenger seat."

Jon H. Shaw
Canadian Airlines

Lobsters. Canadian Air operates a fleet of four B747-400s, 11 B767-300s, 10 DC-10-30s, 14 Airbus 320-200s, 37 B737-200s and six B737 combis. These planes offer both pallet and container space in their bellies.

Although the airline carries a variety of freight, a specialty is perishable goods such as fish and lobsters, said Andy Lyall, cargo sales and service manager at Canadian Air's Halifax office.

Canadian Air dedicates space on most of its Far East and European flights to lobster shipments. Many lobsters are grown in Nova Scotia by companies such as Clearwater Lobster, Skyfish Ltd. and Fishermen's Market.

For 15 years, Clearwater has worked with Canadian Air to improve the way lobsters are shipped. The company has developed special Styrofoam cartons capable of handling 30 pounds of lobster. A standard LD-7 pallet can hold 150 of these cartons. They are used mostly for the Far East market.

European importers prefer taking smaller orders of lobsters, Lyall said. A smaller box was introduced by Clearwater a few years ago to the Rungis market in Paris, and has since become accepted in more European markets.

Other frequent perishable shipments include cherries, salmon, sea urchins, maple syrup, beef and tuna. General cargoes often include electronics, computers and auto parts.

The airline works with a combination of Canadian and U.S. forwarders, such as Air Express International, Emery Worldwide, Sea-Air International Forwarders and CTI.

This fall Canadian Air will begin offering shippers a guaranteed international service. "Shippers will be able to book space the same way they would a passenger seat," said Jon H. Shaw, spokesman for Canadian Air. "We've had this service about 10 years domestically and it's worked great."

Shaw said the carrier intends to back this service up with a money-back guarantee.

Technology. Rempel said Canadian Air has invested heavily in cargo handling and information technology.

Every Canadian airport used to be owned and operated by the government. The government has recently started privatizing those facilities by creating individual operating authorities. Vancouver was one of the first, followed by Winnipeg and Calgary. Toronto and Montreal should be privatized by the end of the year.

In Vancouver, which is growing in stature as a North American gateway, Canadian Air is handling agent for several carriers, including Malaysia Air and Mandarin.

"We've seen a significant amount of growth in Vancouver. We decided it was time to rebuild our facility there to participate in that growth," Kotscha said.

Market demands have required Canadian Air to start automating its handling processes.

"It's very much a manual operation today," Kotscha said. "We have a team that's looking around the world to see what other airlines are doing and where we can learn from them."

Information systems are also being considered. "What has grown our industry in the past was aircraft technology," Rempel said. "Computer technology will take us to the next step."

Canadian Air Cargo is looking into the use of the Internet for tracking cargo and providing shipment status to shippers. The airline is working with an undisclosed U.K. company on this concept.

"We will also explore other things with the Internet such as distributing our rates and making bookings," Kotscha said. "It's a rapidly growing area and we have to take full advantage of it." ■

Philips sees role for air forwarders

Believes airlines should stick to hauling cargo and quit trying to cut forwarders out of loop.

By Chris Gillis

Philips International BV, the big Netherlands-based electronics manufacturer, is convinced forwarders still have a valuable role in air cargo.

A current trend is for some airlines to try to cut out middlemen such as forwarders and cargo agents, and deal directly with shippers.


Goedhart

"We don't think this is the right way for airlines to improve their services," said Dirk Goedhart, managing director of corporate forwarding for Philips.

"Cutting out the agents is shortsightedness on the part of the carriers trying to save money. Airlines are too far behind in the game to catch up to the level of services and networks offered by the express carriers.

"An airline that thinks it can do it all itself may have some problems," Goedhart told *American Shipper*. "Passengers still have priority over cargo on scheduled airlines."

Carriers would be better advised to improve their existing services than to try to sell time-definite services at higher rates, he said.

Airlines should simply fly cargo as booked and work more closely with forwarders, he said.

"Everyone worries about price,but reliability of service is becoming more important," he said. "I don't like my freight being left sitting."

And he said airlines are making a mistake in thinking they can recapture the large-shipper market from express carriers.

"I think airlines overestimate the big shippers," Goedhart said. "Though companies like ourselves ship large volumes, they don't always provide these loads all the time. The small shipper is needed to fill the gaps during slack times."

Carrier Base. Like other shippers, Philips is trying to reduce the number of carriers with which it deals. But it is difficult with air cargo.

"It's a very volatile market," Goedhart said. "We're not sure where the airline industry is headed."

In a perfect world, Philips would like to see its freight handled by a few primary carriers and several backups that can offer the best rates and on-time service.

"We would like to reduce our number of air providers like everyone else," Goedhart said. "Some shippers have done it. But these shippers are not as large and diversified as us, with over 400 destinations to serve outside the Netherlands."

For now, Philips picks its air-cargo carriers by separate trade lanes. The company picks the ones with the best pricing, service, routing, frequency and space availability on a particular route.

About 20 percent of the carriers haul 80 percent of the company's freight, Goedhart said.

Philips' top carriers include KLM Royal Dutch, Cathay Pacific, Martinair Holland, Air France, British Airways, Singapore Air and Cargolux.

Philips also uses express carriers such as Federal Express, DHL and United Parcel Service for parcel shipments.

Forwarders. Philips' top forwarders include Danzas, Panalpina, Air Express International and Emery Worldwide.

But even among this group of industry heavyweights, none has the capacity to handle all of Philips' shipments, Goedhart said.

Philips' corporate forwarding group arranges shipments directly with carriers as well as approving rates through forwarders. "We don't want to place all our eggs in one basket," Goedhart explained.

When possible, Philips prefers to use express carriers, because of their vast networks and tightly controlled information systems. "We prefer to deal with as few agents as possible, especially in the door-to-door delivery process," he said.

Because air freight is expensive in relation to slower ocean transport, Philips differentiates between "air cargo" — valuable, lightweight cargo that pretty much has to move by air — and "cargo by air," which normally is moved by ship but is handled by air when there are breakdowns in the supply chain.

Only one-third of Philips' air cargo is shipped under the "air cargo" category, Goedhart said. ■

IATA unit sponsors air-cargo insurance

Program designed for small and mid-sized agents.

By Chris Gillis

Cargo Network Services, an affiliate of the International Air Transport Association, is sponsoring an insurance program for U.S. air cargo agents.

The program, Cargo Agents Protector Plus, fills a need, especially among small and mid-sized agents, said Anthony F. Calabrese, executive vice president of Cargo Network Services.

"Many cargo agents don't carry errors-and-omissions coverage for misdirected exports," Calabrese said. "It's a simple mistake. But if an agent gets sued, it may put him out of business."

"Over the years, we have received a number of requests from agents asking what type of insurance they should have," Calabrese said. "We wanted to give an agent one place to get all the coverage they needed."

Calabrese said some cargo agents have difficulty understanding where liability for a shipment begins with the airlines.

"Many assume that just because they cut an airline master air waybill that the shipment is covered from the shipper. But that's not always the case," he said.

Even for cargo agents that try to cover their entire operation, insurance bills can become very expensive.

"Insurance is a big part of my business," said Jerome C. Trimboli, chief executive officer of Inter-Jet Systems, a mid-sized forwarder in New York. "I have to be covered across the board. But sometimes the cost can get out of hand."

Trimboli said that if the hundreds of cargo agents could get together behind a common plan through Cargo Network Services and IATA, they could drive down the cost of insurance. "We're weak when we're splintered like this. Together we can really be a force," he said.

The Cargo Network Services insurance program is being offered through Frank Crystal & Co., a New York-based insurance broker. General Accident Insurance, based in Philadelphia, is the insurer backing the program.

Frank Crystal, which also offers comprehensive coverage for passenger operations of IATA carriers, spent about six months talking to cargo agents of various sizes about what they need in a policy.

"We found that many small cargo agents have different pieces of their operations covered by different insurance companies," said Arthur E. White, vice president of Frank Crystal Programs. "These companies don't necessarily have any background in cargo."

The new program covers shipments by air, land and sea, and provides coverage of cargo agents' legal liability, shippers' interest, inland transit, consolidation/deconsolidation and incidental warehousing.

Other programs and coverages under CAPP include a premier property program, coverage for misdirected-shipments, business liability, commercial auto liability and physical damage, cargo agents professional liability, workers' compensation and employers liability, commercial excess liability, and bonds. ■

FedEx quarterly profit jumps 32%

Federal Express Corp. posted a 32 percent increase in profits for the three months ended May 31.

Net income for the period jumped to $115.4 million from $87.2 million a year earlier. Revenue rose from to $2.73 million from $2.46 million, operating income to $225.7 million from $174.1 million and pretax income to $202.5 million from $153 million.

For the year ended May 31, profits rose to $307.8 million from $297.6 million. Revenues rose to 10.27 billion from $9.39 billion, and operating income to $623.8 million from $591.1 million. The company said that average daily volume of domestic shipments rose 8 percent and revenue per package increased 2 percent. International airfreight revenues fell by $12 million. ■

American adds LaGuardia parcel terminal

American Airlines Cargo has opened a terminal at New York's LaGuardia Airport for handling of priority parcel shipments.

The facility is on the west side of the terminal area in American's Hanger A, and has special parking for the airline's Priority Parcel Service customers.

The LaGuardia operation will be the second such priority-parcel service in New York. The other opened a year ago at John F. Kennedy International.

Priority parcel shipments must be under 70 pounds.

The new facility, open from 4:30 a.m. to 1:30 a.m. daily, has direct access to the American Airlines baggage system. American said couriers and other customers can drop off or pick up domestic packages at the same location within 30 minutes of flight arrival or departure. ■

Software announcements . . .

CZAR-LITE FOR WINDOWS. Southern Motor Carriers has introduced Czar-Lite for Windows, a nationwide set of less-than-truckload zip-code-based rates for interstate and intrastate applications. The new formatting option includes several add-on software options to enhance system capabilities for motor carriers, shipping and third-party logistics companies. These add-on features include accessorial charge, rate sheet printing, points guides, rules, city/zip code look-up and bill of lading. Southern Motor Carriers, based in Atlanta, serves more than 3,000 customers in the U.S. and Canada.

GEIS INTERNET-BASED EDI. GE Information Services has launched GE TradeWeb, an Internet-based electronic data interchange service. GE TradeWeb is targeted for small businesses, who make up 60 percent of trading communities that do not participate in electronic commerce. Businesses can access GE TradeWeb on the World Wide Web, at www.getradeweb.com, fill out the ready-to-use EDI forms and conduct EDI transactions in a matter of minutes. The GE TradeWeb library includes most widely used business documents, such as purchase orders, invoices and acknowledgements. The service works with all commercial Web browsers, and is secured through Secure Sockets Layer encryption technology. GEIS also provides mutual authentication as part of its service.

SECURE INTERNET COMMERCE. Rockville, Md.-based GE Information Services has introduced GE InterBusiness, which allows secure electronic commerce over the Internet. GE InterBusiness works similar to ATM technology. The server requests a user ID or "secret key," like that lifted off an ATM card's magnetic strip. Once the server matches this code with that of an approved user, the server then requests a password known only to the user. GE InterBusiness uses secret key cryptology in a mutual authentication (double challenge) environment, in which each key is used for one session only and is never seen on the Internet.

OOCL's view of European intermodalism

Asian carrier's top executive in Europe says the continent still lags behind North American model.

By Philip Damas

To hear an objective assessment of the challenges facing intermodalism in Europe, don't ask a European.

Jim Poon, chairman and managing director of OOCL (Europe) Ltd., the European arm of Hong Kong's Orient Overseas Container Line, probably has a fairer strategic vision of European intermodalism than many European executives.

"In so far as intermodalism is concerned, if you try to draw a parallel between Europe, the U.S. and Canada, you can say that Europe has a lot of catching up to do," Poon told *American Shipper*.

And this verdict comes from a company with years of experience of inland intermodal operations in the U.S. and in Canada. More recently, OOCL also helped get China's fledgling intermodal network off the ground.

"The European situation is quite unique," Poon said. "First, the land mass is smaller; secondly, the manufacturing industries are very densely located; thirdly, the rail infrastructures built up by the member states of the EU are not uniform."

"To put it against intermodalism in North America today or in China tomorrow is a difficult comparison," he said.

Poon acknowledged that many freight moves within Europe or between ports and inland points cover distances of less than 300 miles. This, he said, is generally the economic threshold below which intermodalism cannot compete against other modes, particularly trucking.

However, Poon said that Europe has much room for "catching up" to the North American intermodal model in efficiency of rail operations.

Obstacles. Poon said it is difficult for operators such as shipping lines to form block trains in Europe individually. To complicate matters, there are often insufficient volumes of return traffic to enable full utilization of trains to and from the ports.

If return block trains are used merely to move empty containers, the cost benefits are "taken away," he said.

Europe faces three main intermodal challenges, Poon said:

- Government regulations.
- Further economic integration of the EU.
- The need for new infrastructure investments.

"If you try to draw a parallel between Europe, the U.S. and Canada, you can say that Europe has a lot of catching up to do."

Jim Poon
chairman, managing director, OOCL (Europe) Ltd.

On government regulations, Poon called for a regime compatible with market forces and offering incentives to develop intermodal systems. He also referred to the protected and cozy market in which national railways in Europe have traditionally operated.

Poon observed that it was only recently that individual railroads in Europe have been allowed to form block trains that bypass Intercontainer-Interfrigo, the EU railway cooperative, and cross several countries without the participation of each country's national railway.

"Dealing with many railways and operators is not so easy," Poon said.

"European railways are not very proactive," he added diplomatically.

On economic integration, he said Europe is still trying to simplify its bureaucracy, customs rules and other potential hindrances to international intermodal transport.

Finally, Poon said that Europe needs "massive investments" in new rail and transport infrastructures, especially in upgrading rail trackage.

Europe's infrastructure gap was in the spotlight in June, when the European summit of head of states, held in Florence, failed to agree on how to finance the so-called Trans-European Networks program for pan-European transport road and rail investments.

Poon suggested the private sector could play a greater role in infrastructure investments.

"The EU will have to privatize its rail operations for freight," he said. Poon cited Canada's experience in transferring Canadian National Railway to the private sector and the healthy situation of the railroad freight industry in the U.S.

Poon observed that the U.K. had made a good start by privatizing several railroad activities.

He estimated that longhaul train operations control 20 percent of the intra-European intermodal container market. Trucking continues to dominate, with a share of around 65 percent; barges move some 10 percent and feeders around 5 percent, Poon said.

Must Happen. Poon is convinced container shipping can still push for more rail intermodalism in the difficult European market.

In fact, Poon said the development of OOCL's European intermodal operations is a priority for the company, "mainly for cost efficiency."

Inland operations are even more important "now that we have the same ships within the Global Alliance," Poon said. "How does one set oneself apart?"

Initiatives. OOCL is in the final stage of negotiations with a major European railway to run dedicated block trains in Europe, Poon said. The block trains, OOCL's first in Europe, will move long-haul traffic.

Furthermore, as a supplementary move, OOCL has joined the so-called European Rail Shuttle launched by Sea-Land Service, Nedlloyd Lines (a partner in the Global Alliance), P&O Containers and Holland Rail Container a few years ago.

The European Rail Shuttle runs block trains between the port of Rotterdam and Germany and Italy.

"We are also working with a couple of customers on the intermodal side," he said.

If successful, the agreement between OOCL and the unnamed railway would allow OOCL in Europe to operate in a similar fashion to ESI, its intermodal subsidiary in the U.S.

"ESI is not investing in railcars," he said, but is purchasing and marketing intermodal services.

This will probably be different from the European intermodal deal involving CSX Corp., Deutsche Bahn and NS Cargo, he said.

Poon also said that OOCL would join a joint "Regional Despatch Center," based in Rotterdam. The center seeks to match empty container requirements of Nedlloyd and other lines with which it operates.

APL and Mitsui O.S.K. Lines, the other two Global Alliance lines, are known to also be studying the possibility of signing up with the center.

Poon said the Regional Despatch Center would help cut costs.

Gray Area. For Poon, inland cooperation between shipping lines in Europe remains a "gray area."

"The European Commission has made it public that it would like consortia (of shipping lines) to come together and to promote efficiency in intermodal operations," he said.

While joint operations are allowed, Poon warned that the legality of joint intermodal pricing was uncertain.

If it came to the crux, Poon said that OOCL would be prepared to promote joint intermodal operations with other carriers, even without the right to price services collectively. "We are for it, even for the sake of efficiencies," he said.

More Integration. Poon said trucking will remain "the backbone of intermodal service in Europe" for OOCL.

OOCL is also working on this mode to ensure that motor carriers provide customers with uniform trucking services, with given turnaround times and certain quality and reliability performance standards, according to Poon.

"We are rationalizing our trucking operations," he said. At a later stage, OOCL and its Global Alliance partners will streamline their trucking activities in Europe on a joint basis, he said.

Poon said there is no formal plan to create an intermodal entity on behalf of the Global Alliance carriers, to run their European inland operations jointly. ■

France proposes new railroad entity

France's government has presented to the French parliament a plan to create a new rail infrastructure entity that would take all the rail track assets and many of the debts of SNCF, the money-losing state railroad.

Under the plan, the entity would be responsible for track investments and maintenance. SNCF would still own trains and operate services on the network and both the rail track organization and the new-style SNCF operator would remain state-owned.

About FFr125 billion ($25 billion) of SNCF's heavy debts would be transferred to the new agency.

The plan replaces an ill-fated restructuring program which had led to lengthy rail strikes throughout France last winter. ■

German rail to create freight business entity

Deutsche Bahn AG, the German state-owned railway, plans to transfer all its bulk and intermodal railfreight activities to a new entity called Cargo AG.

The Deutsche Bahn subsidiary would own Transfracht, Deutsche Bahn's specialist rail intermodal unit.

A final decision on the new structure is expected to be made by year end, with the transfer taking effect around January.

The state-owned railway is Europe's largest, carrying 301 million tons in 1995. ■

TMM, KCS form unit to bid for Mexican rails

Transportacion Maritima Mexicana and Kansas City Southern Industries have formed Transportacion Ferroviaria Mexicana to bid for one or more of the concessions in Mexico"s rail privatization program.

TFM is one of the companies formed under a TMM/KCS joint-venture agreement.

Mario Mohar, a partner with Kingsley of Mexico and former chief operating officer of TMM, was named chief executive officer of TFM. Jose Serrano, chairman and CEO of TMM, has been named to the KCS board. Landon H. Rowland, president and CEO of KCS, has joined the TMM board. ■

Liverpool port sues ILA for damages

Claims union threats forced ACL to leave British port, which has been embroiled in labor dispute.

By Robert Mottley

Civil Case CV 96-3084 could factually bear the title of a well-known sailors' chantey, "The Leaving of Liverpool."

Instead, it's called "Mersey Docks and Harbour Co. v. the International Longshoremen's Association and John Bowers."

Mersey, which owns and operates docks in Liverpool, sued the ILA and its president, Bowers, in U.S. District Court in Brooklyn, N.Y., a day after Atlantic Container Line announced that its vessels would abandon Liverpool for Thamesport, near London.

The suit seeks more than $50,000 in damages from the ILA and Bowers for allegedly pressuring ACL to stop doing business in Liverpool, which has been embroiled in a bitter dockworkers' labor dispute.

The case gives a new twist to efforts by unions in the U.S. and other countries to join forces in labor disputes.

Previous efforts at such multinational labor solidarity have been largely unsuccessful. Lately, however, the ILA has been trying to flex its international muscle.

Last year the ILA won a court decision upholding its effort to encourage Japanese dockworkers to boycott citrus loaded by non-union labor in U.S. ports. The court decision struck down a National Labor Relations Board ruling that the ILA had engaged in an illegal secondary boycott (September 1995 *American Shipper,* page 76).

In the Liverpool case, the ILA is accused of "tortious interference with a business relationship" and creating "prospective economic damage" to Mersey Docks.

The suit said ACL accounted for 23 percent of the port of Liverpool's business, worth $6 million in annual revenue for Mersey Docks.

Hands Across The Sea. Mersey Docks has been entangled in a roiling labor brawl with its striking dockworkers, who have solicited sympathy and support from American unions.

The Liverpool dispute arose in 1995 when British longshoremen went on strike against an independent stevedoring contractor, Torside.

John Bowers
president, ILA

Many of Mersey Docks' workers refused to cross the Torside workers' picket lines and also went on strike.

Mersey's suit said that under United Kingdom law, "the strike was illegal as a secondary action because it did not comply with established procedures for industrial action."

Mersey replaced the striking dockworkers, who created an organization called the Merseyside Port Shop Stewards, which Mersey Docks said "is not an official union or labor organization in the U.K."

To put pressure on Mersey Docks, the strikers "adopted a strategy that includes various overseas activities designed to pressure shippers not to do business" in Liverpool, the suit noted.

LabourNet, an Internet website for union news, reported that the ILA gave £5,000 pounds (about $7,500) to a strike fund for the Liverpool dockworkers. The Seafarers International Union of North America and American Maritime Officers, made similar contributions, and the Masters, Mates & Pilots contributed $5,000, according to LabourNet.

Personal Pressure. Mersey Docks claims the ILA broke the law by threatening to retaliate against ACL unless it quit doing business in Liverpool.

"Publicly, the ILA and Bowers threatened the port of Liverpool that it could lose ACL" unless a deal was made with the dismissed dockworkers, the suit said.

Mersey also alleged that "For several months, Bowers has had numerous conversations with Conrad DeZego, executive vice president of ACL ... In these conversations, Bowers repeatedly has threatened DeZego that ACL must stop shipping to the port of Liverpool, or else ACL's operations in the eastern U.S. would suffer unspecified harms."

Mersey said ACL moved its business to Thamesport "in response to the demands and threats of Bowers and the ILA ... even though shipping to Thamesport is more expensive for ACL than shipping to Liverpool."

Ironically, Thamesport is a non-union port.

'Contractual Relationship.' In accusing the ILA of interfering with the business relationship of Mersey Docks and ACL, the lawsuit said the parties had a "contractual relationship" for nearly 30 years.

The suit said that although ACL and Mersey "generally have operated under a written contract, at times they have operated under an oral contract while a new written contract was being negotiated."

When ACL announced its move to Thamesport, ACL and Mersey Docks had a contract due to expire on Dec. 31, but had "agreed in an exchange of letters that the contract would be extended through 1999," the suit said.

The lawsuit alleged that the ILA "interfered with that contractual relationship," having "induced ACL to break it."

A Prior Warning. Before ACL's pullout and Mersey's suit against the ILA, Mersey had warned the U.S. dockworker union against pressuring the carrier.

The suit said Mersey had instructed its U.S. attorneys, Mayer, Brown and Platt, to warn Bowers "to formally disassociate his union from disrupting or diverting ACL shipping bound for or coming from Liverpool."

"If this demand is not met," the dock owner told the ILA, "we will institute a suit for damages. Loss of ACL's business could result in the loss of a substantial number of jobs and realistic potential damages running into millions.

"Given the potential damage exposure, the ILA has become involved in a very high stake affair, and we advise you to treat it accordingly." ■

Creating a hub in Panama

Stevedoring Services of America and Motores Internacionales set out to build a relay terminal available to all carriers.

By Chris Gillis

On the world map, Panama, with its canal linking the Atlantic and Pacific oceans, looks like the most logical point for operating a transshipment service in the Caribbean basin.

About 2.7 million TEUs passed through the Panama Canal in 1995, with about 20 percent destined for Latin America. Trade growth in the region is expected to exceed 6 percent a year by 2000.

But Panama has been a sore spot for many carriers during the past 15 years. Along with inefficient labor practices, Panama is plagued by drug smuggling, cargo theft and stowaways.

Other countries in Latin America and the Caribbean have taken advantage of Panama's plight by attracting more carriers to their ports.

In 1994, Stevedoring Services of America and Motores Internacionales S.A. set out to change the image of Panama by building a high-tech container terminal at Coco Solo called Manzanillo International Terminal.

Cristobal. "In only 16 months, MIT went from bar talk to operational reality," said Andrew McLauchlan, MIT's vice president of marketing. "MIT was built ahead of schedule and within budget by two partners who had never met prior to August 1993."

Seattle-based SSA, one of the largest operators of marine and rail cargo facilities in the U.S., wanted to take its expertise abroad during the early 1990s.

In September 1991, SSA began exploring the privatization of the Port of Cristobal, which was being operated by the Panamanian government.

At the time, the government's goals were to improve productivity, modernize its facility and attract transshipment cargo already transiting the Panama Canal. The privatization effort stalled when organized labor thought jobs were in jeopardy.

"After two years of dialogue, travel, engineering and a lot of questions from our financial personnel, we finally got our big break," McLauchlan said. "In August 1993, we learned that a private company named Motores Internacionales was interested in developing a facility adjacent to the Color Free Trade Zone."

For 10 years, Motores, a private company specializing in the import and transshipment of cars and trucks, had been using this former U.S. Navy Seaplane base as its distribution center for Russian automobiles and trucks throughout Latin America.

As Motores grew, the cost of moving these vehicles to and from the nearby Port of Cristobal caused them to consider building a berth on the north end of their facility, McLauchlan said.

Dream Come True. What started as an initial agreement to jointly invest $10 million for a single roll-on/roll-off berth quickly turned into a $220 million plan to build one of the largest transshipment terminals in the region.

Motores secured a contract from the Panamanian government to give MIT the right to use the land as is for the next 40 years, with options to extend.

SSA's job was to dredge the channel; design, finance and build the terminal; market the facility; and train Panamanian employees. The company also ordered four post-panamax cranes from Hyundai Heavy Industries.

"While the project seemed so obvious to us, it was equally unobvious to our banks," McLauchlan said. "As in the movie, *Field of Dreams*, our mantra was, 'If you build it, they will come.' It was clear to us that without a substantially completed project, no steamship would sign a contract and our banks were adamant that without a signed contract they were reluctant. Undaunted, we continued to build."

In December 1994, the company had already finished building one berth before receiving financing from the International Finance Corp. and a group of other investors such as Transamerica Leasing, ABN Amro and GE Capital.

Construction of MIT's first phase cost the partnership $120 million by October 1995.

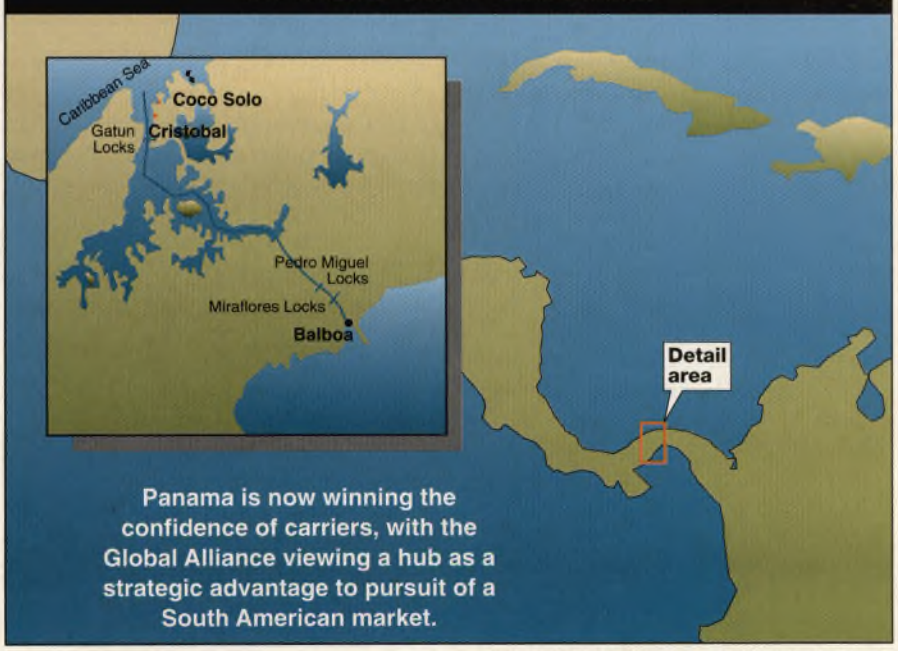
At this point, MIT consisted of 600 meters of berth, equipped with six container gantry cranes, 225 meters of ro/ro berth, 25 hectares of heavy duty concrete container yard and 84 hectares of annex area for the development of industrial activities, container and vehicle storage.

Convincing The Carriers. "Our confidence in the Panama project stemmed from what we knew was going on in the Latin America market," McLauchlan said. "We knew that several global alliances were making major commitments to Central and South America."

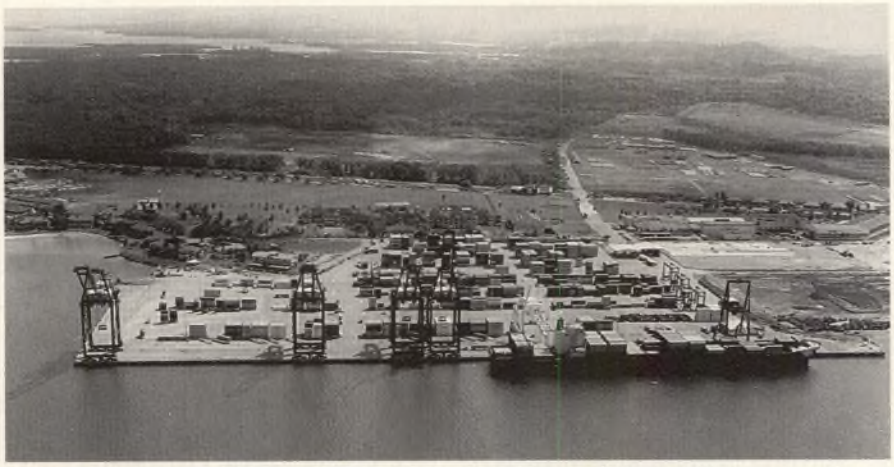
"We knew that for the carriers to serve these markets efficiently they needed a large hub at the intersection of their East-West and North-South routes. We knew that of the potential sites, Panama would have the lowest vessel operating cost for several potential customers," he said.

"This cost advantage coincided with a short-term shortage of container terminal space in the region. It was the shortage of space that convinced us to rush forward on the project," McLauchlan said.

A Hub in Panama



Panama is now winning the confidence of carriers, with the Global Alliance viewing a hub as a strategic advantage to pursuit of a South American market.



Manzanillo International Terminal is undergoing a $100-million expansion.

When the new ro/ro berth was complete, MIT signed with Seaboard Marine, a ro/ro carrier with local cargo, and Panamanian Carrier Corp., Motores' car transport affiliate.

Then the company began marketing the terminal to other global carriers. The Global Alliance, consisting of American President Lines, Mitsui O.S.K. Lines, Nedlloyd Lines and Orient Overseas Container Line, immediately entered talks with MIT.

"They (the Global Alliance) saw a hub at MIT as a strategic advantage in their pursuit of the South American market," McLauchlan said. "They agreed to a five-year contract, if we could open the facility eight months ahead of schedule."

To meet this demand, SSA moved two used container cranes from the Port of Seattle to Panama as the first berth was being completed. On April 16, 1995, MIT used these cranes for the Global Alliance on the *MOL Monte Rosa.*

Another key factor attracting carriers to MIT is the terminal's independent status.

"There's no conflict of interest to negotiate contracts with container carriers," McLauchlan said. "They know we're independent and no carrier is wondering how they benefit their competitor by signing a contract with us. We also have no reason to devote the terminal to one carrier's operation to the exclusion of others."

So far, MIT has signed contracts with 14 carriers. These include the four Global Alliance members, Maersk Line, Wilhelmsen Line, Seaboard Marine, Nordana Lines, Zim-American Israeli Line, Panamanian Carrier Corp., Crowley American Transport, CGM, Coral Line and several ro/ro ships of Nosac and NYK Line.

Office space for carrier representatives is also available at MIT.

Container Handling. MIT is handling about 24,000 TEUs from 70 vessels every month, 60 percent of which is being transshipped to other Latin American locations.

"The transshipment business is growing for MIT," McLauchlin said. "Panama has lagged behind for years, but now it is quickly becoming one of the largest transshipment centers in the region."

One of the limiting factors for Panama is the inability of the canal to handle new large container ships. "We may never receive a post-panamax ship until the next century," McLauchlin said.

The largest ships that MIT has handled are the Maersk M-class ships with capacity for 4,400 TEUs. These ships are 965 feet long with a width of 160 feet. They are the largest ships to transit the canal locks.

Empty container storage at MIT also helps carriers place containers in the region faster with their customers.

Four of MIT's six gantry cranes are large enough to handle post-panamax ships.

MIT also provides free empty container storage for carriers. "A major problem in the Latin American market is the lack of backhaul for containers shipped into the region," McLauchlin said.

Empty container storage at MIT also helps carriers place containers in the region faster with their customers.

The terminal employs about 570 Panamanian workers. An additional 2,000 jobs in Colon are also tied to MIT.

Security. Though MIT would not disclose how much it spent on security measures, McLauchlin did say it was a substantial part of the initial $120-million investment.

Drug trafficking is one of the biggest problems for terminal operators in Latin America. "Our goal is to make this facility a place that drug traffickers will avoid at all times," he said.

The terminal is enclosed with high fencing and accessible only through electric gates. MIT has a 100-person security force with 24-hour surveillance on the terminal and in the water around the berths. Eleven narcotics dogs are also on the premises to inspect containers.

By providing storage of empty containers, MIT makes itself unattractive to drug traffickers who build false floors and walls in the containers for hiding narcotics.

Video cameras film every container and truck driver entering the terminal.

MIT's system of preparing and releasing shipping documents electronically also helps eliminate problems of forgery.

"We are meeting U.S. Customs sea carrier standards with our security systems," McLauchlin said. "We've heard from several drug enforcement agents that the drug problem is now more likely to happen while the ships are at anchor out in the harbors."

Phase II. During the next year, MIT partners will invest an additional $100 million for expanding the terminal. The expansion, which started in January, includes building an extra 600 meters of container berth and 16 more hectares of container yard. Additional gantry cranes will be ordered.

MIT also has plans for offering container stuffing and stripping services at the facility.

The expansion project will include direct road access to the Colon Free Trade Zone, which is adjacent to MIT. The free trade zone handles about $11 billion in trade each year.

To make access easier to the terminal, MIT has built another channel through the canal breakwater wall. Vessels no longer have to enter the jurisdiction of the Panama Canal Authority to reach the terminal.

Improvements and expansion of MIT are in anticipation of increased terminal competition in the region. Evergreen Line is expected to complete construction of its new terminal in Coco Solo next year.

Looking West. Recently, SSA and Motores, with interest from Maersk, have placed a bid with the Panamanian government to develop a similar type of terminal on the west side of the canal at Balboa.

"We believe that our success in Manzanillo will help us win the bid for Balboa," McLauchlin said. "Once we receive the go-ahead, we'll commence building." The bid is expected to be awarded by the summer.

Though Maersk is included in the partnership for building a Balboa terminal, he said that all carriers will be served equally. ■

Brokers, Forwarders & NVOs

By Richard Knee, (415) 495-6748, FAX (415) 495-6750

Uncle Sam may owe your client some money

If you're a forwarder and your exporter client has been paying harbor maintenance fees, he may well be due a refund from the federal government.

And you, as his freight forwarder, should advise him of the fact, says Peter A. Friedmann, who represents both forwarder and shipper interests in Washington.

Friedmann is executive director of the Pacific Coast Council of Customs Brokers & Freight Forwarders Associations and of the Agriculture Ocean Transportation Coalition.

"Some 1,800 exporters have filed a summons with the CIT (U.S. Court of International Trade) and are standing in line to get a refund," he said at the AgOTC's recent annual meeting in San Francisco. If you are a forwarder, I think you are under obligation to advise your exporters that they may have some money coming back."

The CIT has declared that exporters must file their summonses individually, rather than as a class action, he said.

Cloudy picture on Line Release renewal

U.S. Customs is apparently having difficulty getting information on how many truckers are signing up for a pre-arrival clearance program for shipments entering the country from Mexico.

After the sign-up deadline of July 5, the only solid numbers came from Customs' port at Nogales, Ariz., and it was a mixed report. The public affairs office at Customs headquarters in Washington was still trying to track down information the following week.

Customs suspended the program, called Line Release, late last year under pressure from U.S. Sen. Dianne Feinstein, D-Calif. Feinstein was responding to reports that cargo containers and trailers had become a conduit for illegal drugs.

The agency is insisting that truckers wishing to participate in the renewed Line Release program sign an agreement that they will take certain steps to prevent drug traffickers from using their rigs.

And importers and customs brokers wanting to participate must use only those truckers signing the agreement.

At Nogales, three truckers have been certified for participation and the applications of nine others were pending, said Celia de la Ossa, Customs' chief inspector for cargo there.

Mexican produce shippers or "sheds" use independent truckers, who are not signing up because they are located in Mexico's interior and do not know who will be driving the trailers across the border, De la Ossa said. Produce shipments account for about 75 percent of the transborder volume during the peak season from December to June and about 25 percent the rest of the year, she said.

Customs to target farm, textile imports

U.S. Customs plans soon to increase scrutiny of cargo and documentation for farm goods and textiles entering the country through gateways between northern and central California and Utah.

Customs said it is targeting those commodities and entry points — the San Francisco Bay area; Fresno, Calif.; Reno, Nev., and Salt Lake City — because they are far below the national average in compliance with customs regulations on such things as tariff classification and country-of-origin marking.

Tom O'Brien, trade compliance director at Customs' San Francisco port, told the Customs Brokers & Forwarders Association of Northern California to expect increases in cargo examinations and entry-summary reviews for textile and agricultural shipments.

Panalpina reports 15 percent increase in profit

Panalpina, the Swiss forwarding company, reported a 15 percent jump in operating profit to SFr24 million ($21 million) for 1995, from SFr21 million in 1994.

However, gross profit before financial items was static, at SFr692 million ($602 million), compared with SFr691 million in 1994.

Gross total revenues of the group dropped 7 percent, to SFr3.72 billion ($3.23 billion) and net total revenues excluding duties and Customs revenues rose by only 5 percent, to SFr2.69 billion ($2.34 billion). Panalpina said growth of its airfreight and sea freight activities were not fully reflected in the Swiss Franc revenue figures, because of the appreciation of this currency in 1995.

The company cited "large restructuring costs in Austria and Colombia" as the main causes of a 9 percent decline in 1995 net profit, to SFr23 million ($20 million). Panalpina, however, called its results "highly satisfactory" in the face of "a sluggish economy, difficult market conditions in certain areas and adverse currency movements."

Airfreight and seafreight continued to dominate Panalpina's activities in 1995. Airfreight generated 45 percent of group gross profit, compared with 37 percent for seafreight, 14 percent for overland transport and 4 percent for others.

Broken down by region, 25 percent of Panalpina's gross profit stemmed from Europe, 24 percent from North America, 24 percent from Asia, 14 percent from Africa, 11 percent from Latin America and 2 percent from Australia.

Export confidentiality proposal furor seen

A U.S. Customs proposal to make it easier for U.S. exporters to keep their names and information on their goods confidential is likely to touch off a furor, says a leading spokesman for forwarders on document automation issues.

Currently, exporters must send requests for such confidentiality to Customs on company letterhead stationery. A proposed rule that Customs expected to publish in the Federal Register would permit exporters or their forwarders to file such requests through the Automated Export System, said Wayne Burl, who chairs the AES committee of the National Customs Brokers & Forwarders Association of America. Exporters and forwarders now use AES to file shipper's export declarations electronically.

Burl, assistant vice president of transportation for A.N. Deringer in St. Albans, Vt., said the proposal is likely to be criticized on freedom-of-information grounds from import-export data gatherers such as the Journal of Commerce.

IANVOCC puts off part of meeting agenda

When the International Association of NVOCCs held its triannual meeting in Alexandria, Va., in mid-June, the group put off the public portion of the gathering until its fall meeting Sept. 9-10. It will be at the same site.

Laurie A. Olson, the association's executive director, said the postponement was due to a busy schedule during the meeting's closed-door session.

The group wanted to focus on a professional training program, which it hopes to give a test run this month in New York and possibly in Los Angeles, and to launch fully after the September meeting, Olson said.

The training program is on the agenda for that session. Also on the slate are an address by Federal Maritime Commission member Delmond Won on proposed shipping-law reform, and discussions of hazardous-materials regulation changes, particularly in Wisconsin; overweight containers; customs-related issues; and the Interstate Commerce Commission Termination Act. To register or obtain additional information, phone Olson at (847) 697-3788.

NCBFAA sets Washington meeting Sept. 16-17

the National Customs Brokers & Forwarders Association of America will hold its annual government affairs conference Sept. 16-17 in Washington. Speakers will include key legislators and government officials. For information, contact NCBFAA at (212) 432-0050, fax (212) 432-5709, e-mail staff@ncbfaa.org.

Kintetsu launches animal transportation unit

Kintetsu World Express (USA) has established Kintetsu Blue Grass Inc., a subsidiary that will specialize in transportation of racehorses, other animals and related cargoes. Initially, the company's main business will be shipments of thoroughbreds from the U.S. to Japan, with some horse transport also being carried out between Europe and Japan and Japan and the U.S.

LEP appoints Williams director, Latin America

Eric J. Williams has been named director, Latin America, by LEP Profit International, based in Miami. For the last six year, Williams has been managing director of Latin American sales for Federal Express. Earlier he was director and general manger for Emery Air Freight's Latin American and Caribbean region.

Barthco, Kurz-Allen to merge in Philadelphia

Barthco International, a Philadelphia-based customs broker and freight forwarder, has agreed to merge with Kurz-Allen, a broker and forwarder with offices in Harrisburg, Pa.; Baltimore, New York and Philadelphia.

Carmichael opens Chicago office

Carmichael International Service has opened a Chicago-area office at 1000 Tower Lane, Suite 350, Bensenville, Ill. 60105. Los Angeles-based Carmichael also has offices in San Francisco, Seattle and New York. V. Afsar Mahmood is Expeditors' managing director for Pakistan.

Emery buys Hungarian air-freight agency

Emery Worldwide has acquired the air freight department of Mavtranssped, the wholly owned freight agency of Hungarian national Railways.

Emery, the forwarding and customs brokerage subsidiary of Consolidated Freightways, called the acquisition a step in its expansion in Central and Eastern Europe. Istvan Krajnyak, Mavtranssped's former air freight manager, has been appointed Emery's general manager for Hungary, based at the Budapest airport.

Expeditors opens Lahore, Karachi offices

Expeditors International of Washington said it has opened full-service offices in Karachi and Lahore under the name Expeditors International Pakistan Pvt Ltd.

The company's Middle Eastern network has grown over five years to comprise offices, agents and international service centers in 29 cities. Seattle-based Expeditors offers air and ocean freight forwarding, supplier consolidation, customs clearance, cargo insurance, distribution and logistics services.

Ecu-Line expands in Latin America

Ecu-Line has opened new offices in Arica, Chile, La Paz, Bolivia, and Montevideo, Uruguay.

The Arica office, under the name Flamingo Line de Chile, is headed by Carlos Estrada. The office is responsible for traffic to Bolivia and on-forwarding into the Iquique/Antofagasta area.

The La Paz office, Flamingo Line de Bolivia, will arrange distribution throughout Bolivia. Main destinations served regularly are Santa Cruz, Cochabamba, Oruro and Sucre.

The Montevideo office, Flamingo Line Uruguay, handles groupage shipments and full-containerloads to and from Uruguay.

MSAS opens Japan/Korea office

MSAS Cargo International has opened a regional headquarters in Tokyo to serve the Japan/Korea market. Staff in existing city offices in Shibaura, Nihonbashi and Shinjuku and from the Kchikawa, Chiba, office and warehouse have relocated to the new location in Oi.

DCL upgrades facilities in Ecuador

Direct Container Line's Ecuadorian agent, PacificLink, has opened a leased bonded warehouse in the Guayaquil port area. DCL said the warehouse provides LCL cargo availability 24 hours after the vessel's arrival, security against pilferage, 15 days of free storage, and in-bond storage.

Emery opens branch in Buenos Aires

Emery Worldwide has opened a branch office and terminal in Buenos Aires. Previously, Emery had operated through a local agent. Emery said it also plans to acquire additional office space at Ezeiza Airport, 28 miles from the city, to speed documentation and customs clearance of air cargo.

AEI appoints manager of Asian development

AEI, the big Darien, Conn.-based forwarder, has appointed Jeff Kristol manager of Asian development, based in Los Angeles. He has more than 15 years of transportation experience.

NVOCC service announcements...

Norton Line launches Far East service

The Norton Line, the NVOCC subsidiary of Norton Lilly International, has launched a Far East service between major ports in China and the United States.

The service, provided through a partnership arrangement with Yai Tai International, uses Yai Tai's Class "A" forwarding license in China. The service features weekly sailings and full intermodal service, LCL service and customs clearance in China.

LEP Profit expands Puerto Rico capacity

LEP Profit International has expanded its overnight air-cargo capacity between U.S. Midwestern cities and San Juan, Puerto Rico.

The freight forwarder now uses a stretch DC8-63 plane with 100,000 pounds of cargo capacity for week-night flights from San Juan to Columbus, Ohio. The plane replaces a smaller DC-8 that began flying the route in March.

CF MotorFreight launches LCL service to Brazil

CF MotorFreight's non-vessel-operating common carrier service has begun weekly less-than-containerload service to Brazil. Shipments move by truck to CF's ocean freight consolidation facilities and then by ocean to Sao Paulo, Santos or Rio de Janeiro, from where CF partner companies provide customs brokerage and delivery in Brazil.

Shippers' Case Law

Abstracts by Robert Mottley

Appeals court reinstates arbitrators' ruling

Because federal courts are generally reluctant to second-guess maritime arbitrators, a ruling last year by U.S. District Judge Dan M. Russell Jr., in the Southern District of Mississippi, raised eyebrows in the close-knit professional community of arbitrators.

Russell reversed the decision of an arbitration panel in a dispute between Dole Ocean Liner Express and the Georgia Vegetable Co., saying that although "judicial review of arbitration awards is extremely limited," such agreements "do not grant arbitrators carte blanche." When "an arbitrator exceeds the express limitations of his contractual mandate," judicial deference should end, he said.

In 1993, Dole had agreed to supply Georgia Vegetable with 40-foot containers to carry vegetables from Nicaragua to the U.S. on Dole's ships. In the case at hand, Georgia Vegetable acted as marketing manager for Manprosa, a Nicaraguan company, which owned cargoes of onions being shipped north.

Court papers said Dole, "faced with a rather severe container shortage," restricted their dispersal to other countries. Georgia Vegetable had contracted for 170 containers to carry Manprosa's onions. Dole shipped 12. Using another carrier, Georgia Vegetable managed to ship 96 containers, 62 but containers of onions were never shipped, and the goods perished in a Nicaraguan port.

Unable to agree on damages, Dole and Georgia Vegetable turned their dispute over to a three-man arbitration panel, arranged by the Society of Maritime Arbitrators of the New Orleans Board of Trade. The panel held sessions, beginning in May 1995, at the U.S. District Court in Biloxi, Miss.

Both Dole and Georgia Vegetable had, in their original contract, a default clause that restricted shipper and carrier to collecting only $500 per container should something go amiss. The arbitration panel determined that the $500 per container liquidated damage provision "in no way meets the requirements of just and reasonable compensation for the loss," and ordered Dole to pay Georgia Vegetable and Manprosa $651,113.

Russell ruled on Nov. 22 that the arbitrators had exceeded their authority by not sticking to the $500-per-container limitation, and were wrong to award $550,606 of the $651,113 to Manprosa," which Russell called "a non-party" to the original contract.

Georgia Vegetable appealed the lower court's ruling. On June 6, the 5th U.S. Circuit Court of Appeals reversed Russell's decision. The appellate panel noted that "whatever our belief about the enforceability of the liquidated damages clause may be, it is clear that the arbitration panel had the power to determine that it was not a reasonable pre-estimate of damages and therefore void." The arbitrators "did not exceed their powers" by finding "as a matter of law, that it was void."

As for Manprosa being a "non-party" to the original contract, the appeals court noted that "because the arbitration was between Dole and Georgia Vegetable, the entire amount should have been awarded to Georgia Vegetable ... Dole was aware that Georgia Vegetable was Manprosa's agent, and as such should have been aware that Manprosa's agent would enforce the contract on behalf of the principal."

The appeals court remanded the case to the district court with instructions "to reinstate the arbitration panel's award." And, in a pointed reminder to Russell, the higher court reiterated its guidelines for meddling in arbitration: "Our review of the arbitrator's award is very deferential, and we should set aside that decision only in narrow circumstances. As we said in *["Gateway Technologies, Inc. v. MCI Telecommunications Corp.," 64 F.3d 993, 996 (5th Cir. 1995)]*, such an award shall not be vacated unless (1) it was procured by corruption, fraud, or undue means; (2) there is evidence of partiality or corruption among the arbitrators; (3) the arbitrators were guilty of misconduct which prejudiced the rights of one of the parties, or (4) the arbitrators exceeded their powers." *[Dole Ocean Liner Express v. Georgia Vegetable Co.; U.S. Court of Appeals, Fifth Circuit, No. 95-60780; lower court docket: Civil Action No. 1:95-CV-407RR]*

Storage is not transit

The International Trading Co. sent tins of canned ham from Denmark to Safeway Stores in Stockton, Calif. Four carriers were involved: Hapag-Lloyd A.G., which shipped the ham by sea to Oakland, Calif., Can Transport Inc., which delivered the unloaded ham by truck to Sacramento, Crystal Ice & Storage, which stored the ham in Sacramento, until D&D Services delivered it by truck and unloaded it at Safeway's meat plant in Stockton. At the end of that intermodal journey, the ham sat in the Safeway plant for 11 days before Safeway employees opened it and discovered it was frozen. ITC rescinded the sale and collected $53,243, the net loss for the ham, from its insurer, Galt G/S., which then sued the four carriers.

Hapag-Lloyd denied that any of the carriers had damaged the shipment, arguing that Safeway employees froze the ham in the eleven days after receiving and before opening it. The ocean carrier then paid Galt $13,500 to settle the principal cargo damage action, and to acquire Galt's third-party claim against Safeway. A federal district court ruled that Safeway was liable for the entire net loss to Hapag-Lloyd on the claim assigned by Galt, but declined to consider the ocean carrier's claim for indemnification for the costs of settling with the insurer.

The 9th U.S. Circuit Court of Appeals reversed the lower court, finding that admiralty jurisdiction did not exist in this case.

"Neither Safeway's freezing the ham at its Stockton plant nor Galt or Hapag-Lloyd's resulting injuries (needless insurance payments and ligitation exposure, respectively) occurred on navigable waters or (were) related to traditional maritime activities," the appellate panel said.

As for Hapag-Lloyd's claim of indemnification, "we conclude that the cargo damage claim and the indemnification claims arise from difference occurrences, whether the carriers mishandled the ham during transit, or whether Safeway stored the ham improperly. The two occurrences are separated by the carriers' relinquishing control over the ham. They are also separated in time. Accordingly, the district court erred in exercising ancillary jurisdiction over the California indemnification claims against Safeway.

"We recognize that this result means that Hapag-Lloyd may have to press its claims against Safeway in a second suit in state court. However, this outcome is sometimes unavoidable in a federal system," the appeals court concluded.

[Galt G/S, v. Hapag-Lloyd AG, et al., v. Safeway Stores Inc.; Ninth U.S. Circuit Court of Appeals, No. 93-16521, 93-16601]

HICKOK TO HANJIN. Clifton F. Hickok has joined Hanjin Shipping as assistant general manager of corporate sales and marketing, a new position in Hanjin's U.S. corporate headquarters in Paramus, N.J. Hickok, who will be responsible for overall pricing and global contract development, spent 20 years with American President Lines, most recently as director of eastern sales.

LEASED-BOX FLEET GROWS. The Bedford, N.Y.-based Institute of International Container Lessors says its annual survey shows that the world's leased-container fleet stood at 4.3 million TEUs at the start of the year, an increase of 7.4 percent from a year earlier. IICL said the percentage of 40-foot boxes in the fleet was 61.77 percent, close to the 61.83 percent of a year earlier. Twenty-footers comprised 37.99 percent of major lessors' fleets.

VIRGINIA TRADE CONFERENCE. The 48th annual Virginia Conference on World Trade will be held Oct. 20-22 in Williamsburg, Va. For information, contact the Virginia Chamber of Commerce, 9 South Fifth St., Richmond, Va. 23219, phone (804) 644-1607.

RUSSIAN TOP KINGS POINT GRAD. Gregoriy A. Kornilov of Novorossiysk, Russia, has become the first Russian valedictorian at the U.S. Merchant Marine Academy at Kings Point. Kornilov, one of three Russian nationals to graduate from Kings Point this year, earned the valedictorian designation by attaining the highest grades in his 190-member class. Last year four students from the Russian federation, the first from their nation to attend Kings Point, were among academy graduates. All of the Russian students have been sponsored by the Russian shipping company Novoship, which paid their tuition.

U.S. RAILCAR FLEET. The U.S. railcar fleet is at its highest level since 1989, according to the Association of American Railroads. As of April 1, railroads, shippers and private car companies owned 1,222,090 freight cars, up from 1,218,927 on Jan. 1 and 1,189,909 on April 1, 1995, the AAR reported. Harvey A. Levine, the AAR's chief economist, said additions to the fleet continued to outpace retirements of old cars. He said the freight car fleet has grown by more than 4 percent — or more than 50,000 freight cars — since the beginning of 1993.

ABS SEMINARS. The American Bureau of Shipping and Enercon Group will sponsor seminars in New York on marine custody transfer, petroleum measurement and loss control Aug. 20-23 and charter parties, laytime and demurrage Aug. 26-29. For information contact David Callahan by fax at (713) 874-6522.

ROBBINS FLEISIG. Richard MacMahon has been promoted to general manager of operations for Robbins Fleisig Forwarding in New York. MacMahon has been with Robbins Fleisig for more than six years.

'K' LINE PRICING. "K" Line America has named Gregory P. Polaski general manager of westbound pricing and Ian A. Duthie supervisor of westbound pricing. Polaski has been with "K" Line since 1991, most recently as eastbound sales manager based in Newport Beach, Calif. Duthie joined "K" Line last year as a westbound pricing analyst. Tina Masington and Christopher Leubbers have been appointed logistics managers. Both joined the company in 1994 as planning analysts. Alan Silber has been promoted to general manager, liner budget.

NORTON LILLY. Weili Zhou has been promoted to general manager, Far East, for Norton Lilly International. Zhou joined the Secaucus, N.J.-based company in 1986.

GULF & ATLANTIC. Robert J. Shay has been appointed project manager for Gulf & Atlantic Maritime Service Inc. Shay has more than 25 years experience in the field of project cargoes and chartering. He was director of project services for Lykes Bros. Steamship Co. Inc. He also served as operations manager for Industrial Maritime Carriers for the Pacific Rim, and vice president of Caribbean service for Colonial/Gulfship Marine.

COLUMBIA COASTAL TRANSPORT. The company has opened offices in Norfolk, Va. and Baltimore, to support Columbia Coastal's new twice-weekly container feeder service between Norfolk and Baltimore. Max Kowalski has been named port manager in Norfolk and Donovan Murry, port manager in Baltimore. Kowalski has more than 25 years of transportation and port management experience, most recently as intermodal transportation manager for Ceres Marine Terminals Inc. in Norfolk. Murray has been with Columbia Coastal since August 1993 and has served as port manager in Baltimore since August 1995.

CONSOLIDATED DELIVERY. Consolidated Delivery & Logistics, a same-day ground and air delivery company, has named Robert Wyatt, Andrew Kronick and Michael Brooks managers for its Manhattan, Northeast and Southeast regions, respectively.

IICL INSPECTOR EXAMS. The Institute of International Container Lessors will hold its next container and chassis inspectors' certification examinations Nov. 23. The chassis inspectors' tests will be held in the U.S. only. For information, contact IICL at P.O. Box 605, Bedford, N.Y. 1050-6, fax (904) 234-3641.

S.C. PORT AUTHORITY. Bernard S. Groseclose has been named president and chief executive officer of the South Carolina State Ports Authority. He joined the port authority in 1985 and currently is director of planning and development. He also has been executive assistant to Port Director W. Don Welch, who retires at year end. L. Duane Grantham, who has been director of sales and marketing, was named executive vice president and chief operating officer. Grantham joined the port authority in 1986 as director of sales and marketing after six years with United States Lines. The appointments will become effective Jan. 1. Welch, who has headed the port authority for 26 years, will stay on for six months as a consultant.


Groseclose


Grantham

JACKSONVILLE PORT. Kenneth R. Krauter has taken over as managing director of the Jacksonville Port Authority, succeeding Cliff Mendoza, who resigned. Krauter had been chief executive officer of the Saint John Port Corp. in Saint John, New Brunswick, since 1986. He was CEO of the Prince Rupert Port Corp. in British Columbia from 1980 to 1986 and before that worked five years with Vancouver International Airport. The Jacksonville Port Authority oversees both the city's seaport and airports.


Krauter

PORT OF PALM BEACH. Edward R. Oppel has succeeded Benson B. Murphy, who retired, as executive director of the Port of Palm Beach. Oppel had been executive director of the Bridgeport Port Authority in Connecticut. Louis J. Perez has been named deputy port director of business development. Before moving to Palm Beach, Perez spent eight and a half years as marketing and trade development director at Port Canaveral. Earlier he was in sales management for Hyundai, Norton Lilly, Kerr Steamship and American Export Lines.

WILMINGTON DREDGING. The Army Corps of Engineers is finishing work on dredging the ocean bar entrance to the Port of Wilmington, N.C., to its authorized depth of 40 feet. The work started in October 1994. The channel project depth inside the Cape Fear River is 38 feet. The North Carolina State Ports Authority and the Corps of Engineers are seeking authorization in this year's water-projects legislation to deepen the river to 44 feet at the ocean bar and 42 feet inside the river.

STANDARD WAREHOUSE. Standard Warehouse Co., a Columbia, S.C.-based provider of third-party logistics, has won a contract to run a 204,000-square-foot contract distribution center in Greenville, S.C., for Bayer Corp. The distribution center ships dyes and pigments, rubber, flammables and other chemicals to Bayer's southeastern customers, including Du Pont, Michelin and Goodyear. Bayer now operates more than 7 million square feet of warehouse space.

METASYS CONTRACT. Gates Rubber Co. has contracted with Metasys Inc., a Charlotte, N.C.-based provider of transportation management software, for software to support inbound and outbound shipments of domestic and international freight. The software will be installed at Gates headquarters in Denver and at distribution and manufacturing locations across North America.

GATX LOGISTICS. David Poitevint has been named manager of marketing analysis for the Jacksonville-based contract logistics company. Poitevint worked for AT&T Universal Card Services as new product development manager. He previously held marketing positions with Westminster Publications and Barnett Bank of Florida.

ALIANCA LINES MIAMI OFFICE. Empresa de Navegacao Alianca has opened a new office in Miami. The address is 8410 N.W. 53rd Terrace, Suite 210, Miami, 33166. Phone (305) 594-3879, fax (305) 470-9681. Alianca Lines operates a weekly service between the U.S. East Coast and Brazil, Argentina, Uruguay and Paraguay.

LANPORT EQUIPMENT SALES. LanPort Inc., based in Savannah, has opened a division to handle sales of used containers and chassis. The division recently acquired additional inventory from several large leasing companies. The company's Intermodal Equipment Sales Division is managed by Dudley New, district sales manager.

WAREHOUSING COURSE. The Logistics Institute at Georgia Tech will hold a course on warehousing Sept. 9-13 in Atlanta. For information, contact the institute at (404) 894-2343, or call the institute's automated information line at (404) 894-1714.

GLOBALPLEX TERMINAL. A cement storage and transfer terminal will be developed at the Globalplex Terminal along the Mississippi River in Reserve, La., betwen New Orleans and Baton Rouge. Holnam Inc. has leased the site, which will be managed by Hall-Buck Marine and will used primarily for unloading ships and loading river barges. The cement transfer terminal is scheduled to begin operation in the fall of 1997. Globalplex, which covers more than 200 acres, is owned by the Port of South Louisiana, whose jurisdiction covers the Mississippi River between the ports of New Orleans and Baton Rouge.

ASHLAND CHEMICAL. The Dublin, Ohio-based company has acquired the assets of the South American business of the Dearborn Marine Group, a shipboard chemical supplier of W.R. Grace & Co. The Dearborn Marine Group supplies chemical products to South American carriers and international vessels that travel between South America and ports around the world. The purchase price was not disclosed.

ASSOCIATED INTERNATIONAL. Diana Bergeron has been named international manager, based in Dallas, for Associated International, a freight forwarder. In addition to responsibilities for Associated's Southwest region, Bergeron is Mexico route coordiantor for the company's new partnership with Braniff Transport Carga S.A. She had been with Right-O-Way Transportation and earlier held international operations and sales posts with Amerford International, Panalpina and DHL.

HUB CITY TENNESSEE. Hub Group has agreed to buy the limited partnership interest of Hub City Tennessee, L.P., for $2.5 million in cash. Hub Group already owns the general partnership in Hub City Tennessee and the purchase will give Hub Group complete ownership.

CON-WAY TRUCKOAD SERVICES. Calvin C. Swank has been named controller for Con-Way Truckload Services, based in Fort Worth, Texas. He had been manager of quality assurance for the previous year.

MELTON TRUCK LINES. Christie Fritch and Chris Bowersox have been named regional marketing representatives for Melton, based in Tulsa, Okla. Fritch joined Melton a year ago as marketing assistant. Bowersox worked as Southeast regional manager for Q Carriers Inc. and as area sales manager for Team Air Express.

PORT OF CATOOSA. The Oklahoma port handled 184,287 tons of cargo in 80 barges in May, a 46 percent gain over the 101,257 tons in 56 barged handled a year ago. The increased tonnage consisted largely of bulk liquid products.

SCHNEIDER SELECTED. Schneider Dedicated Operations has been selected as a transportation partner for the new Mercedes Benz U.S. International Inc. plant in Tuscaloosa County, Ala. Schneider Dedicated will be the collection route carrier for suppliers in Canada, Mexico and the U.S.

APL AUTOMOTIVE LOGISTICS. American President Lines has appointed two managing directors for its Detroit-based automotive logistics group, which provides logistics and transportation services for Ford, General Motors, Toyota and other companies. Tom Tercala has been appointed managing director, North America, based in Detroit. Tetsuzo "Ted" Nakajima will be managing director, Asia, based in the Tokyo area. Tercala joined APL's automotive logistics group in 1994 as manager of sales and marketing, and later became senior manager. Nakajima joined APL in 1987 and most recently was responsible for APL's transpacific and Asia-Europe automotive business.

NTE SYSTEM. Allied Buying Corp., a Chicago-based buying cooperative of restaurant supply and equipment distributors, is conducting a test of the truck-freight database operated by National Transportation Exchange of Downers Grove, Ill. NTE is an electronic marketplace that matches shipments with available capacity moving in the same traffic lanes at the same times. The concept is similar to the NASDAQ electronic stock-trading system. Allied will test the NTE system for six months.

OUTSOURCING LOGISTICS. A seminar on outsourcing logistics will be held Aug. 8-9 in Chicago by the Strategic Research Institute. Speakers will include Carla Reed, global accounts director, Encompass; Tom Escott, vice president, Caliber Logistics; Robert J. Laird, vice president, Nedlloyd Flowmasters (USA); John Fontanella, operations director, Microsoft; Dennis McPoland, vice president, logistics, Skyway Freight; William D. Zollars, senior vice president, Ryder Dedicated Logistics; Bob Corcoran, third-party program manager,

Hewlett Packard Logistics; Thomas McDonnell, information technology manager, Becton Dickinson supply chain services division; Robert Harris, manager, strategic logistics, Motorola Semiconductor Products; and Jim Powell, president, Transportation Development Group. For information, call (800) 599-4950.

SUPPLY CHAIN INTEGRATION. The International Quality & Productivity Center will offer a seminar on supply chain integration, Sept. 18-20 at the Hotel Sofitel, Rosemont, Ill. Professionals from 13 companies, including A.T. Kearney, Lucent Technologies, Pepsico, Dow Chemical, 3M, Quaker Oats and IBM, will share techniques to increase customer satisfaction, efficiency and profitability. The center can be reached by phone (800) 882-8684, e-mail, info@iqpc.com, or at its website: www.iqpc.com.

LANDSTAR LOGISTICS. Landstar Logistics, a subsidiary of Landstar System, has moved its automotive logistics center to 42000 West Six Mile Road, Northville, Mich. 48167. Al Balgorsky, vice president of automotive sales, is based there, along with Jim Dunmead, managing director, logistics, and Tony Paulk, operations manager.

LOADLINK INC. Julie G. Wittig has been appointed director of product development for the Addison, Ill.-based supplier of transportation-related software and value-added network services to shippers. Wittig's duties include serving as project manager for advanced rail and EDI-based transportation management systems. She joined Loadlink from the Burlington Northern Santa Fe Railroad, where she developed and supervised the EDI effort for the railroad's marketing department.

DISTRIBUTION SCIENCES INC. Elizabeth M. Dunham has been named manager of marketing services by DSI, a Des Plaines, Ill.-based provider of transportation software and services for freight rating, routing, consolidation and freight-payment audit functions. Before joining DSI, Dunham was marketing manager for Smith, Bucklin & Associates in Chicago.

JENKINS TO HEAD IFPWA. Michael L. Jenkins, president and chief executive officer of the American Warehouse Association and Canadian Association of Warehousing and Distribution Services was named world president of the International Federation of Public Warehousing Assocations. Jenkins will serve as host of IFPWA's next annual congress, to be held April 9-12 in Washington, D.C. The IFPWA comprises warehouse associations in 15 member countries: Brazil, China, Cyprus, France, Greece, Iran, Israel, Italy, Japan, Mexico, Spain, Switzerland, United Kingdom, United States and Canada.

MSAS CARGO INTERNATIONAL. The Burlingame, Calif.-based logistics company has opened a branch office in St. Louis to serve customers in Missouri and the south central Midwest. The office is headed by Rainer Sikora and Linda Dolgin. Sikora has 13 years of air freight forwarding experience in Germany and three years in the North American market. Dolgin has 12 years of experience in the forwarding industry. The office is located near St. Louis International Airport (Lambert Field) at 4530 Woodson Rd., St. Louis, Mo. 63134. Phone (314) 427-8484, fax (314) 427-8633.

ALIANCA LINES. Empresa de Navegacao Alianca has opened an office in Chicago and named Don Guinter as regional sales manager. Guinter has nearly 20 years of transportation industry experience. The new office is located at 8501 W. Higgins Rd., Chicago, 60631. Phone (312) 714-8815, fax (312) 714-8817. Alianca operates a weekly Brazilian-flag service with Columbus Line between the East Coast of South America and the U.S. and Canada.

ANTILLES FREIGHT. The Miami-based non-vessel-operating common carrier named Midwest Freight Agency as its receiving station in Chicago. Antilles Freight offers weekly sailings from Miami to Antigua, Barbados, Guyana, Haiti, Kingston and Montego Bay, Jamaica and Trinidad.

CLM COURSE DIRECTORY. The Council of Logistics Management, based in Oak Brook, Ill., has issued its Directory of Logistics-Related Courses. The booklet includes 71 schools that offer logistics-related courses, both domestically and internationally. To obtain a copy, contact Janine M. Tomczak at (708) 574-0985 or send an e-mail message to the council at clmadmin@clm1.org.

WAREHOUSE ASSOCIATION. The American Warehouse Association, based in Park Ridge, Ill., has issued its 1996 education catalogue, which provides details of educational seminars on warehousing issues. To obtain a copy, call Ann Christopher or Michelle Calhoon at the association, (847) 292-1891, or e-mail at Logistx@aol.com.

APL SEATTLE TERMINAL. Ground has been broken on a $260-million project to double the size of the American President Lines container terminal in Seattle that will be used by APL and its Global Alliance partners OOCL and Mitsui O.S.K. The expansion, to be completed in the fall of 1998, will increase the terminal's size from 83 to 160 acres, and expand berthing area from 2,500 feet to 2,900. The terminal will have on-dock rail facilities for assembly of two stacktrains at once.

LA PORT BUDGET. The Los Angeles port commission adopted a $410.9 million budget for the fiscal year that began July 1. The package projects an 8.6 percent increase in operating expenses, to $106.4 million, and a 5.4 percent decrease in revenue, to $186.5 million. It also calls for spending $426.5 million on capital improvements, including completion of major elements of the port's Pier 300/400 marine terminal complex that will house American President Lines' new container facility and a coal-export facility; a pair of dredging projects; construction of an intermodal container transfer yard on Terminal Island; and various highway and rail projects.

OAKLAND CONTAINER CRANE. A new, $7 million container crane arrived at Oakland, giving the port a total of 30. It was installed last week at the Seventh Street Container Terminal, which is run by Marine Terminals Corp. and hosts major trans-pacific carriers such as Evergreen, Hanjin, Hyundai and Yang Ming. The new crane has a 167-foot outreach and 110-foot lift, and is expected to average 35 lifts an hour. It was built in Shanghai by Zhenhua Port Machinery Co. Ltd. The port expects delivery next May of two similarly designed, but faster cranes with General Electric motors.

PORT OF ASTORIA, ORE. The Port of Astoria, Ore., announced reductions of 10 percent in the tariffs charged to ships and/or shippers, and 42 percent in log-export tariffs. The new rates are the lowest on the Columbia River and possibly on the West

Coast, port executive director Jonathan Krebs said. The reductions reverse a trend of steady increases that have boosted tariffs at most Pacific Northwest ports, including Astoria, by 55 to 75 percent since 1985, according to the Columbia Snake River Marketing Group. The Port of Astoria last August raised its dockage, wharfage and service-and-facilities fees by 5 percent.

ALLIANCE/SWIFT TRANSPORT. Alliance Shippers and Swift Transportation have signed a long-term joint-marketing agreement they said gives shippers a single point of contact for the services of either company. Alliance is a domestic and international intermodal marketing company. Swift provides truckload services in the continental United States, Canada and Mexico. The agreement combines the resources of Alliance's 41 North America offices with Swift's fleet of 9,000 high-cube trailers as well as RoadRailer dedicated service along the West Coast's Interstate 5 corridor, the companies said.

PORT OF PORTLAND. The Portland, Ore., port commission decided the port should continue running its Terminal 6 container-handling facility rather than turn it over to a private operator. Port Director Mike Thorne said that after evaluating proposals from three companies, the port staff concluded that private companies couldn't make the port run better than it is now. Proposals came from Jones Stevedoring Co., Marine Terminals Corp. and Stevedoring Services of America.

BULK TERMINAL. Construction of a bulk export facility at Portland, Ore., is about a month ahead of schedule, with the opening expected in January, the port said. The project, about 20 percent complete, is costing $1 million over the $48 million originally estimated, but the money is coming entirely from private sources — about 90 percent from Canpotex Ltd., of Saskatoon, Saskatchewan, and the rest from Hall-Buck Marine, general contractor for the Terminal 5 facility, the port said. The terminal will initially handle 1 million to 3 million metric tons of Canadian potash and related products annually, and will eventually put through up to 10 million tons a year of various commodities.

SOUTH SEAS STEAMSHIP. Lou Jordan has joined San Francisco-based South Seas Steamship as equipment and logistics manager. He had been with Senator Lines (USA) and earlier was equipment and logistics manager for Johnson ScanStar and special commodities manager for American President Lines. South Seas operates betwseen North America and the South Pacific islands.

AMERICAN INT'L FREIGHT. Gary Super has been named western regional marketing manager for American International Freight, a scheduled overnight airfreight operation serving freight forwarders. He is based in Portland, Ore. He had been responsible for sales and marketing at the Evergreen Air Center in Portland. Earlier he spent four years with Evergreen International Airlines as senior director of cargo sales and senior director of systems operations. He also worked as director of international sales at Evergreen Aviation Ground Logistics Enterprise; senior sales and marketing manager at Service By Air, and district sales manager at Burlington Air Express.

SCHENKER INTERNATIONAL. Norbert Juergen has been appointed branch manager for international forwarder's Los Angeles office. Juergen was president and owner of RAM Data Information, a software systems company, and before that, he was president and owner of RAM Forwarding.

TRI-VALLEY GROWERS. Riss Logistics has contracted to provide logistics management for Tri-Valley Growers, handling existing carrier relationships and negotiating new ones for intermodal, truckload, less-than-truckload and railcar shipments. Tri-Valley ships 70 million cases of produce annually from 10 processing plants in California and one in New Jersey. Riss said Tri-Valley is restructuring its operations to focus on its core competencies of food marketing and processing.

SHIPPING INDUSTRY BANQUET. The Pacific Transportation Association will hold its annual Steamship Night dinner-dance Sept. 5 in the San Francisco Marriott Hotel. Tickets are $65 each or $650 per table of 10 and are available through Jim Fitzgerald at J.E. Lowden & Co., 275 Battery St., Suite 400, San Francisco 94111; phone (415) 781-7040. Reservation deadline is Aug. 19.

TASA CUSTOMER SERVICE STAFF. Trans-American Steamship Agency, general agent for Transportacion Maritima Mexicana in North America, has named Becky Mabire as U.S. logistics and operations manager. Mabire, who joined TASA in 183, has held several positions with the equipment control department, most recently as Southern California district manager. TASA also named James D'Sousa as an account executive. D'Sousa is an 18-year veteran of the steamship business, most recently with Ivaran.

BAR-CODING SEMINARS. Symbol Technologies will hold a seminar on bar-coding technology Sept. 17-18 in Irvine, Calif. The seminar will be conducted by Richard B. Meyers, president of Delta Services, and Robert W. Rylander, senior manager of Symbol's worldwide education group. For information, call (800) 722-6234 or access the Symbol home page at www.symbol.com, in the "service and support" section.

CROWLEY SCHOLARSHIP. Daniel Garcia received the Thomas B. Crowley Senior Memorial Scholarship awarded annually to a junior cadet at the California Maritime Academy. Garcia plans to obtain a master's in business administration with a specialty in transportation logistics. Andrew Wakefield and Kevin Theberge, the first and second runners-up in the scholarship competition, each received a $250 honorarium.

CHRISTENSEN NPTC CHAIRMAN. Jim Christensen, vice president, operations, of Servicecraft Distribution Systems Inc., of Buena Park, Calif., has been named chairman of the National Private Truck Council. The council is the national organization for corporate trucking companies that use in-house or dedicated truck fleets to support distribution of their products and services.

DIXIE BOX & CRATING. The company, a division of The Dixie Group, has expanded its service to the West Coast with the opening of an export packaging and projects facility in Gardena, Calif., near the Los Angeles/Long Beach port area. Eric O'Connor, formerly with Sea-Land, has been named general manager.

ELECTRONIC COMMERCE. Sterling Commerce will sponsor a conference on electronic commerce technologies Aug. 6-8 in Reno, Nev. For information, call Sterling at (800) 888-5121.

BELLINGHAM COLD STORAGE. Bellingham is adding a 16th warehouse, a 270,000-square-foot facility in Bellingham, Wash. The new warehouse, scheduled to open in September, will bring Bellingham Cold Storage's capacity to 12.8 millin cubic feet.

GERD BUSS AG. The Hamburg-based stevedore and terminal operator, plans to invest DM 30 million ($US 20 million) this year, primarily for development of the Tollerort Container Terminal and Buss Logistik Terminal. Buss, which reported group turnover last year of DM 300 million (about $200 million), said a new berth at the Tollerort terminal is expected to begin operation next year. At the Buss Logistik terminal, a fourth warehouse, 40,000 square meters in size, will go into operation this year. Buss said that a period of restructuring and rationalization will continue next year. The company said its container volume last year was satisfactory, but that conventional general cargo continues to decline.

CN PLANS TO DISPOSE OF TRACK. Canadian National said it plans to dispose of 1,400 miles of rail lines this year in addition to 752 miles that already is being abandoned or transferred to short lines. The downsizing is part of a three-year program designed to help restore the newly privatized railroad to profitability. CN said it plans to reduce its track by a total of 4,000 miles by 1999.

HANJIN SHIPPING. Hanjin Shipping has obtained the right to build and operate a dedicated terminal in Kaohsiung, Taiwan. The terminal will have an annual capacity of 430,000 TEUs and is expected to cost $80 million. It will be located at Terminal 5, Kaohsiung's latest terminal expansion area. Construction is to begin in November, with completion scheduled for June 1998.

GOTHENBURG ORDERS CRANES. The medium-size port of Gothenburg, Sweden, has ordered two new post-Panamax container cranes which can handle the largest containerships afloat. The cranes will have an outreach of 48.5 meters (159 feet) —10 meters (33 feet) more than the current ones. That's enough to handle ships with 18 rows of containers across, four more than the port's existing cranes can handle. Maersk is already sending its 17-row wide, 6,000-TEU ships to the Swedish port, but it has to stow Gothenburg boxes within the existing cranes' reach. The cranes, to be delivered in 1998, are part of a $23 million capital spending program that includes deepening to 39 feet the water depth along a 1,310-foot stretch of quay and dredging the fairway outside the quay.

CGM TO SELL LE HAVRE UNIT. Compagnie Generale Maritime, the money-losing French shipping group, has signed an agreement with a consortium of private companies to sell GMP, its cargo-handling subsidiary in Le Havre. Consortium members are 3i France, an investment bank, Roussel and Geodis-Feron. CGM said the consortium was selected on the basis of financial criteria and quality business plans. The selling price wasn't disclosed. The sale is subject to approval of the French government, which owns CGM. CGM called the sale an important step toward privatization of the company.

EVERGREEN VIETNAM PROJECT. The Vietnamese state maritime agency Vinamarine and a consortium of Evergreen and three private companies will invest $630 million in the construction of a port in Vung Tau, Vietnam. The consortium includes Tredia Resources Pte Ltd, of Singapore; Evergreen International, the Panamanian subsidiary of Taiwan's Evergreen group; and MMC Ports Sdn Bhd, of Malaysia. The port of Vung Tau, located 125 kilometers south of Ho Chi Minh City will be the largest multipurpose port in Vietnam. It will be equipped with wharves for containers, bulk and breakbulk cargoes and will also have oil and gas facilities. The project will provide much-needed additional capacity and 15-meter (49-foot) access that is unavailable up the Mekong River at Ho Chi Minh City. The port of Vung Tau will be developed in several stages. The full project will take about 15 years.

DUBAI AIR CARGO CONFERENCE. The International Air Cargo Association will hold its 18th biennial international air cargo forum and exposition Oct. 20-23 at the Dubai World Trade Centre. About 300 international exhibitors and 40 speakers and panelists are expected at the conference. For information, contact the secretary general in Miami, (305) 443-9696, fax (305) 443-9698.

ANTWERP TO DOUBLE CAPACITY. The Port of Antwerp said it plans to double its container capacity by the year 2009 by building a tidal container dock with direct access from the Scheldt River. The expansion, which will cost BFr13.8 billion (about US$440 million) will provide three terminals along 4.75 kilometers of dock. Last year the port handled 2.33 million TEU. The port authority said it forecasts volume of 4 million TEU by 2010.

STOLT/NYK ORDERS TANKERS. Stolt NYK Asia Pacific, a joint venture between Stolt Parcel Tankers Inc. and NYK Line, has ordered four chemical parcel tankers, each with capacity of 11,500 deadweight tons. The four ships will be delivered between September 1997 and October 1998. Stolt Parcel Tankers Inc. is a subsidiary of the Stolt-Nielsen S.A. bulk shipping group.

WILHELMSEN GROUP PROFIT. The Wilh. Wilhelmsen group reported "satisfactory" primary operating profit of NOK 263 million (US$40 million) for the first four months of 1996. The year-earlier figure was NOK196 million, but the totals were not directly comparable since last year's result did not reflect the acquisition in December of Den norske Amerikalinje (NAL). The group said its main operating unit, Wilhelmsen Lines had good operating results despite weakness in Pacific container rates and the car-carrying market. The company said synergies from Wilhelmsen's merger with NAL are developing as expected. The group said its Wilship tanker and bulk unit reported continued "weak" results, but the Barwil Agencies and Barber International units were profitable.

CMB TRANSPORT. CMBT has launched its own agency in Nigeria. CMBT Nigeria Ltd. is jointly owned, with CMBT controling 75 percent and a Nigerian partner owning 25 percent. Joachim Theuerkauf has been named managing director and Ian Hannah has been named general manager. CMBT's agency services in Nigeria had been performed by Umarco.

CANADA MARITIME. John Mactear has been named marketing manager, North America, and Alan Steele has been named U.S. sales manager-northern service, for Canada Maritime. Steele, who will be based in Montreal, has 18 years of sales and sales management experience. He was Canmar U.K.'s southern area sales manager.

WORLD SHIPPING STATISTICS. Fairplay Publications has released *World Shipping Statistics 1996,* an annual analysis of the international maritime industry. This edition will include a free CD-ROM version of the book. Cost is US$430 from Fairplay Publications Ltd., P.O. Box 96, Coulsdon, Surrey CR5 2TE, United Kingdom; phone +44-181-645-2800, fax +44-181-660-2824.

Service Announcements

(904) 355-2601, FAX (904) 791-8836, E-mail AmShpJx1@aol.com

CanMar/OOCL, Cast combine schedules

The St. Lawrence Coordinated Service of Canada Maritime and Orient Overseas Container Line has integrated its schedule with that of Cast in the north Europe/Canada trade.

Starting in mid-June, SLCS will buy space on Cast ships to and from Liverpool, while Cast will take an equal number of slots on SLCS vessels to and from Hamburg and Felixstowe.

Cast ships will no longer calling direct at Felixstowe and SLCS vessels will omit Liverpool.

SLCS is also rationalizing its former three-loop North Europe/Canada service and will run two weekly loops. The port rotation of the SLCS Route One is Montreal, Felixstowe, Antwerp, Le Havre and Montreal. Route Two's rotation is Montreal, Antwerp, Hamburg and Montreal. The weekly service operated with Cast ships will now call at Montreal, Liverpool, Zeebrugge, Liverpool and Montreal.

CanMar, OOCL and Cast will continue to market their services separately.

Sinotrans begins Shanghai/U.S. service

Sinotrans, China's largest forwarding and logistics company, has announced plans for a transpacific container service between Shanghai and the U.S. West Coast.

Sinotrans has appointed Norton Lilly International as general agent for the service and HLX, a joint venture of Hub Group and Norton Lilly, as intermodal provider in the United States.

Initially, the Sinotrans service will use a slot charter with a weekly service calling Long Beach and Oakland. The first containers are scheduled to move in mid-August.

Maersk/Sea-Land begin Suez Express

Maersk and Sea-Land have extended their global alliance to the Suez Canal route linking Asia, the Indian subcontinent, the Mideast and North America.

The carriers will operate a total of 14 ships with capacity of about 4,000 TEUs on the route. Although Maersk and Sea-Land market their services competitively, they will share ships on the route, beginning this week.

The rotation is Halifax, Newark, Norfolk, Charleston, Algeciras, Gioia Tauro, Suez Canal, Jeddah, Dubai, Singapore, Hong Kong, Singapore, Colombo, Suez Canal, Gioia Tauro, Algeciras, Halifax, Newark, Norfolk and Charleston.

CMA begins direct calls in China

Compagnie Maritime d'Affretement has begun direct calls at the Chinese ports of Chiwan and Shanghai and at Inchon in South Korea.

The first call at Chiwan for CMA's Asia/Mediterranean/north Europe service took place in late June. The first direct calls are scheduled at Shanghai on Aug. 2 and at Inchon on Aug. 5.

CMA said the changes, which include addition of a 10th ship to its Asia/North Europe fleet, will shorten transit times to and from North Europe and the Mediterranean.

CMA said it has set up a system of dedicated barges to carry cargo from the Pearl River Delta to Chiwan and from the Yangtze River to Shanghai.

While most other services between South Korea and Europe call at Busan, CMA chose Inchon because it was closest to Seoul's industrial activity. CMA said Inchon will be used as a hub for North China cargoes. CMA already provided direct service to and from Busan by buying space on ships of DSR-Senator and Cho Yang.

Member lines revise Med-Canada service

The member carriers of the Joint Mediterranean Canada Service, are revising the port rotation and cutting capacity of their service.

Canada Maritime, Cast, Jadroplov and DSR-Senator have decided to reshuffle the fleet of the JMCS service, by withdrawing 1,500-TEU ships and aligning all those in service on a 1,000-TEU standard capacity.

They believe that a single size will make it easier to schedule calls and attract an even volume of cargoes.

Gioia Tauro has been added to Route A of JMCS as a transshipment hub for DSR-Senator. The new port rotation of route A is Montreal, Gioia Tauro, Naples, Genoa, Fos and Montreal. The other weekly service, route B, calls at Montreal, Valencia, Leghorn, Cadiz, Lisbon and Montreal.

VSA carriers add Gulf/Med route

Four carriers in the transatlantic Vessel Sharing Agreement have added a U.S. Gulf/Mediterranean route.

The carriers — Nedlloyd, Sea-Land, P&O and Maersk — already operate to the Mediterranean from the U.S. Atlantic ports of New York, Norfolk and Charleston.

Starting in July the carriers will add a weekly Gulf service that will call the Mediterranean ports of Genoa, Valencia and the U.S. ports of Charleston, Port Everglades, Miami, and Houston. Charleston will be called twice on the Gulf service — inbound and outbound.

NYK revises Asia/Med service

NYK Line has restructured its Asia/Mediterranean service by switching to a transshipment operation and buying slots from P&O Containers.

NYK will use Malta, the Mediterranean hub of its Grand Alliance partners P&O, Neptune Orient Lines and Hapag-Lloyd, to market an Asia/Mediterranean transshipment service. One of the alliance's four Asia/Europe loops calls Malta weekly.

NYK said the mainhaul service from Asia will connect in Malta with two weekly feeder services — one to Genoa and Fos, another to Barcelona.

With its entry in the Grand Alliance, NYK has left the Mediterranean Express (MEX) consortium, which operates a dedicated Asia/Mediterranean weekly service.

NYK will continue to buy slots from its previous partners in this service — Compagnie Maritime d'Affretement and Yangming. That will enable NYK to serve the eastern Mediterranean area by relaying cargoes over Alexandria.

Westbound to Piraeus, NYK will buy slots from P&O's Australia/New Zealand/Singapore/Europe service.

Med Express, CMB sign feeder contract

Mediterranean Express Italy has contracted with CMB Transport to provide a feeder system to and from the deepsea carrier's hub of Gioia Tauro, Italy.

Four feeder operations will relay cargo at the Italian port to and from the motherships on the north Europe/Mideast/India/Pakistan service operated by CMB Transport, Contship Containerlines and P&O Containers.

A West Med service will connect Gioia Tauro with Barcelona, Fos, La Spezia and Salerno. An Aegean service will link Gioia Tauro with Piraeus, Thessaloniki, Istanbul and Izmir. A Levant service will shuttle between Gioia Tauro and Limassol, Alexandria, Mersin and Beirut. A fourth link, to and from North Africa, will connect Gioia Tauro with Tunis.

The carriers' agreement replaces separate ad hoc agreement between CMB Transport and various common carrier feeder operators.

Delmas, CGM split Indian Ocean service

French carriers Delmas and Compagnie Generale Maritime will end their "Capricorne" consortium, which runs a jointly marketed service between Europe and the Indian Ocean islands.

Delmas told CGM it would leave the consoritum on June 30. Delmas and Deutsche Afrika Linie will continue their Europe/Indian Ocean service following the June 30 end of the "Capricorne" consortium.

Delmas and Deutsche Afrika, which trades under the name SEAL, will continue to run a liner service with sailings every nine days.

The service employs seven ships which call at Antwerp; Felixstowe; Dunkirk; Le Havre; Rouen; Montoir; Marseilles; Valencia; Livorno; Port Louis, Mauritius; Port Reunion, Reunion; Tamatave, Madagascar; and Mombasa, Kenya.

CGM said it has negotiated a technical agreement with CMB Transport of Belgium to continue operating in the Europe/East

Africa/Indian Ocean liner market.

CMBT will extend its Europe/East Africa service rotation to include calls in the Indian Ocean islands and sell space on its ships to CGM.

CGM and CMBT were already operating joint services on three other trades — North Europe to East Coast of South America, North Europe to South Africa and continental Europe to the United Kingdom.

COSCO adds westbound call at Colombo

China Ocean Shipping Co. is adding westbound calls at Colombo, Sri Lanka, to its non-conference Asia/Mediterranean container service.

Starting July 1, ships in this service are calling Shanghai, Xiamen, Hong Kong, Singapore, Colombo, Limassol, Barcelona, Marseilles, Genoa, Naples, Jeddah, Singapore, Hong Kong and back to Shanghai. On alternate sailings, ships call at Xingang and Dalian instead of Shanghai and Xiamen.

P&O, Laurel add Durban calls

P&O Containers, based in London, and Laurel Navigation Inc., the niche carrier managed in Hong Kong, will extend their Asia/East Africa service at the end of July to include calls at Durban, South Africa.

With four 450-TEU ships, the new service will have a rotation of Durban, Dar es Salaam, Mombasa, Karachi, Jebel Ali (Dubai), Bombay, Colombo, Mombasa, Dar es Salaam and Durban.

P&O and Laurel will also increase frequency from sailings every 21 days to once every 14 days.

Andrew Weir launches Asia/Africa service

Andrew Weir Shipping, the British shipping line, has launched a monthly Asia/Africa multipurpose service.

The port rotation is Durban, Dar es Salaam , Mombasa (Kenya), Dubai, Karachi, Bombay, Mombasa, Durban.

The service trades under the appellation Bank Ellerman, a juxtaposition of two of the service names used by the Andrew Weir group for other north/south trades.

Zim upgrades Gulf, Caribbean services

Zim Israel Navigation Co. has expanded its Gulf of Mexico/Caribbean feeder services.

The Gulf service now has two 730-TEU vessels on a weekly rotation of Kingston, Veracruz and Tampico on alternate calls, Houston, New Orleans and Kingston.

The Caribbean service has a single 600-TEU ship operating on an eight-day frequency to Kingston, San Juan, Santo Domingo, Port au Prince and Kingston.

Europe/S. America services to run jointly

Euresa, a joint venture of three European carriers, will integrate its North Europe/East Coast of South America services with those of DSR-Senator Lines, Montemar and Nedlloyd. The joint service will begin in July.

Eursea, which is owned by Blue Star Line, Compagnie Generale Maritime and CMB Transport, said the action is in response to a contraction of traffic volumes in the trade.

With eight containerships, the new combined service will a 6-1/2-day sailing frequency.

Montemar previously operated its own service on this route with four or five ships. It will contribute three vessels to the merged, eight-ship service.

Until joining Euresa, DSR-Senator cooperated in a joint service with Ivaran, Contship and CSAV.

CSX Intermodal uses SP, UP to Mexico

CSX Intermodal said it will publish through rates between eastern U.S. points and Mexico, using Southern Pacific and Union Pacific railroads.

CSXI said the service will provide expedited customs clearance, single bills of lading, EDI capability and 24-hour-a-day tracking.

CSXI said its service to Mexico has been hampered by severe congestion and customs delays at the U.S./Mexico border, but that new programs being implemented by SP and UP would reduce those problems.

Air service announcements . . .

DHL launches 'Second Segment Service'

DHL Airways has launched a "Second Segment Service," an airport-to-airport freight service for forwarders, the U.S. Postal Service and other major shippers.

The service is designed to use empty cargo space that results before DHL's basic air express cargo has been picked up or after it has been dropped off along a scheduled route.

DHL is pitching the service as an alternative to belly space in passenger planes.

USAir begins Philadelphia-Madrid service

USAir has begun daily B767-200 nonstop service between Philadelphia and Madrid.

Flights will depart Philadelphia at 7:45 p.m., arriving at Madrid at 9:10 a.m. the next day. Westbound flights leave Madrid at 12:15 p.m., arriving in Philadelphia at 3:05 p.m.

Corporate Appointments

(904) 355-2601, FAX (904) 791-8836

Arrow Air

Terence A. Fensome has been named president and chief executive officer of Arrow Air, the Miami-based all-cargo airline. Jon D. Batchelor, president for the last two years, has moved back to his previous position as senior vice president of international sales and marketing.

Fensome, a vice president of Arrow in the early 1980s, has been president of Laker Airways and deputy managing director of Laker Airways Bahamas Ltd. Earlier he was president of Pelican Airways, a flight training school. He also has worked with Pan Asia Air Cargo in Hong Kong, Singapore Aircraft Leasing, Orient Pacific Airways and Capitol Airlines.

CargoNet

CargoNet, the Hong Kong-based provider of trade-related electronic services, has named Ian Craig chief executive and general manager.

Craig had been director of business development. As CEO, he succeeds Lloyd Sanford, who launched CargoNet and now is returning to the U.S.

Contship Containerlines

Cecilia Battistello has been appointed chairman and chief executive officer of United Kingdom-based Contship.

Battistello, who has been with Contship for 23 years, was managing director. She replaces Enrico Ravano as chairman.

CSX Transportation

Carl N. Taylor has been named senior vice president, transportation and mechanical, and chief transportation officer of CSX Transportation.

Taylor

Taylor joined CSXT in 1983 as president and chief executive officer of the railroad's Fruit Growers Express subsidiary. With CSXT he has been senior vice president, mechanical operations, and senior vice president, engineering and mechanical.

Gooden

Clarence W. Gooden has been named vice president, network operations. Gooden, previously general manager, field operations, will be responsible for the railroad's customer service and operations centers, as well as locomotive and crew management.

Paul R. Constantino has been appointed assistant vice president, offline marketing, of CSXT. His duties will include CSXT's bulk, feeder line and international markets.

Constantino spent nine years with another CSX Corp. subsidiary, Sea-Land Service, most recently as director of business development.

Direct Container Line

Alex Knowles, has become chief operating officer of Direct Container Line when Robert A. Davies, chief operating officer and a company founder, resigns.

Knowles

Knowles will move back to the Los Angeles area from Sydney, Australia, where he rejoined Australia-New Zealand Direct Line this year as managing director after a three-year absence from ANDZL.

DCL is an export non-vessel-operating common carrier based in Carson, Calif.

Harper Group

James A. McKinney has been named president of the Harper Group, holding company for the Circle International logistics and transportation services firm.

McKinney had been president of the Federal Express subsidiary FedEx Logistics.

Intercontainer-Interfrigo

Bernd Menzinger, has been appointed chairman of Intercontainer-Interfrigo, the intermodal organization owned by 28 European railroads.

Menzinger, a former chief executive of the Danzas group, is the first chairman of Intercontainer-Interfrigo not to come from the railroad industry.

Intercontainer-Interfrigo said that with Menzinger's appointment, European railways have "signaled their intention of adopting a management style based on private sector principles."

The organization also said Wolfgang Gritz, former joint managing director, would leave Intercontainer-Interfrigo. Soren Rasmussen, who was sharing the managing directorship with Gritz, will become sole managing director.

A.P. Moller

Flemming Jacobs has been appointed one of the five partners in the Denmark-based A.P. Moller group

Jacobs, 52, is currently managing director in Singapore for Maersk, A.P. Moller's liner organization. He is also the regional head of all Maersk activities in Asia and in the Mideast.

The appointment will become effective on Jan. 1. Areas of future responsibilities of Jacobs have not yet been defined.

Jacobs joined A.P. Moller as trainee in 1960 and worked his way up the hierarchy of the liner department to become its executive vice president in 1986. Since 1991, he has worked in various senior management positions outside Denmark.

Orient Overseas (International)

Orient Overseas (International) Ltd., parent of Orient Overseas Container Line, has named Victor K. Fung a non-executive director and chairman of the company's audit committee.

Fong is chairman of Prudential Asia, the Asian investment and merchant banking unit of Prudential Insurance Co. of America, and of the Li & Fung Group, a Hong Kong-based, regional trading company. He is also a director of Hong Kong Telecommunications Limited.

R.K. Johns & Associates

Peter Keller, former chief executive of the Cast Group Ltd., has joined R.K. Johns & Associates, the New York-based transportation marketing and management consulting firm, as senior adviser.

Before joining Cast, Keller held several senior operating and management positions with Sea-Land.

TT Club

The Through Transport Mutual Insurance Association Ltd (TT Club) has appointed three new directors — Robert Cooper, C. Eugene Cox and Lua Cheng Eng.

Cooper is chief executive of Ports of Auckland Ltd and president of the International Association of Ports and Harbors.

C Eugene Cox is the shadow minister of finance of Bermuda, where the TT Club is registered. Lua Cheng Eng is the CEO of Neptune Orient Lines.

Yellow Freight

James Welch has been named vice president, Division 1 operations, of Yellow Freight System.

He succeeds Dave Letke, who was named president of Preston Trucking, another Yellow Corp. subsidiary.

Welch had been project leader for Yellow's Freight Flow Reengineering initiative since 1994.

Still No Evidence of Damage

I've always said there is a need for regulatory agencies to keep an eye on the way conferences use privileges granted by the Shipping Act of 1984. But the European Commission's "statement of objections" against TACA (see Philip Damas' report, pages 20-22) indicates EC authorities have bought into objections raised by the European Shippers' Councils without any investigation of their own.

There's no denying that the carriers take concerted action to get rates up to a more compensatory level. They call it "rate recovery." There's no denying TACA tries to maintain discipline among TACA members. An agreement without discipline is no agreement at all. There's no denying independent carriers raise their prices in step with the conferences, keeping them in the range of 10 percent to 15 percent below the published conference tariff — something the independents have done for the past century. And lastly, there is no denying that increases vary for different commodities and some shippers are affected more than others..

But nowhere in the EC statement is there evidence even one European shipper has been injured by actions of the conference. There's nothing but a generalized assumption that "because the majority of European exporters to the U.S. are or may be affected by these abuses, the Commission considers that these infringements are of a serious nature." Pure rhetoric.

American Shipper has reported shipper complaints against conferences for more than 20 years, but we've never found evidence of shippers receiving anything but benefits from carriers acting in concert to rationalize services through methods permitted by the Shipping Act of 1984.

If I were sitting on one of the regulatory agencies, I would insist that complaining shippers:

(1) "Roll back the clock" to 1983 and compare 1983 conference rates on identical product and identical shipments to 1996 rates.

(2) Compare all-inclusive point-to-point costs based on actual shipments, rather than port-to-port tariff rates (as were used in the EC statement of objections).

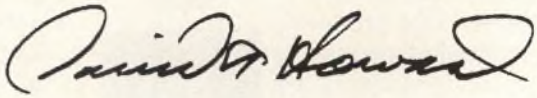
(3) Establish the differential between published tariff rates paid by intermittent shippers with independent action and service contract rates actually charged regular shippers.

(4) Calculate, and publicly reveal, the dollar value of economies and intangible benefits the shipper has obtained due to availability of more frequent and reliable shipping service; faster delivery time; reduced inventory requirements, and customer satisfaction because of improved quality of shipping service.

A shipper firm which has done all those things and can still demonstrate that it has been singled out and suffered irreparable damage due to collusion by the carriers (as distinguished from competition with firms producing the same product), is entitled to relief.

While a shipper firm with facts in hand can go to the regulatory authorities in search of relief, it can probably get quicker relief by laying out the facts to the conference members. After all, it's to a conference's best interest to avoid a set of formal hearings before the regulatory agencies. But as long as shipper groups persist in making generalized charges, conferences have little choice but to present their defense in general terms also and trust the authorities to sift through the rhetoric and find the facts.

It's not a good way for either shippers or carriers to solve problems, but it seems to be the method some shippers prefer.



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