JULY 1999

American Shipper

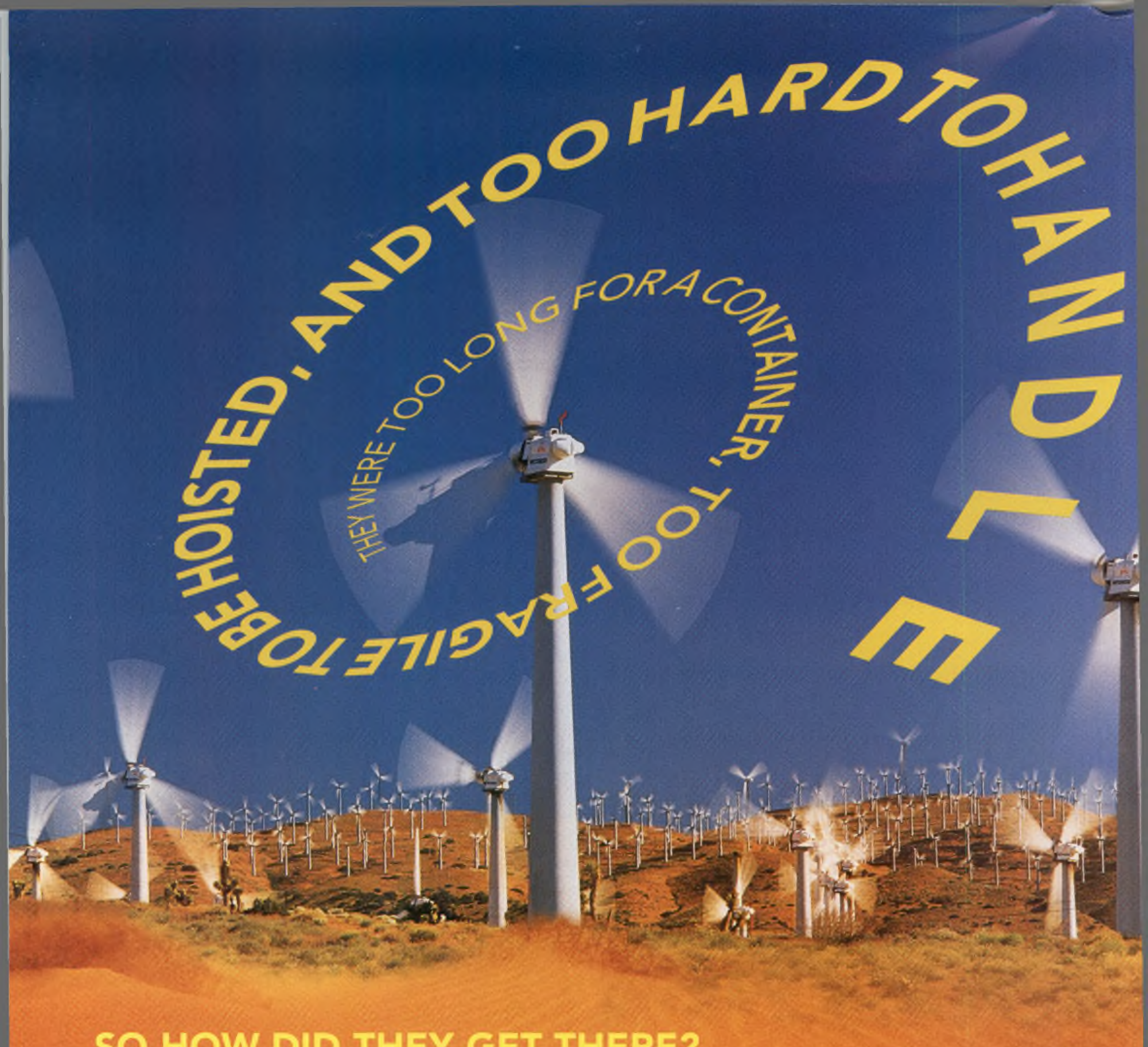
The Monthly Journal of INTERNATIONAL LOGISTICS

In retrospect

25 year

SHIPPER/CARRIER DIALOGUE

As recorded in 300 issues of *American Shipper*


THEY WERE TOO LONG FOR A CONTAINER, TOO FRAGILE TO BE HOISTED, AND TOO HARD TO HANDLE

American Shipper

Vol. 41, No. 7 July 1999

American Shipper
INTERNATIONAL LOGISTICS

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BPA INTERNATIONAL

American Shipper is published monthly, except one additional issue for the Southern Region only. Published on the 15th of each preceding month by Howard Publications, Inc., 300 W. Adams St., Suite 600, P.O. Box 4728, Jacksonville, Florida 32201. Periodical postage paid at Jacksonville, Florida, and additional mailing offices. Subscriptions $48 per year for 12 issues;$135 for air mail; $4.00 for single copies. Telephone (904) 355-2601.

American Shipper (ISSN) 1074-8350)

POSTMASTER: Send Change of Address Form 3579 to American Shipper, P.O. Box 4728, Jacksonville, Florida 32201.

Printed in U.S.A.

Notes & Comments

■ ***Carriers hurt their own cause by being too secretive about operating ratios and financial matters, Paul F. Richardson said at the recent Containerization & Intermodal Institute Southeast Trade Conference in Jacksonville.***

"There is a need to measure the adequacy of rates, investment, profitability and operating efficiency. Lacking such complete, standardized industry information, shippers and carriers have no choice but to present their own incomplete, and understandably biased, version of reality to regulators," Richardson said.

"In turn, regulators are put in the 'no win' situation of attempting to resolve conflicting industry claims without the requisite quality of information. Government agencies react to shipper complaints and seem to get carriers' positions only after the fact."

"Ocean shipping is one of the few primary industries where such vital economic performance measures are not routinely compiled and shared among stakeholders," he said.

The best solution, he suggested, is developing an "operating ratio" concept which can set standards for minimum pricing levels along specific trade routes. The concept is universally accepted in the rail and trucking industries but seldom used in shipping, where managers are more likely to focus on increasing their market share than to determine profitability on the basis of operating ratio.

■ ***The Federal Maritime Commission "is a blunt instrument" when used to enforce provisions of the Ocean Shipping Reform Act.***

Nevertheless, Commissioner John A. Moran told the Jacksonville gathering that the FMC would like participants in shipper/carrier controversies to resolve problems themslves without the FMC being involved.

■ ***"Better! Faster! Cheaper!" That's what the shipper wants and carriers must provide if they want to enjoy his continued business, according to Elliott Burnside, president of Crowley American Transport.***

Burnside, who may be the most exciting speaker in the shipping industry today, knows how to get his points across without putting his audience to sleep. In an after-luncheon address at the recent conference in Jacksonville, he pitched his "better, faster, cheaper" theme repetitively like a used car salesman.

Carriers must provide the full range of logistical service which shippers need, he said. If a shipper wants daily service to Latin America, Burnside has no qualms about buying slots from other carriers if that's what it takes for Crowley to give the shipper what he wants. Neither does he worry about selling slots on Crowley ships to others.

The shipper will favor the ocean carrier which puts together the best package of service. Crowley is expanding its logistical service to meet the need.

Correction

A story in the June issue ("International Partners," page 79) misstated the savings on European express rates offered by the U.S. Postal Service and DHL Worldwide Express versus those offered by United Parcel Service and Federal Express.

To the territory of Gibralter, the USPS and DHL charge $23 for documents weighing up to eight ounces and $31 for shipments weighing above eight ounces up to two pounds.

The story should have said FedEx rates for documents up to eight ounces are 183 percent more expensive than the USPS/DHL rates. UPS rates are 176 percent more expensive for the same shipment.

For a one-pound parcel to Gibralter, FedEx charges 147 percent more than USPS/DHL and UPS charges 139 percent more.


MAERSK

■ ***The maritime industry's speculative long shot is FastShip and the air freight industry has Cargolifter.***

Based in Germany, Cargolifter developed an airship that can float through the air with loads weighing up to 175 tons hanging from its underside.

Dr. Carl von Glabenz, chairman and president of Cargolifter, has raised more than $45 million in three years from some 5,100 independent investors in Germany.

The company went on a road show across Europe last month in hopes of attracting more cash from investors in Switzerland, Belgium, the Netherlands and Italy. Cargolifter has already set up a subsidiary in the U.S. and is planning a public stock offering next spring.

Cargolifter says its 853-foot "flying crane" will be ready to fly in 2002, with a range of 6,200 miles and no need for a runway. *(Gordon Forsyth)*

■ ***Shippers' associations are springing up like mushrooms.***

The National Customs Brokers & Forwarders Association of America wants a ruling that would allow forwarders to form shippers' associations. Such a ruling would define forwarders as shippers so they will be free to join shippers' associations. The petition is supported by the National Industrial Transportation League, but is opposed by ocean carriers. A Federal Maritime Commission decision is expected soon. *(Tony Beargie)*

■ ***Airfreight Express, a new British all-cargo airline that hopes to begin flying a freighter between London and New York this summer, has cold feet.***

AFX's B747-200 freighter, converted for the airline by Boeing's New Airplane Services unit, had yet to take off in June, and plans for the first flight are delayed until at least July, an AFX official said.

That doesn't surprise many industry observers, who say the transatlantic freight market, plagued by overcapacity since airlines shifted planes from Asia to Europe last year, has hit rock bottom.

James E. Larsen, head of air cargo business development for the Port Authority of New York/New Jersey, said some carriers have complained that rates have fallen to as low as 40 cents a kilogram, or 20 cents a pound, on some routes.

AFX says it can carve out a main-deck freight niche in a JFK-to-Heathrow market underserved by all-cargo planes. But with handling services at JFK International Airport priced at 8 cents a pound, the math doesn't look good for an all-cargo airline that also would have to pay for fuel, staff and handling in London before counting profits. *(Gordon Forsyth)*

■ ***The Seamen's Church Institute's Silver Bell awards dinner at the Cathedral of St. John the Divine in New York did not disappoint its 700-plus shipping guests.***

This time, the Rev. Peter Larom, executive director of the Institute, had a strolling Mexican café band first greet the guests, followed by an African ritual incantation danced with feverish energy to pounding drums by a troupe of writhing sorceresses.

It was a new experience, for us, to see witchcraft performed in the world's largest Anglican cathedral, but others took it in stride. After the dancers, there came a fearful-looking Oriental dragon, followed by a lone drummer. Had the drummer preceded the dragon, one might have had some warning of its approach. It was bracing to feel fiery breath on one's neck and then turn to be suddenly confronted with a face that had frothing lips and several pairs of eyes. We were never completely certain whether the dragon was a paid entertainer or a guest. After dinner, medieval buskers and a clown on stilts amused the departing faithful during cordials and coffee. *(Robert Mottley, Gordon Forsyth)*

LETTERS

Congressmen chastise Quartel's threats

Congressmen Howard Coble, Gene Taylor and William Delahunt wrote the following letter to Adm. Jane Loy, commandant of the U.S. Coast Guard, regarding an April Notes & Comments item written by Tony Beargie.

Dear Admiral Loy:

The April "Notes and Comments" column in *American Shipper* magazine includes a short article about the Coast Guard's administrative action against 14 towboats and workboats "owned by Consolidated Grain and Barge Co." The article includes the following quotation from Rob Quartel, president of the Jones Act Reform Coalition:

"This is the most sleazy, underhanded and, frankly, illegal attack on a company that I've ever seen. I think the people in the Coast Guard handling this better watch out. In 22 months we will have an administration with a different political opinion. And some of us have long memories. My own opinion is that this may affect careers down the line. If they bend to politics now, they're going to get what they deserve in the end."

This is a blatant threat of political reprisal against Coast Guard officials who are carrying out their duty to enforce the maritime laws of the United States. The quotation also calls into question the integrity of the entire Coast Guard. Mr. Quartel's comments are unfortunate to say the least. The entire administrative process is undermined if public servants conducting their sworn duty are subject to public attacks and threats of career disruption.

As co-chairs of the House Coast Guard Caucus, we hope you will communicate to all affected parties our outrage over Mr. Quartel's comments and our support for fair, fact-based administrative actions to enforce existing law. It is our understanding that this particular administrative action is the result of a two-year "exhaustive" investigation by the U.S. Maritime Administration and the U.S. Coast Guard. We also understand that a motion to block the Coast Guard's action was denied unanimously by a panel of the Fifth Circuit Court of Appeals.

Thank you for your attention to this important matter.

Rep. Howard Coble, R-N.C.
Rep. Gene Taylor, D-Miss.
Rep William Delahunt, D-Mass.
Washington, D.C.

Antitrust immunity debate renewed

I have one comment with regard to your editorial in the June 1999 edition of *American Shipper:*

Right you are.

Howard A. Levy
attorney,
New York


Strength.
Through every storm.

TSA shows all

Transpacific Stabilization Agreement's decision to release voluntary guidelines eases tensions with large shippers. Smaller shippers are unimpressed.

By Tony Beargie

Transpacific Stabilization Agreement members set a quick precedent under the Ocean Shipping Reform Act by releasing their voluntary service contract guidelines covering the 1999 contracting season.

Though discussion agreements like the TSA are not legally bound by the reform act to release such information, the Pacific carriers bowed to pressure from U.S., European and Asian shippers.

Shippers became uneasy during the spring contracting season, fearing the TSA was meddling in service contract negotiations between member carriers and shippers.

Ed Emmett, president of the National Industrial Transportation League, directly accused the TSA of interfering in the contracting process between individual TSA carriers and their customers and undermining the "intent and spirit" of the shipping reform law.

Emmett said that TSA sought information from carriers on contract matters, and whether carriers would waive the application of a peak-season surcharge. Shippers also informed the NIT League that TSA carrier representatives would only include confidentiality provisions in new contracts if the carrier could disclose the contract terms to the TSA secretariat.


Pierce

In a letter to Albert A. Pierce, TSA's executive director, Emmett said that the TSA "would cultivate a good deal of understanding and trust among members of the shipping public if it would simply release its voluntary contracting guidelines."

The Japan Shippers' Council, the European Shippers Council and the Canadian Shippers Council also urged the TSA to make the guidelines public.

The TSA said it was releasing the guidelines because some customers are uncertain of TSA's functions in this first contract season under the Ocean Shipping Reform Act."

"The carriers are sharing (the guidelines) with their customers at this time to make them aware of the carrier's rate recovery program for the 1999 contract seasons," the TSA said.


Ed Emmett
president, National Industrial Transportation League

"I think we're in a whole new era. Basically, things are going about as expected under OSRA. My impression is that most service contracts were seriously negotiated between shippers and carriers."

The TSA said the guidelines "are strictly voluntary and non-binding," and that the group will neither interfere with carrier decisions nor monitor compliance with the suggested guidelines.

The guidelines also recommended:

- A general rate hike of $900 per 40-foot container on freight moving from Asia to the U.S. West Coast.
- A rate increase of $1,000 per FEU moving from Asia to other U.S. destinations.
- A minimum peak season surcharge of $300 per FEU, effective June 1 through Nov. 30.
- That carriers use 1998 boilerplate contracts, with no increases in the 1999 credit, free time, demurrage, detention and other accessorial charges.
- That all contracts running beyond May 1 contain automatic general rate increase clauses.

The guidelines encouraged carriers to provide members with rate and terms of service information if doing so would not breach confidentiality. The TSA maintains that such sharing may be necessary to clarify rumors, avoid misinformation, and maintain trade stability.

The guidelines also offered two possible confidentiality clauses. However, a source close to TSA said that most carriers tailored their own confidentiality clauses.

'Positive Move.' Federal Maritime Commission Chairman Hal Creel called the TSA's action "a positive move that will hopefully lay the foundation for improved relationships between shippers and carriers."


Creel

Tom Pannebianco, the commission's general counsel, said it "will be interesting" to see how closely the TSA members will follow the guidelines. "To what extent are these 'recommendations' going to have the effect of hard and fast rules?"

Release of the guidelines is important, however, because it will allow shippers to know what the carriers are doing with their contract information, both in terms of sharing with other shippers and sharing among themselves, he said. "The shippers should not take anything for granted. They should negotiate what they need and what they expect."

Encouraged. Emmett found the TSA's release of its guidelines encouraging.

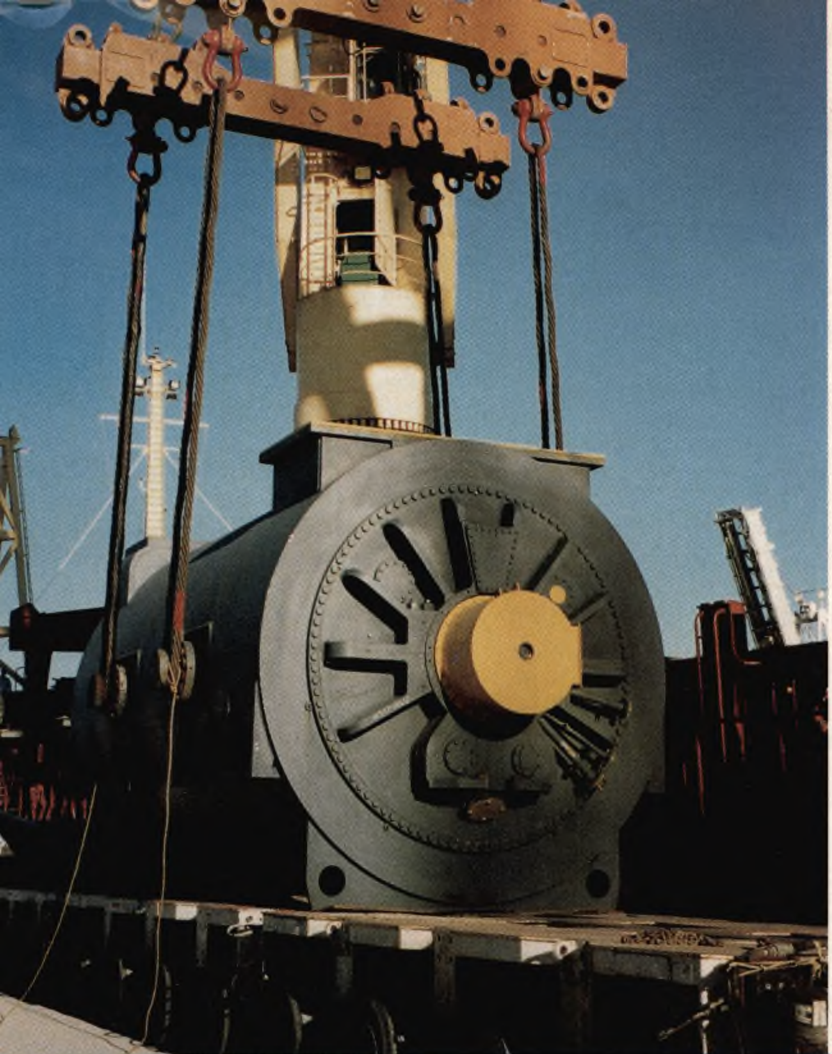
"The carriers are negotiating on their own. I think the market is working," he said. "I think we're in a whole new era. Basically, things are going about as expected under OSRA. My impression is that most service contracts were seriously negotiated between shippers and carriers."

On the other hand, those carriers who refused to enter serious negotiations with specific shippers "were shown the door," Emmett said.

The right of carrier groups to establish voluntary guidelines can be viewed either as "a last gasp" of the old conference mentality of trying to hang on, or as a mechanism to help carriers share information during contract negotiations without violating the confidentiality provisions in OSRA, he said.

By releasing the guidelines, the TSA is allowing shippers "to judge the carriers' behavior," Emmett said.

NIT League's director of policy Peter Gatti said TSA's decision "definitely shows a good-faith effort" on the part of the carrier group. "Legally they are not bound to do




INTERMARINE

this," he said.

Without the guidelines, shippers would not be able to evaluate contract terms offered by the carriers, Gatti said. Disclosure permits shippers "to evaluate whether the guidelines are truly voluntary."

FMC Oversight Needed. In Japan, shippers were threatening to shift their business from the TSA to carriers of the Japan-U.S. Eastbound Freight Conference. Most carriers are members of both conferences, however.

Kawamura

Ted Kawamura, executive director of the Japan Shippers' Council, said the TSA's action "will surely relax tensions among shippers" in the Pacific eastbound trade, but shippers will have to depend on the FMC to determine if transpacific service contracts are concluded under "the true spirit of the Ocean Shipping Reform Act."

The detail to which rates and other charges are listed in the TSA guidelines begs the question of whether the recommendations are really guidelines, Kawamura said. The JSC is polling members for their views on the TSA's confidentiality provisions and the attitude of the TSA carriers when they entered into service contracts, he said.

The NIT League has conducted a similar survey of American shippers.

It appears that all of the contracts were drawn up under the guideline provisions, Kawamura said. "We have not heard any information or even a rumor" that some of the contracts deviated from these guidelines, he said.

But Kawamura said the JSC will judge the results, not by the contents of the service contracts, but by the "actual practices" of the carriers whom he referred to as "quasi-cartel members."

Suspicion of anticompetitive behavior remains, he said, and only monitoring the discussion agreement's activities can "wipe off the suspicions."

The JSC is strengthening its ties among the Asian shippers' councils, the NIT League, the European Shippers' Council to coordinate monitoring efforts, Kawamura said.

Smaller Shippers. Smaller shippers and ocean transportation intermediaries say that the TSA's move amounts to little more than a public relations effort to win over shippers, government officials, and others who feel that carriers are acting in concert under the umbrella of voluntary guidelines.

"It's good public relations," said Ed Greenberg, maritime counsel to the National Customs Brokers & Forwarders Association of America.

> ***"To what extent are these 'recommendations' going to have the effect of hard and fast rules?"***
>
> **Tom Pannebianco**
> *general counsel,*
> *Federal Maritime Commission*

The TSA carriers have voluntary guidelines, "but the problem is that they have become more than voluntary," Greenberg said. "They have become the norm. They appear to be standard guidelines that are used by all of the (TSA) carriers."

Such behavior is contrary to the goals of ocean shipping reform, he said. The new law does not contemplate standard pricing and services.

"This is nothing more than a public relations move," said Carlos Rodriguez, counsel to the recently formed Coalition for Fair Play in Ocean Shipping, which is composed of transportation intermediaries, shippers' associations and smaller shippers. "The release of the voluntary guidelines by the TSA at this time is a disingenuous distraction from the real issues ... the anticompetitive effect of discussion agreements."

The timing of the release, after the contracts were concluded for the May 1 implementation of OSRA, "detracts from any benefit their release might have had," Rodriguez said.

TSA should be subject to mandatory FMC oversight, which is the objective of a petition filed by the shipper coalition, he said.

The shipper coalition is seeking an FMC ruling which would require an officer of each TSA carrier to provide the commission periodic reports, including all internal intracompany memos, communications with competing carriers in the TSA trade, and communications between the TSA and TSA members relating to the negotiation and implementation of service contracts, including contracts implemented during the July-November peak shipping season.

The petition is under review by the FMC. A ruling is expected no sooner than mid-July. ■

COSCO executive calls for stability

HONG KONG

A senior China Ocean Shipping Co. executive has called for stability in liner shipping and the end of price wars.

Gao Weijie, vice president of the COSCO group, outlined proposals to stabilize the shipping market to a meeting of Hong Kong shipowners.

Gao said that all carriers in international trade — conference and non-conference — should "take an active part in participating in the discussions and negotiations aiming at (the) stabilization of international shipping." These industry efforts would achieve a "lasting and healthy development of international shipping," he said.

COSCO Container Lines, the liner arm of the COSCO group, is a non-conference carrier but belongs to several discussion agreements and to the Box Club of shipping line chief executive officers.

Gao added that fair competition is about competing on service standards and management "instead of fighting in the rates of freight as such."

Gao criticized the "undesirable plummeting of freight rates, mistrust and a chaotic freight market which benefit nobody."

Jin Zhongming, the managing director of COSCO Container Lines, made similar proposals two years ago.

COSCO, a company owned by the Chinese ministry of communications, has started to become more open about its financial results.

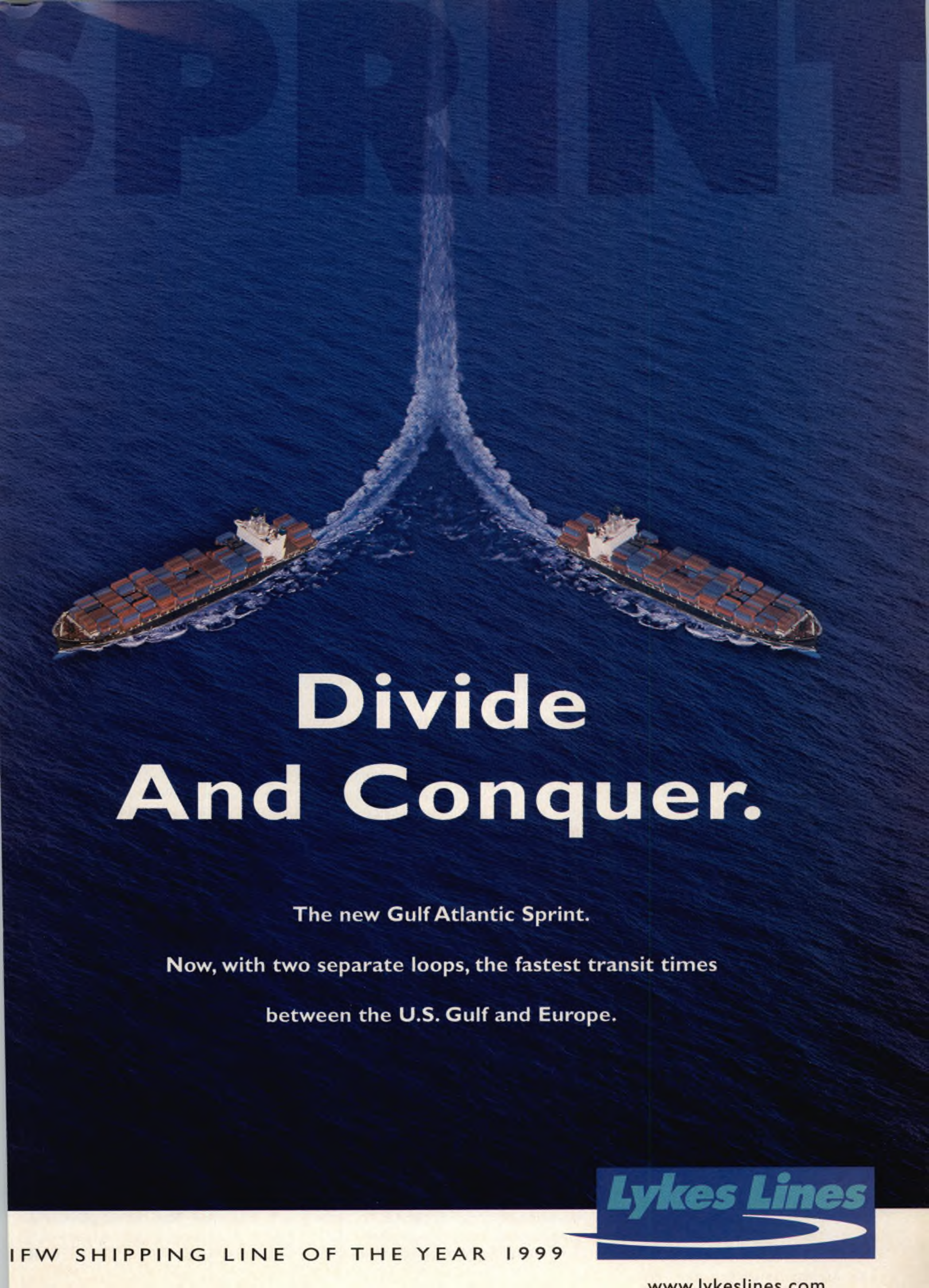
In a recent interview, Wei Jiafu, president of the COSCO group, said that 1999 was the fourth consecutive year of depression for the international shipping market. Wei said that COSCO has concentrated its efforts on its core business, adjusting its structure of assets and improving its economic return.

While the COSCO group isn't losing money, there is room for improvements in management efficiency, he said.

In 1998, due to the impact of the Asian financial crisis, the international shipping market "remained at the bottom," COSCO said. But "all the 80,000 staff members of COSCO united together and worked hard, and thus obtained fairly good results ... against the backdrop of an ebbing shipping market."

In March, COSCO joined the eastbound Transpacific Stabilization Agreement for the first time. Also in March, COSCO, Yangming Marine Transport and "K" Line withdrew their independent northern Europe/Israel/Turkey service, joined the conference in this trade and entered a vessel-sharing agreement with conference carriers.

The Chinese carrier, which launched a seventh Asia/U.S. West Coast weekly container service in May, confirmed that it is planning to build a second series of 5,250-TEU containerships. ■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IFW SHIPPING LINE OF THE YEAR 1999

FMC revives Japanese ports probe

Commission orders U.S., Japanese carriers to file reports to monitor port reform. China may be next.

WASHINGTON

The Federal Maritime Commission, dissatisfied with Japan's progress on opening its ports to U.S. and other non-Japanese ocean carriers, has reopened an investigation that two years ago raised fears of a U.S.-Japan trade war.

The commission removed a final rule which imposed sanctions against three Japanese carriers: "K" Line, Mitsui O.S.K. Lines and NYK.

Removing the sanctions may have wiped the slate clean, but the FMC has ordered the Japanese lines and U.S. carriers Sea-Land Service and APL to submit reports on Japanese trade conditions by Aug. 26, and then again every six months.

The FMC said it will use the new information to re-evaluate conditions facing U.S. carriers and implied that new sanctions may be imposed if the commission is not satisfied that progress is being made.

The removal of the sanctions "in no way reflects the satisfaction of the commission with the current status ... or a conclusion of the commission's interest in the reform of port conditions facing Japan-U.S. trade," said Bryant Van Brakle, FMC secretary. "There are a number of appropriate steps that the government of Japan could take to ensure that its market opening commitments can become effective."

However, because the sanctions were removed, any further action by the FMC would have to go back to square one and move through the traditional legal procedures that led to the showdown with Japan two years ago.

Japan Blinked. The sanctions, originally imposed in February 1997, were to force the Japanese government to step in to reform its nation's port practices.

These practices included a "prior consultation" system under which the Japan Harbor Transportation Association, a private stevedoring and terminal operators' group, must approve virtually all operational changes by carriers.

After postponing the final rule, the FMC stepped in Sept. 4, 1997 and began fining the Japanese carriers $100,000 per inbound voyage to the U.S. When the Japanese carriers refused to pay after amassing $4 million in fines, the FMC forced the issue Oct. 16, by directing the Coast Guard to ban the Japanese lines' ships from entering U.S. ports and having the U.S. Customs Service detain any Japanese ship already in port.

Japanese and U.S. officials defused the standoff and a U.S.-Japan bilateral agreement was reached whereby the Japanese would substantially reform port practices. In exchange, the FMC suspended the sanctions on Nov 13, and the Japanese carriers paid $1.5 million in fines.

"U.S. carriers and U.S. trade continue to bear the high cost of inefficient Japanese waterfront practices."

The standoff was the FMC's most vigorous use in years of its authority under Section 19 of the 1984 Shipping Act, which allows the commission to retaliate against discriminatory practices by other countries.

Politics, Economics. Despite the assurances of the Japanese government, "U.S. carriers and U.S. trade continue to bear the high costs of inefficient Japanese waterfront practices," the FMC said.

The FMC said the Japanese government could move faster to eliminate or liberalize regulations that make entry into the harbor services industry difficult. And new companies must be assured that there will be no illegal boycotts of new entrants to the market.

"Active oversight by (the) MOT could ensure that disputes regarding these provisions could be addressed and resolved before any conflicts become so severe that a formal request for (a) dispute settlement becomes necessary," the FMC said.

The FMC acknowledged that the Japanese government has faced strong opposition from the JHTA and Japanese longshore unions, the commission said.

Non-Japanese carriers have yet to test how Japan would react to the promised reforms, including granting them terminal operating licenses and alternatives to the prior consultation system, the FMC said.

Given currency woes and trade shifts caused by the Asian financial crisis, however, investing in Japan's high-costs ports has become "even less attractive than before," the commission said.

Fill In The Blanks. The reports sought by the FMC are to address the status of Japan's efforts to reform its prior consultation system, entry of non-Japanese carriers into Japan's harbor services market and the status of the Japanese government's proposals for broader harbor services deregulation.

Specifically, the FMC asked the carriers to respond to these questions:

- Has the carrier submitted any major requests for prior consultation within the past 180 days, and how were such requests handled and disposed of by the JHTA? In the case of a dispute, was the Ministry of Transportation notified or requested to arbitrate and if so, what actions were taken?
- Describe attempts or inquiries made with other shipping lines, port transportation business operators, the MOT, or any waterfront organization to create an alternative to the prior consultation system.
- Describe the status of any legislative or regulatory proposals to deregulate or change the standards for providing marine terminal or stevedoring services in Japanese ports and the likely effects of those changes on the carriers' business.
- Describe any new or further restrictions or requirements encountered relating to the use or operation of terminals or harbor services in Japan.

One question, directed at APL and Sea-Land only, asked if the carriers have plans to begin performing or offering harbor transportation services in Japan in the "foreseeable future." The lines were asked to describe these operations in detail, including any attempts to obtain a license and a description of any communication with the MOT, the JHTA or steamship or harbor services companies regarding such licenses.

China Next? While the FMC continues to scrutinize Japan's port practices, the commission may be targeting China next.

The agency has been investigating China's restrictions against U.S. ocean carriers and ocean transportation intermediaries. U.S. carriers must go through a cumbersome pre-clearance process in order to call at many Chinese ports, and they have yet to win China's approval to open more branch offices in China.

Ocean transportation intermediaries, such as non-vessel-operating common carriers also facing restrictions on operating their own businesses. They are not allowed to operate unless they form joint ventures with Chinese interests. ■

West Coast contract expires July 1

PMA, ILWU insist that negotiations are moving forward and won't interrupt cargo traffic.

LONG BEACH

All's quiet on the western front.

At least it appears that cooler heads are prevailing in collective bargaining talks between West Coast waterfront labor and employers.

Negotiations began May 17 between the Pacific Maritime Association, which negotiates for 90 shipping lines, stevedores and terminal operators, and the International Longshore and Warehouse Union, which represents some 14,500 dockworkers up and down the West Coast.

Both sides said negotiations are expected to take about six weeks. The current contract expires July 1, and though labor and management have insisted in recent months that talks will go amicably, many shippers have been preparing for the worst, drawing up contingency plans to divert goods to East Coast ports.

While a full-blown strike appears to be unlikely, tense relations between the PMA and ILWU since they negotiated their last contract in 1996 are cause for concern.

According to the PMA, labor has engaged in about 150 work slowdowns and stoppages, most of them in the ports of Los Angeles and Long Beach. These work suspensions have been in supporting other unions or protesting actions of individual shippers.

Relations improved dramatically in the months heading up to contract negotiations. The PMA agreed to drop a lawsuit over alleged illegal work stoppages it had filed against the ILWU. Waterfront employers had filed several suits over work stoppages and other labor practices since 1996.

If an accord is not reached by July 1, "we are very confident that the parties will continue the process to reach a joint settlement without any interruption to cargo flows," the PMA said.

The contract negotiations coincide with the start of the transpacific's peak shipping season, as stores began to move goods in anticipation of the holiday shopping season.

Key issues for waterfront employers are addressing automation and seeking an end to work stoppages and side-deals, or bonuses given to skilled crane operators.

Longshore labor agreed in 1996 to drop the side deals in exchange for a raise in base pay. But after labor's slowdowns and stoppages, the side deals crept back.

Waterfront employers also want concessions on automating port practices which will squeeze additional productivity out of their terminals, but will also lead to reductions in workforce.

Without increases in productivity, the PMA warns that shipping lines may consider port options in Canada and Mexico.

The ILWU was expected to come to the table with proposals for increased pension and health benefits.

The southern California ports of Long Beach and Los Angeles handle about 30 percent of the containerized cargo moving through U.S. ports, or about 9 million containers a year. Cargo projections for the next 20 years predict the ports will reach 24 million containers by 2020.

Results of the current PMA-ILWU negotiations will have a dramatic impact on whether those projections will hold true. ■

TACA sequel seeks EC clearance

"TACA 2" premiers with confidentiality, individual service contracts. But shippers are already rating it thumbs down.

BRUSSELS

The remaining carriers of the Trans-Atlantic Conference Agreement have asked the European Commission to approve a radically reformed version of their conference agreement.

But while the reform removes the conference competition practices that were criticized by the European Commission and the European Shippers' Council, shippers say that the changes don't go far enough.

The EC published a notice in its official journal and invited interested parties to comment on the competitive aspects of the revised agreement.

The agreement, dubbed TACA 2, now incorporates confidential and individual service contract arrangements, to take into account the U.S. Ocean Shipping Reform Act of 1998. The agreement also removes the group's authority to set inland rates in Europe.

The conference lines are seeking an exemption to be able to have common port-to-port rates, inland rates in the U.S. and joint service contracts.

TACA 2 defines three types of service contracts: "agreement (or conference-wide) service contracts" (ASCs), "multi-carrier service contracts" (MSCs) and "individual service contracts" (ISCs).

A multicarrier service contract is when two or more TACA carriers, but not all TACA carriers, are parties to a common service contract.

The conference-wide service contracts can be with one or several shippers.

Olav Rakkenes, TACA chairman and president and chief executive officer of Atlantic Container Line, said that TACA 2 has taken into account all the regulatory requirements, "including the discussions with the European Commission." The revised TACA has heeded the EC's opposition to conference inland rates in Europe.

TACA 2

- For the first time, carriers and shippers can sign confidential individual service contracts (ISCs), in line with the U.S. Ocean Shipping Reform Act.
- TACA carriers can set common port-to-port rates and common U.S. inland rates, but no longer have the authority to set common European inland rates.
- Member lines are not allowed to charge inland rates in Europe that are "below cost."
- TACA has a model agreement service contract, but there are no TACA guidelines on service contracts with a single carrier.
- Member lines may "regulate the carrying capacity offered by each of them" and "allocate cargo or revenue among them."

Source: TACA notice in the Official Journal of the European Communities

ESC Concerns. The European Shippers' Council has lodged a new complaint with the EC, objecting to TACA's revised structures.

"The comments are in the shape of a complaint," said Daphne Ehrmann, director of international transport of the French Shippers' Council, a national member council of the ESC.

The ESC told the EC that it has concerns over the confidentiality of service contracts and on proposed terms of TACA 2's conference-wide "agreement service contracts" and "multi-carrier service contracts." The ESC doesn't want TACA carriers to face conference restrictions in dealing with shippers through individual contracts.

Under the agreement, carriers are seeking the authority to adopt standard service contracts and to exchange information, Ehrmann said.

Carriers said that TACA-2 allows individual confidential service contracts and ends joint pricing by the conference for inland transport in Europe.

Ehrmann said the ESC wants TACA to follow all the contents of the EC decision of last September. The EC ruling banned earlier anticompetitive practices of TACA and imposed fines of $300 million. Carriers have appealed the fines.

The Brussels regulator did not raise initial objections to the TACA, but it has until Aug. 4 to consider the industry comments it received and decide whether the agreement breaks European competition rules.

Ehrmann said that the ESC hopes that TACA will revise its proposed service contract practices "to quickly find a solution" to the dispute.

The changes to TACA have already been implemented since Jan. 1, Rakkenes said. Notifying the revised agreement to the EC was a procedural requirement.

This year, TACA lines have signed some 50 agreement service contracts with shippers, about 150 multi-carrier service contracts and about 850 individual service contracts, covering the eastbound and westbound trades, said David Jeffries, general manager of TACA in Europe.

Last year, there were only about 500 service contracts in total, of all types, with a smaller number of individual service contracts, he said.

The new practice of conference-wide and multi-carrier service contracts with no European inland rates has been implemented by creating individual annexes to the contract.

"If the shipper wants to include an inland (European) rate in the contract, we can provide (that) in a confidential annex which is specific to the carrier," Jeffries said. The European inland rate annex of each carrier is not circulated to other carriers, he added.

TACA has avoided the recent controversy about service contract "voluntary guidelines" that hit the Pacific trade, by not adopting such guidelines on service contracts. The EC is said to have objected to any guidelines, even voluntary ones.

However, TACA has defined a standard service contract form, that carriers and shippers may adopt for conference-wide, multicarrier and individual service contracts.

The conference secretariat no longer keeps records of individual service contracts, which are now administered and kept by individual TACA carriers. With the switch to individual contractual dealings, TACA offices in New York and Crawley (England) have made about 20 staffers redundant, a TACA source told *American Shipper.*

The EC said that the remaining eight carriers of the TACA conference have a combined market share of 47.1 percent, based on 1997 statistics. In 1996, when TACA had many more members, the conference had a share of 60 percent of the market.

TACA member lines are ACL, Hapag-Lloyd, Mediterranean Shipping, Maersk Line, NYK, OOCL, P&O Nedlloyd and Sea-Land Service.

TACA lines are requesting an exemption "as a matter of precaution only" to cover their joint conference service contracts. They said that the EC "takes the view that joint service contract authority is not covered" by EC Regulation 4056/86 on conference immunity. It isn't clear whether TACA could continue to operate if the EC banned TACA's joint service contracts.

TACA lines have shelved their plan to implement the proposed 20-carrier North Atlantic Agreement. ■

Panning for cargo

Shippers' associations rush to build cargo volumes from small and mid-sized shippers.

By Chris Gillis

When the Ocean Shipping Reform Act was signed into law last year, many small to mid-sized shippers believed that their chances of obtaining favorable rates and service from ocean carriers were slim.

Shippers' association executives saw this as an opportunity to boost their memberships. What followed, however, has been a modern-day Gold Rush of new shippers' associations panning for cargo.

For more than a century, shippers' associations have pooled together the freight volumes of small to mid-sized shippers to leverage their rate negotiating power with carriers. Today their representation ranges from shippers of niche products and markets to international freight forwarders and non-vessel-operating common carriers.

"You're almost forced to become part of a shippers' association today, because you need the same rate levels that the larger players are getting from the carriers," said Howard Leff, vice president of Mark VII International, a Houston-based NVO. Mark VII is a member of three shippers' associations.

Since the Ocean Shipping Reform Act doesn't regulate shippers' associations, no one is sure exactly how many of them exist. Some industry experts estimate that there's more than 100 shippers' associations operating in the United States.

"They're climbing out of the woodwork. It's going to take some time for all this to work itself out."

Gerald P. Murphy
director of business development, Danzas

"If I was a shipper of any size in today's market, I would look at joining a shippers' association to provide me with some form of protection," said Glenn R. Cella, executive director of the American Institute for Shippers' Associations in Washington.

But some shippers and forwarders are concerned about where shippers' associations are headed in the future. Many shippers say they routinely receive blind mailings from shippers' association — some which they have never heard of before — soliciting business.

"They're climbing out of the woodwork," said Gerald P. Murphy, director of business development for Danzas. "It's going to take some time for all this to work itself out."

Big Volumes. The biggest driver among shippers' association is building freight volumes.

Shippers' associations tout large volumes to convince shippers that lower freight rates may be had by joining. In reality, many of these volumes are projected figures as shippers' associations scramble to build memberships and negotiate service contracts with carriers.

Cella

The National Customs Brokers and Forwarders Association of America recently formed a shippers' association for its members. The group estimates that its 600 member firms control 50,000 to 100,000 containers of exports and 200,000 to 300,000

> ***"Shippers' associations are losing what they're focus should be. They should work with the carriers to help solve their problems, not just collecting TEUs to make a bigger hammer to beat the carriers over the head with for lower rates."***
>
> **Howard Leff**
> *vice president,*
> *Mark VII International*

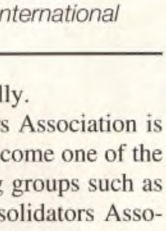
inbound containers annually.

The NCBFAA Shippers Association is projected to eventually become one of the largest of its kind, joining groups such as the North American Consolidators Association and the Global Shippers Association.

Some shippers' association contracts promise super-low rates, but may fall short on service for some shippers.

The Automobile Shippers Association recently marketed its service with FESCO, which departs Hong Kong every 12 days for Los Angeles and Seattle. It touted big shippers already using the FESCO service, such as General Motors, Mattel, Boeing, IBM and Microsoft.

"Sure they could save me $600 dollars off my existing carrier contract," said Patrick E. Moffett, vice president of international logistics for Audiovox Communications Corp. "But I need space and service in a hurry — not every 12 days. And with that customer base I would be concerned if I could get my freight on the ship."



Moffett

Some shippers and forwarders believe that shippers' association may wear out their welcome in the industry if they continue to focus solely on big volumes.

"Shippers' associations are losing what they're focus should be," Leff said. "They should work with the carriers to help solve their problems, not just collecting TEUs to make a bigger hammer to beat the carriers over the head with for lower rates."

New Services. Some shippers' associations are beginning to look beyond rate negotiations to offering additional services to their members and the carriers.

One area of improvement is how shippers' associations communicate with their members. Many of these groups are finding out that faxes and telephone calls are no longer enough. The Internet is becoming the key to keeping members up to date on service contracts, rate changes and market conditions.

Some shippers' associations are using their membership numbers to negotiate with software providers for lower rates on software packages.

Other shippers' associations are studying ways to provide consolidation services, inland transportation, cargo insurance, bonded warehousing and equipment repositioning for carriers.

"We're not here to whipsaw everyone on rates," said Frank W. Caradonna, transportation consultant for Gemini Shippers Association in New York. "We want to make sensible offerings to the carriers."

Gemini is developing a plan to offer ocean carriers repositioning services for their equipment. This plan would also give shippers the option to use ocean containers for domestic deliveries while the containers are en route to the next export shipment location.

"We will contract with the ocean carriers to move their equipment from supply to deficit areas in North America," Caradonna said. "We believe that we can do it cheaper than the carriers can move them empty by rail."

Carriers are skeptical about whether shippers' association can accomplish some of these proposed new services.

"The intentions are good, but in real life it doesn't mean all that much," said one carrier executive who doubts the success of a shippers' association-managed container repositioning services. "It doesn't elimi-

Creating a shippers' association

WASHINGTON

If you stick to some simple guidelines, it's easy to set up a shippers' association.

The rules are outlined in the Ocean Shipping Reform Act and the antitrust rules of the U.S. Justice Department. Essentially, shippers' associations must be non-profit organizations managed by neutral third parties.

The Justice Department first laid out its antitrust rules for shippers' associations during a speech by Charles F. Rule, deputy assistant attorney general of the department's Antitrust Division, to the Chemical Manufacturers Association in October 1985.

The Justice Department used to require shippers' associations to submit a business review letter before setting up operations. These letters were closely scrutinized for signs of unfair market practices. Justice Department clearance could take up to a year.

At the time, the department was particularly concerned about the abuse of "monopsony" power by shippers' associations — that is, when the buyers of services begin to dictate price to the seller, The Justice Department said monopsony may occur if a shippers' association controls more than 35 percent of a market.

The Justice Department also watched for price-fixing by shippers' associations and abuse of the system by individual firms.

By the late 1980s, the Justice Department stopped doing reviews of shippers' associations, citing that no widespread abuses by these types of operations could be found.

"In the past, we have endeavored to conduct the required investigation when a shippers' association is being formed, in large part because some ocean conferences have refused to negotiate with shippers' associations until they have obtained a favorable business review," said James F. Rill, assistant attorney general for Justice's Antitrust Division at that time.

The Justice Department has said that it would investigate the actions of shippers' association if there's a public outcry to do so.

Several years ago, Universal Shippers Association, a large association of wines and spirit shippers in the North Atlantic, was challenged by the Justice Department for a clause in its contract with Lykes Bros. Steamship Co., which stated the "carrier guarantees that rates and charges in this contract shall at all times be at least 5 percent lower than any other tariff, time volume or other service contract rates for similar commodities at a lesser volume and essentially similar transportation service."

The U.S. District Court for the Eastern District of Virginia ruled in favor of the government, saying that Universal could not freeze out the competition by forcing the carrier to charge its other shippers higher rates.

nate the overall trade imbalance for carriers."

The North American Consolidators Association, which consists of NVOs Direct Container Line, Conterm Consolidation Services and Brennan International Transport, has started sharing warehouse facilities around the country. Warehouse operator Vanguard oversees the group's consolidation work in Los Angeles, Miami, Chicago, San Francisco, Charleston, S.C.; and Carteret, N.J.

Some shippers' associations are looking at increasing their strength and service offerings by joining in alliances with others.

The North Atlantic Alliance Association recently formed an alliance with the Dutch shippers' association, United Forwarders of Rotterdam, or Unifor. The associations said that by combining their information-gathering and commercial activities, they will be able to offer their members better rates and service on a global basis. The NAAA is looking to partner with Asian shippers' associations.

On Their Own. But shippers' association aren't for everyone. Some shippers and forwarders would prefer to negotiate their own rates and services with the carriers.

"We've opted to stay out of shippers' associations," said Rey Ortiz, international transportation procurement manager at E.I. Du Pont de Nemours & Co., based in Wilmington, Del. "We're big enough to leverage our own volumes with the carriers."


Ortiz

Some shippers say that they don't want to be associated with their competitors or be involved with the administrative affairs of associations.

There's also concern that shippers' associations are convincing small shippers that it's impossible for them to negotiate favorable service contracts on their own with ocean carriers.

Carriers have traditionally preferred negotiating rates directly with shippers. Smaller shippers are discovering that they can indeed negotiate their own service contracts in today's shipping environment. "Small shippers can still get a good deal if they negotiate hard enough," said Reinhard Lange, head of the international forwarding group of Kuehne & Nagel International in Schindellegi, Switzerland.

Large shippers also complain that shippers' association fail to provide space guarantees during peak shipping seasons. "Even if they have space commitments, who gets preferential treatment in the association when space is tight?" asked a shipper.

But some shippers say they like having the option of joining a shippers' association, if the need should occur. "You can join if you want to," Ortiz said. "I like that freedom."

For now, small to mid-sized shippers appear to be the biggest beneficiaries of shippers' associations.

"The small shippers are going to want to explore and see what's available to them," said Frank E. Butters with Worldwide Logistics Associates, the management company for the NCBFAA Shippers Association, the Toy Shippers Association and the U.S. Dairy Export Shippers Association. "They will want to join at least one association to benchmark rates and terms in the tariff to find out what's going on out there."

New Realities. For ocean carriers, the explosive growth in shippers' association is a new reality of the Ocean Shipping Reform Act.

Ocean carriers have traditionally avoided dealing with too many shippers' associations on service contracts. One tactic used by some carriers to squelch an outbreak of shippers' association after the 1984 Shipping Act was to demand to see business review letters from the U.S. Justice Department's antitrust division before negotiating service contracts.

In the past, many carriers also let the conference systems deal with shippers' associations on their behalf. But a recent meltdown in the carrier conference system has brought some carriers face to face with shippers' associations for the first time.

The carriers are now embracing shippers' associations cautiously.

"With these newcomers, we have kept an open mind," said Thomas Eskesen, director of strategy for Pacific trades at Maersk. "But we want to know who the members are in these groups."

Carriers are realizing that shippers' associations can't be ignored and that they will play a major role in the ocean freight business. "If they want to negotiate a contract

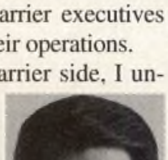
From carrier executive to association liaison

CINCINNATI

Some shippers' associations, seeking to improve their image among ocean carriers, are starting to hire ex-carrier employees to serve as their liaison with the carrier community.

Recent corporate restructuring at many carriers has left some top executives looking for new jobs and other ways to use their expertise. Shippers' associations are finding that these former carrier executives can add credibility to their operations.

"Coming from the carrier side, I understand the profitability model of the carrier," said Frank W. Caradonna, transportation consultant for Gemini Shippers Association. "There's no reason for an adverse relationship between shippers' associations and carriers."


Caradonna

Before joining Gemini, Caradonna spent the past six years as senior vice president of the transpacific trade for Orient Overseas Container Line. Prior to that, he spent 25 years in various management positions at Sea-Land Service.

Frank E. Butters, a former vice president of marketing and pricing for "K" Line with 30 years experience in the carrier industry, was recently hired by Worldwide Logistics Associates to help negotiate service contracts for the shippers' association formed by the National Customs Brokers and Forwarders Association of America.

Butters' experience has allowed the NCBFAA Shippers Association to quickly begin negotiating service contracts with the carriers.

"I told all the lines that we want to do business with carriers that want to do business with us," Butters said. "We're not going out there to throw our weight around."

Even some non-vessel-operating common carrier executives are being hired to manage shippers' associations. Joseph Saggese, former executive vice president of Damco Maritime, a Hoboken, N.J.-based NVO, recently became executive managing director of the North Atlantic Alliance Association.


Saggese

These former carrier and NVO executives have found their experience working with shippers' association refreshing.

"I like it because it allows me to learn something new and, at the same time, continue to use what I learned during the past 30 years," Butters said.

on a fair basis, why would we not want to deal with them?" Eskesen asked.

Shippers' associations look forward to working with carriers on developing stronger relationships.

"It's a trust issue," said Joseph Saggese, executive managing director of the seven-year-old North Atlantic Alliance Association. "It takes years to develop."

Holding It Together. The most difficult challenge for many shippers' associations going forward will be to hold their memberships together.

"There's no magic formula to this," said David P. Street, general counsel for the International Association of NVOCCs. "You have to have the right circumstances and people in place to make it happen."

"It's a constant process of discussion at the operational level," said Owen Glenn, president of Direct Container Line, based in Carson, Calif. "Decisions have to be made continuously. It's essentially like the companies operate as one."

Shippers' association executives must also keep in-depth profiles of their members to know how to negotiate service contracts correctly.

"At one point, we thought this would lead to a lot of extraneous information,"

Owen Glenn
president,
Direct Container Line

"In the end, freight will polarize to the shippers' association with the best service and competitive rates. That's the bottom line."

said Dave Akers, managing director of Worldwide Logistics. "We found out that you can't do without this level of detail."

Another sign of a successful shippers' association is its ability to offer a financial return to its members in the form of lower membership fees or service rates. Returns to members must stay within the laws for non-profit organizations.

The most efficient, longest-lasting shippers' associations are often the ones born out of tight-knit industry groups. The Agriculture Ocean Transportation Coalition recently formed the Agricultural Shippers Association and the IANVOCC is developing a shippers' association of its own.

But not every industry group is suited for this type of operation. The American Association of Exporters and Importers considered forming a shippers' association, but later decided against it. "We represent too many interests to hold something like that together," said Eugene J. Milosh, president of the New York-based industry group.

The rush to create shippers' association is expected to increase for about another year, until the industry settles down with the new shipping reform act.

"I think their importance is going to dwindle over time," said Michael S. Marr, vice president of ocean services for AEI, based in Darien, Conn. "With the new contracting environment, we're able to make our deals globally and confidentially."

Some shippers' associations will likely combine with other groups or simply disappear.

"In the end, freight will polarize to the shippers' association with the best service and competitive rates," Glenn said. "That's the bottom line." ■

Maersk's big plans made simple

Danish carrier's U.S. operation makes changes using mix of basic economic principles and common sense.

By Chris Gillis

When Maersk announces new services, executives of other ocean carriers sit up and take notice. The Danish megacarrier has spent the past several years opening new business in nearly every market of the world, which often makes it a benchmark to the rest of the containerized freight business. Many competitors wonder how Maersk does it.

"There's no deep master plan here," said Tommy Thomsen, president of Maersk Inc. in North America. "It's really quite simple. We watch out for market fluctuations."

Maersk proactively monitors market conditions and plots its next move. Long before the Ocean Shipping Reform Act had passed last October, for example, Maersk was already starting to plan for its outcome.

"We told everyone that we felt strongly both ways with the legislation — regulation or no regulation," Thomsen said. "We prepared thoroughly for the changes and how they would relate to our operations."

The carrier took the lead to simplify its ocean freight tariff and developed an Internet-based system to support it. Although the system still needs refining, Maersk is farther along than many of its counterparts in the industry. "We walked into the first of May with few glitches," Thomsen said.

Additionally, Maersk knows that to make any service work profitably in today's shipping environment requires the right sales force and information technology to back it up. "You can have the best product. But if you can't sell it, it's not worth much," he said.

The Ocean Shipping Reform Act allows carriers to become more creative with their service contracts and pricing.

The conference system, for the most part, has lost its influence on carrier contracts. Confidential service contracts have opened the door for both carrier and shipper to develop competitive rates.

"Without conferences, it gives us the ability to develop a competitive advantage over our competitors," Thomsen said, "We couldn't do that to the same extent under conferences."

In recent months, Maersk has signed a handful of global contracts with large shippers. More global contracts are expected as industry gets used to them.

"In many ways, carriers are more prepared for global contracts than shippers. We're finding that many larger shippers aren't in the position yet to create global contracts because their operations aren't centralized."

Tommy Thomsen
president, Maersk Inc.

"In many ways, carriers are more prepared for global contracts than shippers," Thomsen said. "We're finding that many large shippers aren't in the position yet to create global contracts because their operations are decentralized."

Maersk has also simplified its contract structure by offering what it calls "boilerplate contracts" to shippers of specific industries, such as chemicals, refrigerated goods and government cargo. The carrier held numerous meetings with shippers to discuss the format of future service contracts.

"We learned early on that independent service contracts needed to be simple in essence," Thomsen said. "Then we would have to tailor-make them to individual customer needs."

Carriers hope that the new contract environment will gradually increase rates to more equitable levels.

"You can't just go out there and raise the rates, because that would cause you to lose cargo," said John J. Boudreau, director of Atlantic services for Maersk. "You must price your services on individual economies of scale. That's how our customers conduct their own business every day."

Maersk has also noticed some shippers using short-term, 30-to-60 day contracts and even some spot-market pricing to acquire their rates from carriers. Rate-sensitive shippers, such as forest products and waste paper, already use this method. "As this industry becomes more sophisticated, spot-market pricing may become a way of life for some shippers," Boudreau said.

New sources of revenue for Maersk, however, are expected to come from inland trucking and distribution services for certain types of shippers. Last month, Maersk entered into a joint venture with Rail Van Inc. to provide domestic services in North America. The venture combines Maersk's international shipping network with Rail Van, a leading intermodal marketing company.

"Our logistics capability and in-depth knowledge of supply chains is a key factor of our success in the future," Thomsen said. "We must continue to sell transportation solutions to our customers."

Maersk's in-house logistics management firm, Mercantile, provides an array of distribution services for apparel and consumer goods importers from Asia to the U.S. The carrier said it will continue to coordinate its logistics needs through Mercantile and will continue to work with other intermodal marketing companies.

The backbone of Maersk's operations will continue to be the development of its ocean transportation services.

Maersk's U.S. operation focuses much of its attention on the biggest trade lanes: the transatlantic and transpacific. Maersk, like most carriers, is under pressure to maintain profitability in these markets.

The transatlantic has experienced downward pressure on rates since last year because of increased capacity and a decrease in business to Europe. Eastbound traffic shrank 15 percent in the first quarter, compared to the

same period last year.

Average transatlantic rates to Europe are about $1,700 per TEU, compared to $2,200 per TEU last year. Likewise, rates to the U.S. from Europe have fallen to about $1,500 per TEU, from $1,600 per TEU in 1998.

"As of now, however, our market growth will likely be down about 10 percent by the end of the year," Boudreau said. "The best we can hope for is that we will finish at zero growth this year."

John J. Boudreau
director of Atlantic services, Maersk

"As of now, our (transatlantic) market growth will likely be down about 10 percent by the end of the year. The best we can hope for is that we will finish at zero growth this year."

Maersk offers shippers a variety of routings through the transatlantic. One of the farthest running transatlantic services is its weekly "pendulum" service from Europe to the Far East. Starting in the Panama Canal's Manzanillo terminal, Maersk vessels cruise to the U.S. East Coast ports of Miami, Charleston, S.C.; Norfolk, Va. and Newark, N.J. on to the European ports of Le Havre, France; Felixstowe, U.K.; Bremerhaven, Germany and Rotterdam. The service travels to Asia via the same U.S. East Coast ports, through the Panama Canal and onto Long Beach, Calif., and Oakland. The Far East ports served are Japan's Yokohama, Kobe and Nagoya; Hong Kong and Kaohsiung. Maersk has eleven 4,000 TEU vessels committed to this service.

The carrier offers a weekly Montreal service with P&O Nedlloyd which makes stops in Felixstowe, Bremerhaven and Rotterdam. Maersk considered combining this service with its U.S. East Coast services, but the threat of a harbor services fee in the U.S. has kept the Montreal service separate, Boudreau said.

Maersk shares four other transatlantic services with Sea-Land:

- North Atlantic. Four 4,000 TEU Sea-Land ships operate weekly serving Boston, Newark, Norfolk, Rotterdam, and Le Harve.
- South Atlantic/Gulf Service. Weekly from Charleston, Houston, and Jacksonville and Port Everglades, Fla. to Rotterdam, Bremerhaven and Felixstowe.
- Suez Express Service. This lines each operate seven ships in the weekly service calling Halifax; Newark; Norfolk; Charleston; Gioia Tauro, Italy; through the Suez Canal to Jeddah, Saudi Arabia; Jebel Ali, the United Arab Emirates; Port Klang, Malaysia; Singapore; Yantian, China; Hong Kong; Long Beach; Tacoma, Wash.; and back to Asia, Europe and the U.S. Other port calls are made on the return leg, such as Colombo, Salalah, Oman; Algeciras and Halifax.
- U.S. Gulf/Mediterranean. This weekly service calls Houston, Freeport, Charleston, Algeciras, Malta, Gioia Tauro, Genoa, Valencia, Algeciras, and back to Newark, Charleston, Miami and Houston. The ships in this service are about 2,800 TEUs each.

Maersk and other carriers may reduce capacity in the transatlantic later this year if capacity imbalances and lower rates persist. "We're suffering from an imbalance," Boudreau said. "But we haven't fallen deep into it yet."

Other changes that may impact the transatlantic is the restructuring of the Trans-Altantic Conference Agreement, known to the carriers as "TACA II." The amended TACA removes collective European inland ratemaking and lifts any restrictions on member carriers to negotiate independent, confidential contracts with shippers.

A European Commission decision on the revised TACA is expected on Aug. 4. The new TACA will comprise eight carriers, including Maersk, which combined control 55 percent of transatlantic cargo.

"TACA II isn't going to be a big factor in itself," Boudreau said. "You have freedom to do what you want to when the market is in your favor. But it offers a framework for recovery."

The North Atlantic Alliance, a proposed carrier forum to discuss the market, is still on hold at the European Commission.

Maersk's transpacific operation is still experiencing problems with trade imbalances, as exports to the U.S. surpass imports to Asia. To improve the efficiency of its ships, Maersk's transpacific operations are often linked to its transatlantic services.

"We're not adding any new service loops in the transpacific," said Thomas Eskesen, director of strategy for the Pacific trades at Maersk. "We're slowly adding an additional 1,000 40-foot container capacity to our existing service."

Maersk may face some service changes in its operations, depending on the outcome of the sale of Sea-Land. Both carriers have developed extensive shared services in recent years. It's uncertain whether or not Maersk will buy a piece of Sea-Land.

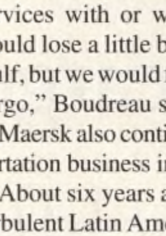
Maersk says it can manage its existing services with or without Sea-Land. "We would lose a little bit of capacity out of the Gulf, but we would find a way to handle that cargo," Boudreau said.

Maersk also continues to expand its transportation business into developing markets.

About six years ago, Maersk entered the turbulent Latin America market. Other carriers also flooded the once-stable market and overcapacity soon developed. The market has been further whipsawed by currency fluctuations and political turmoil.

Southbound rates have dropped by about 50 percent since 1993, from roughly $4,000 per 40-foot container to less than $2,000 today. "Overcapacity — it's that simple," said Kim R. Gadegaard, vice president of Latin America services at Maersk.

Carriers have already started to reduce their capacity in the market to try to raise rate levels. But devaluated Latin American currencies have caused a recent reduction in southbound freight from the U.S. with northbound goods, mostly from Brazil, slightly on the rise.



Thomas Eskesen
director of strategy, Maersk

"We're not adding any new service loops in the transpacific. We're slowly adding an additional 1,000 40-foot container capacity to our existing service."

Maersk plans to ride out the economic storm in Latin America. "There's no sense in making any panic decisions until we know for certain what this market will do," Gadegaard said. "For now, we still believe that Latin America is a viable, long-term market that we should be involved in."

Earlier this year, Maersk entered into an alliance with Columbus Line, Alianca, P&O Nedlloyd, the CSAV Group and Sea-Land, to serve major ports between the east coasts of U.S. and South America.

Maersk also increased its coverage of the Caribbean by offering direct service from

Miami to Jamaica, Haiti, the Dominican Republic, Trinidad, Barbados, French Guiana, Guyana, Surinam, Aruba and Curacao. "The initiation of our Caribbean service network is the final component of our extensive Americas network," Gadegaard said.

The carrier recently expanded its African service after a $240-million acquisition of South African Marine Corp. The purchase included Safmarine's 50 vessels and about 80,000 containers.

It's uncertain whether Maersk will expand some of its operations through additional carrier buyouts. "At Maersk, we don't like to comment on rumors," Thomsen said.

The carrier is reportedly looking at other carriers, such as Sea-Land and Farrell Lines, as future purchases.

To improve the efficiency of its feeder services off its transatlantic, transpacific and other mainline routes, Maersk is starting to develop a world network of hubs.

Maersk and Sea-Land recently created a hub terminal at Salalah to provide feeder service to ports in Africa, the Indian Ocean and Arabian Gulf.

Last year, the carriers proposed a similar plan for the U.S. Northeast, which resulted in a politically heated race among New York/New Jersey, Baltimore and Halifax to get the business.

Kim R. Gadegaard
vice president of Latin America services, Maersk

"There's no sense in making any panic decisions until we know for certain what this market will do. For now, we still believe that Latin America is a viable, long-term market that we should be involved in."

Despite attractive offers from Baltimore and Halifax, Maersk and Sea-Land opted to stay in the Port of New York/New Jersey. The carriers said that of the three ports, New York/New Jersey has the most efficient intermodal services to the Northeast and Midwest.

In return for staying, the Port Authority of New York and New Jersey has committed to dredging the port to a depth of 45 feet by 2003-04 and further to 50 feet by 2008-09.

"We believe the bid process heightened the awareness for more competitive approaches by the ports to work with carriers and for the need to dredge the harbors," Thomsen said.

Maersk is planning to look at developing super hubs in other parts of the world.

Fueling this need for more sophisticated hub terminals is the carrier's continued construction of bigger container ships.

Today Maersk operates one of the largest fleets of 6,000 TEU and 6,600 TEU ships. The carrier has 13 of these ships, with the recent additions of the *Svend Maersk* and *Soroe Maersk*.

"We looked at the option of either adding strings of vessels or upgrading existing tonnage," Eskesen said. "We found it more efficient to upgrade existing tonnage."

Most of these large ships are used in Maersk's transpacific and Europe/Far East services. But the carrier's 6,000-TEU ships are expected to fully enter the transatlantic later this year.

Maersk says large ships can be run profitably if correctly deployed. "Bigger ships don't mean lower rates," Eskesen said. ■

A working forwarder's view of Asia

Airborne Express' Charles Ogle sees early signs that the Asian "flu" has run its course.

BY ROBERT MOTTLEY

Charles M. Ogle, general manager for ocean services at Airborne Express, believes that the financial crisis known as the Asian "flu" will last for another year before "we see any significant improvement."

"Like a biological virus, it has to run its course," he said in an interview.

Still, Ogle is finding reasons for "very guarded optimism. At Airborne, we're seeing ever so slight an increase in our Asian air and ocean outbound volumes, which we hadn't seen last year."

"That increase is nothing to write home about, less than 5 percent. At least, it's not going in the other direction," he said.

"We're also seeing that purchases of raw materials — textiles, cotton, hard-rock minerals, resin — are on the upswing. That shows improved liquidity among manufacturers and their people who place orders."

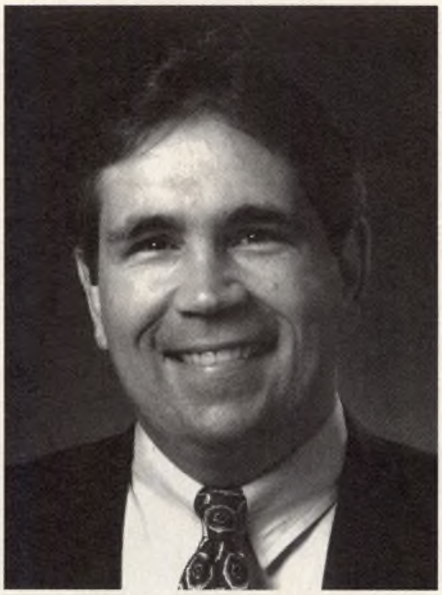
United Airlines reported a significantly higher first-quarter return for its Asian-Pacific division than it had the previous year. "Planes go in both directions, and United isn't making it all on inbound-to-U.S. routes. The airline is obviously seeing some traffic pickup going out to Asia," Ogle said.

Another positive sign is reported increases in spending, both business and domestic, in Thailand and South Korea — especially in Korea, where new car sales are on the rise again.

Ogle, who began Seattle-based Airborne's ocean freight service in 1994, travels regularly around the Pacific Rim. While working previously for Sea-Land, he lived in Singapore with his family for three years. "My opinion on what's happening is based on what I've seen," he said. "It's a working forwarder's view."

"The Asian flu comes down to people spending money. All of this starts and ends with Japan, which came into its problems as local consumers stopped buying."

Consumer spending represents close to 65 percent of Japan's gross national product. "When housewives closed their purses — and they are the ones controlling the yen — the flu hit. Previously, it had showed up in Thailand, Indonesia, and then Korea," he said.



"Competition is so fierce now, worldwide, that people in a single global region can't allow themselves to become complacent about how they're handling things."

Charles M. Ogle
GM for ocean services, Airborne Express

In Japan, "the corporate community is making some hard decisions about cutbacks and restructuring. That's going against Japanese culture, and it's hard for them to do it," he said. "They've got to be more lean, mean and nimble."

The Japanese have also recently announced double-digit tax reductions on business and personal income taxes, which may encourage more spending.

"They didn't get to that place overnight, and they are not going to get out of it overnight," Ogle said. "They are going to have to earn their way out."

At the eventual end of that long malaise, Ogle doesn't see a return to the past. "This has been a teachable moment for Asia. The people in control, either politicians or businessmen with power and influence, will try to correct what didn't work before.

"Competition is so fierce now, worldwide, that people in a single global region can't allow themselves to become complacent about how they're handling things," he said.

In the U.S., "so many people are selling to other people that the price increases we used to expect aren't going to happen anymore."

How has the Asian flu affected forwarders and shippers in Asia? "The ripple effect is that the people who were ordering at full container load volumes three or four years ago are now ordering in lesser multiples of container loads, or even LCL (less-than-containerloads)," Ogle explained.

"Again, it goes back to liquidity. They don't have the money they had before to spend. They don't have the same credit lines with banks.

"If shippers over there are exporting to us, the business is still handled as before, just different volumes. Importing from the U.S., there's much more care and caution."

In Asia, ocean forwarding is a broad industry. "You have niche players that only go in certain directions, and then only deal with certain types of commodities within those directions," Ogle said.

"For example, some forwarders only handle garments and apparel heading toward the U.S. Others book primarily cargoes of waste paper, or rags, going the other way. They treat rags as a commodity, much as coffee."

Larger forwarders, similar in size to Airborne, "do it all," he said.

Airborne Express established an international division 50 years ago. In 1999, Airborne's ocean freight breaks down as 40 percent Asian, 40 percent European, and 20 percent among Latin America, the Mideast and the Indian subcontinent.

Until June 1998, Airborne's ocean business was much stronger outbound than inbound. "Today, in terms of revenue flow, we're probably 50-50 inbound and outbound," Ogle said.

Airborne's ocean freight revenues increased 26 percent in 1998. Then, because of the growth of imports from Asia to the U.S., those revenues went up another 21

percent in the first quarter of 1999 over the fourth quarter of 1998.

"It's early in the year, but I think that's sustainable," Ogle said.

"Right now," he said, "you don't need a service contract to get cheap rates outbound to Asia. Inbound, of course, is at the other end of the spectrum."

Airborne uses a cadre of carriers, principally Hanjin, Maersk, OOCL and Yangming. "Depending on the trade lane, we negotiate service contracts, or niche-buy," he explained.

For air shipments, Airborne occasionally will book cargo on a competitor's planes, if flights are few and in demand. "By and large, most of our air traffic moves on commercial aircraft. From time to time, we do buy space on Federal Express or UPS planes," he said. "They sell space to other forwarders as well."

When establishing itself in an Asian country, Airborne "affiliates with forwarding agents who are already there, who know the ropes. Our agreements with them are exclusive, so they can't do other forwarders' business," he said. "We don't sign with them otherwise.

"We'll go with an agent first. If the volume of business builds to the point we want to take another step, we'll look into doing a joint venture. If the volume goes on increasing, we'll put in our own office. We don't change agents very often."

In Japan, Airborne has a joint venture with Mitsui and a transportation company called Tonami. In Korea, Airborne's agent, Namsung, also operates its own feeder ships between China and Korea. In China, "our new agent is EAS International," he said.

Airborne staffs its offices in Taiwan, Singapore, Hong Kong, Thailand, Malaysia, Indonesia, Australia and New Zealand, with about 400 employees. The company's entire international division employs 600 people.

Has there been a siege mentality among Airborne's employees in Asia due to the flu? "We're been struggling with it because of the reduced volumes. Our people believe it's a cycle. We've been in Asia for a long time, and we're going to ride this out."

New era for forwarders

Shipping reform allows forwarders to "negotiate truly global contracts," Ogle says.

A new era started for forwarders on May 1, when ocean shipping reform went into effect, Charles Ogle said.

"Finally, forwarders like us have the opportunity to negotiate truly global contracts with a carrier that has a global scope," said Ogle, general manager of ocean services for Airborne Express.

In the past, some of the larger carriers had such a scope, "but because of their conference affiliations, they were hogtied in their ability to be flexible and knit their widespread services into one arrangement.

"I predict that the most successful ocean carriers, going forward for the next 12 or 18 months while this industry reinvents itself, are going to be those carriers that can nimbly and quickly put together true global packages."

To a certain degree, carriers are also going to evolve. "They'll continue to have their sales people calling on large national accounts," he said, "because they need that business to fill their ships."

"They are also going to have to rely, more and more, on resellers — people like us — who have retail relationships already established with a wide range of shippers."

The carriers will then have a background role as wholesalers providing ocean space. "I think they've learned that they can't be all things to all shippers," Ogle said.

"Also, you're going to see carriers offering more port-to-port services, and letting forwarders and other transportation intermediaries arrange for value-added services, such as assembly and fulfillment and customs clearance."

Because an ocean carrier is asset-based, "he's saddled with ships. His first priority is to fill vessels, not containers," Ogle explained.

"The carrier is going to as few places as he can to fill those ships up, week in and week out."

Ocean shipping, for Ogle, is "no different than selling corn or pork bellies. It's supply and demand." There's no better current example than the Asian trade, where "you all but have to sell your firstborn child to get anything booked eastbound."

"Look at the port statistics in Los Angeles, Long Beach, Oakland, and Seattle over the first three months of this year. Those ports budgeted for 6 to 7 percent increases in Asian imports. They've been seeing 25 to 30 percent increases coming in," he said.

What do those figures mean? "They tell me that supply-chain managers abroad who can hold inventory are trying to get it in now rather than during the summer, when space will be even tighter."

A number of shippers were also trying to beat the Transpacific Stabilization Agreement's May 1 rate increases. "There is discontent out there because of the hikes," Ogle said. "But shippers aren't screaming at us as much as at carriers, because they understand we don't own the ships and don't control the pricing.

"The carriers need the money. That's the nub of it. Shippers realize that vessels go in both ways, and that carriers can't run a one-way service."

Ogle said he believes that customers understand that ocean rates today are still lower than they were 20 years ago. Shippers also have the long view of having seen carriers jump through familiar hoops.

"As soon as a trade lane has its rate up to a level consistent with profitability, the rest of the carriers in that trade invariably jump in with additional tonnage to bring rates down," he said.

The only brake that really slowed rate erosion was the conference system, "which caused carriers to have to go to meetings, to stand in line, and to vote on issues of mutual concern. All of that led to a semblance of order in the ratemaking process."

Now, under the ocean shipping reform act, Ogle believes that "the conferences are fading away. There will be talking agreements, which may or may not keep rates up. I tend to believe they will not."

The result will be "an acceleration of rate erosion. Nothing is really going to be confidential, to the extent that you believe or don't believe what a customer has told you about deals allegedly offered to him by your competitors," he said.

When confidentiality is in tatters, it'll be like the emperor's new clothes. As everyone sees the emperor's pants down around his ankles, carriers and shippers will still say 'what a nice fit to his trousers' while they use every guise to find out each other's rates.

What will NVOs do? "They won't change the way they do business that much," Ogle said. "They'll continue to negotiate contracts that they can use as base rates to quote off-the-shelf rates. If there's a piece of business that's large enough, they'll go back to the carrier that signed the contract with them and establish some sort of bullet rate on that particular freight move. At the end of the day, NVOs will move 80 percent of their cargo on bullet rates instead of open tariff rates."

"There were never any real secrets in the business before," he said, "and there won't be now." ■

'Who's next?'

Venture capitalists are gobbling up forwarder and logistics companies. But declines in service, higher rates and the rush to go public leave shippers with indigestion.

By Robert Mottley

Logistics, the magic word that seized Wall Street's attention not long ago, has attracted a new wave of venture capitalists looking to cash in on transportation as they have in other industries.

These are not, for the most part, fly-by-night hustlers, but so-called smart money: blue-chip bankers, private equity companies, foreign post offices — all seeking big returns. But the problem is that logistics is not a horse that just anyone can ride.

Unfortunately, many of the new breed micromanage to a fault. Some, in a push to go public too soon, have actually diminished the service habits of the transport providers they have bought.

Still, the consolidation trend rolls on, picking up momentum with each deal announced. "Who's next?" is the question foremost in the minds of top transport executives.

For shippers, the question too often is "how much more am I going to pay for less service?" when their forwarders are gobbled up as "platform" entities in a budding transportation conglomerate.

"When I hear someone say 'bigger is better' that signals to me that the service will eventually cost more," said Inka T. Neumayr-Omholt, manager for international logistics for E.I. du Pont de Nemours & Co., based in Wilmington, Del.

When a large firm buys another, she said, there's often a period of merging operations during which service levels deteriorate. Once the merger is complete, the new company begins to look at its revenue, and that usually means a hike in fees.

"We go after capability in a service provider, not after size," Neumayr-Omholt said. "When you think about flexibility, you become attracted to mid-sized service providers."

Jack Edwards
president & CEO, WorldPoint Logistics

"You have to curb a blood rush to go public."

Those are the providers considered ripest for picking by the latest wave of high-rollers. Yet the truth behind the hype of colorful new conglomerate logos and nimble financial models is that real-world mergers and acquisitions in the transportation industry are far more complicated than most shippers and investors are led to believe.

Today's new logistics entrepreneurs "are very much focused on themselves," said Bruno Sidler, chief operating officer of the Swiss forwarder Panalpina. "But at the end of the day, it is the customer who has to buy the product. The shipper has to see the value in the latest 'Deutsche Post-Danzas-DHL-Lufthansa-Nedlloyd-ASG-you name it' lineup. That is the test, and that test has yet to come."

Longer Time Horizons. There have been several recent examples that have revealed how badly global acquisition strategies can turn out for transport firms, shippers and investors.

Even with the good intentions of fulfilling shipper demand for better service at lower costs, transport firms have stumbled and fallen. Well-publicized debacles include International Logistics' — now GeoLogistics — purchase of Matrix International (see related story) — Fritz Cos.'s acquisition of Intertrans and Union Pacific's merger with Southern Pacific.

New entrepreneurs will try to learn from these examples. But even the best laid plans can fail in the forwarding industry. That is because the one thing that separates the good forwarders from the bad forwarders — flexibility — tends to disappear as forwarding companies grow.

That is the main reason P. Robert Doernte, president and chief executive officer of Schenker International, one of the world's largest forwarders, says, "Small is beautiful today."

Doernte said big forwarders and other third-party logistics providers will have to walk a line between expanding to meet global service needs and retaining the flexibility that shippers and a global economy demand from forwarders.

That is the line FDX, Deutsche Post, TNT Post Group and United Parcel Service will be walking into the next decade.

Jack Edwards says he knows the proper way to roll-up smaller transportation firms. As president and CEO of Bellevue, Wash.-based WorldPoint Logistics, a company founded in October, he says that "you have to curb a blood rush to go public."

WorldPoint's backers are Brentwood Associates, a 25-year-old private equity company in Los Angeles. During a six-month courtship of Edwards, who before WorldPoint had been president and CEO of Danzas Corp.'s North American operations, Brentwood indicated that "their role regarding the portfolio companies they own was strategic, but they didn't cross that line where they became involved in day-to-day management."

Edwards said that Brentwood had done "extensive due diligence on the logistics industry before venturing into it." The name 'WorldPoint' was suggested by Zan Blendell, a Brentwood attorney.

Brentwood's time horizon for a return on investment was five to seven years. "I knew I wouldn't be under pressure to get a return in three years, which would have resulted in a very sloppy situation."

His equity partners gave Edwards money up front to purchase a number of companies. Other equity investors typically "will finance one acquisition to get the ball rolling, but they tend to be very cautious thereafter, which works against having a game plan or consecutive purchase strategy."

Brentwood is involved with six portfolio companies at any given time, of which WorldPoint is one. "They assign four members of their team to our group," Edwards said. "There are only 10 of them in all, so all of the time, each one is on multiple teams. That way, I'm sure of four who are consistent in their knowledge and approach to logistics. We invite them along when we survey possible companies to buy, to help us with the intellectual review necessary. Our thinking is to involve them as much as possible, so that we have identical agendas."

WorldPoint is Brentwood's exclusive portfolio company in logistics. They have one company in the cinema business, which buys and manages a chain of movie houses. They have another portfolio company that's in promotional marketing, another in manufacturing distribution.

With WorldPoint, "the obvious strategy is to build a company with sufficient size, scale and profitability to go public," Edwards said.

"Our thrust is to evaluate and approach 'platform' companies — all of them non-asset based, ranging from air freight forwarders, customs brokerage, warehousing and distributors, to third-party logistics providers," he said.

Edwards has met 40 prospects around the world. Letters of intent have been written to five of them, with due diligence now in process. Another 25 have weekly communications with Bellevue. WorldPoint has walked away from other suitors. Some have turned Edwards down, preferring their present independence. "A 'no' today may not mean 'no' tomorrow," he said.

Front-End Thinking. Each week, at least four unsolicited packages come to Edwards's desk from companies hoping to attract interest. "Some are marginal, some are a little under water, others are in terrific shape. Some are too much on the asset side for our liking."

"We're not looking to be a primary owner of trucking fleets, or railcar fleets, or containers, or warehouses. That doesn't mean we won't outsource or lease those, it's just that we don't believe that you have to literally own in order to control."

Since last October, WorldPoint has bought Alpha International, a customs broker and freight forwarder based in Valley Stream, N.Y.; President Container Lines Ltd., an ocean freight forwarder in Elizabeth, N.J., and most recently, United States Shippers Inc., an intermodal marketing company with headquarters in Edmonds, Wash.

WorldPoint has not micromanaged the two small companies it first purchased. "I did ask them to make a budget," Edwards said. "They want to grow their situations."

"We would intervene if we felt that was necessary. We make it very clear what we expect of those companies that are in our sights to buy. You can't blame management if the economy tanks. We discuss contingency planning when there are senior management figures of a certain age. There's nothing you should exclude from front-end thinking."


Beresford

Harry D. Beresford, the president and founder of U.S. Shippers, said that "my deal with WorldPoint is good for me, for my company, and for the people who got me here. We had to grow. I could have grown the company myself, but it would have taken a lot longer.

There were other suitors, Beresford said, "but if I had gone with someone else, a lot of my people wouldn't have remained with the company. Who knows if I would have had a job after a while?"

Shippers' View. Whether the name is WorldPoint or GeoLogistics, the primary question remains the same: Is the global logistics conglomerate good news or bad news for shippers?

"Shippers are looking more for door-to-door services in all modes through one service provider," said David S. Movsky, worldwide business manager for maritime shipments for Eastman Kodak Co., based in Rochester, N.Y. "The perception is better cost and service."

C. Frank Lamb Jr., manager of international logistics for Golden Peanut Co., based in Alpharetta, Ga, said that Golden Peanut feels comfortable with small forwarders because of their ability to protect shipment information.

Lamb doesn't want to lose that edge in service to a conglomerate that might not return his calls so quickly.

After they have received the marketing brochures and sat through customer service meetings, shippers are usually the first ones to find out that an acquisition isn't working out as planned.

Some shippers said they would prefer David to Goliath.

"Let them buy up companies," Lamb said. "We'll stick with our forwarder. It may be small, but it's big enough to handle our needs."

(Gordon Forsyth and Chris Gillis contributed to this story.)

Tempest in a teepee

Ex-Matrix staffers say corporate culture, impatience marred International Logistics' acquisition.

Former employees of Matrix International — now a unit of GeoLogistics Corp. — said the logistics service company's purchase in 1996 by International Logistics Ltd. soured with unreasonable expectations forcing forwarders to operate within a bureaucratic corporate culture.

Ron Cruse, one of Matrix's four managing partners, founded the company in 1986 "before logistics became a buzzword. We did well from the beginning in shipping to the roughest parts of the world where there was no infrastructure, notably Africa, Asia, and the Middle East.

"I would go out and spend a lot of time, whether the project site was in Lagos, Dakar, Nairobi or Jakarta. We got stuff into where no one else really wanted to go. In those days, in Africa, many logistics providers wouldn't ship anything north of South Africa.

"We found local guys who were committed, and made relationships and partnerships with them. I would normally look for the smaller, entrepreneurial type of expeditor," Cruse said.

By 1996, Matrix had annual revenues of $80 million. The company says its profit margin was the highest among U.S. niche project-oriented freight forwarders. Matrix's showcase was its flourishing Russian subsidiary, Matrix St. Petersburg, run by Sergey Kuzminykh, who had founded Antramar, one of the first logistics companies incorporated legally in the Commonwealth of Independent States.

Kuzminykh's group found inventive ways to work around Russia's cumbersome bureaucracy. Matrix St. Petersburg once retained a cleaning woman in an office near the Kremlin to place its clients' shipping documents on top of a minister's pile of papers to assure faster approval for cargo routings. Such solutions appealed to Matrix's predominantly young staff of logisticians in Alexandria, hand-picked by Cruse.

Early Changes. International Logistics was not Matrix's first suitor, but certainly its best-heeled. William E. Simon & Sons, a Los Angeles-based investment firm and merchant bank, had turned its attention to logistics in 1995. Simon & Sons hired Roger Payton, a 20-year transportation veteran, to help it break into the industry, using additional funding from Oaktree Capital Management.

At the time, Oaktree managed $7 billion in assets for international clients, including $1 billion dedicated to private equity investments. Under the sponsorship of Simon & Sons and Oaktree, Payton formed International Logistics, which proceeded to buy the Bekins Co., including Bekins HVP Logistics, a U.S. domestic specialist in moving high-value products; Matrix; Lep Profit International's North American operations; and then Lep International Worldwide.

> ***"They took an entrepreneurial culture, focused on knowing and serving a market, and tried to fit that into a corporate mold."***
>
> **John Connolly**
> *senior vice president, TransPax*

Payton changed the parent corporation's name to GeoLogistics. The company's headquarters is in Golden, Colo., near Denver.

John Connolly, who ran Matrix's operations in Alexandria, said that "as I recall, under the terms of the sale of Matrix to what is now GeoLogistics, we were to remain an untouchable, autonomous unit for five years. Actually, we remained autonomous for about five months."

"I saw signs of change after three months," said Debbie MacDougall, Matrix's senior marketing manager.


Payton

Payton, chief executive officer of GeoLogistics, told *American Shipper* that "we did have an understanding that Matrix would be autonomous for five years when we first purchased the company. After some changes occurred that promise of autonomy was rescinded. We consider Matrix now to be like any other unit within GeoLogistics. We have a strongly centered management, and take the view that it's quite difficult to integrate an autonomous unit into one's corporate culture."

Connolly and MacDougall have since left Matrix to work for TransPax, international division of the Paxton Cos., based in Springfield, Va. Connolly is TransPax's senior vice president; MacDougall is vice president. Cruse signed an non-compete agreement when he left Matrix at the end of 1997, and is bound by it until July 1, 2000.

"I would say that 70 percent of Matrix's revenues came from Cruse's activities," according to MacDougall. Cruse's three partners first promised to leave the company if GeoLogistics bought it.

After the sale, Cruse's partners listened closely to GeoLogistics's pitch about how quickly it would make a public offering, and changed their minds about leaving in light of the expected stock windfall. Cruse decided to get out.

GeoLogistics still has not gone public.

Models Everywhere. At GeoLogistics's corporate meetings, "everything was plugged into models," another insider recalled. "There were issues about being on the ground in Russia that didn't fit their handy-dandy models. Cruse told them we had a small number of guys over there who were good at one thing. If you switched what they were good at, that would take a while."

But GeoLogistics's management didn't like to hear about problems, MacDougall said. "They were too reliant on their financial models. This is a people business."

"Every meeting, it was synergy, synergy," Connolly said.

"From a marketing perspective, we were told that nothing was going to change," MacDougall said. "Matrix had such high profit margins that, basically, we were going to be left alone. GeoLogistics had bigger issues and other fish to fry, notably in taking on LEP."

Raising Teepees. Summoned to Phoenix by GeoLogistics's executives, John Connolly was told to build a teepee as a bonding exercise with other managers.

"I recall that we were actually given a prize if our team had put up the best structure," Connolly said, disbelief still in his voice. "I was told to go out in a field with my peers and construct a teepee, Indian-style. They made me wear a bandanna with my team's colors.

"Oh, man, anyone who knows freight people, " Connolly said, "knows that we're not a group that shares a lot of our feelings."

What is the disconnect that defeats so many investors in the logistics industry? "It's the speed with which they want results," he said, noting that he was speaking generally

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and not specifically of GeoLogistics.

"They are so impatient. You can't do in two years what might take five or six. Most venture capitalists are not interested in locking up money for that long."

"They try to provide service, but they don't understand how fragile logistics services actually are," Connolly said.

Mixing the cultures of the entities within GeoLogistics was also a problem. "In my opinion, they tried to do that too fast." Connolly said.

"I recall there were lots of bonding meetings," MacDougall said. "Too many of them. We were leanly staffed. It was complicated to send one of us out for three days ... Ron Cruse started saying no. He had an ironclad employment agreement as long as he stayed, and could shield some of us from the bonding on grounds that some business of our clients took precedence.

"In my view, a lot of things GeoLogistics asked us to do were ridiculous," she said. "They started a monthly phone conference in which all of the head marketing people would share, on the phone, the accounts they felt they would be able to land, the revenues, and the profits from them."

"The irony there was that we had been very successful at picking select clients that were not overly rate-conscious, but who wanted outstanding service. Those clients were accustomed to calling us up in the middle of the night to see if their charter flight had landed on schedule in Russia.

"The last thing you want to do is to make information about that sensitive a client public to 30 or 40 other individuals on a communal phone call."

By the end of 1997, Connolly said he was "personally spending more than half of my time with corporate matters that were not related to producing revenue. GeoLogistics always paid lip service to meeting customer demands, but then there was always a requirement for another corporate report.

"They took an entrepreneurial culture, focused on knowing and serving a market, and tried to fit that into a corporate mold," he said. "Entrepreneurial ideas rarely flourish in a corporate top-down management structure like GeoLogistics.

"If I'm trying to find out why something has gone wrong in Ulan Bator, I really don't need to be up for a 7:30 meeting in Atlanta to smile about how we're giving more freight to Delta Airlines."

GeoLogistics toward the end of 1997 began offering non-compete agreements. A typical one included annual payments of at least $125,000 for two years.

"If you stay out of the freight forwarding business for two years, you're out," MacDougall said.

"Asking forwarders to take on a list of bureaucratic duties, and enforcing camaraderie with outsiders, quickly kills the soul," she said. "If they had left us alone, we would have been fine."

Payton has been quite pleased with GeoLogistics' efforts to bond managers from its various units. "We must do everything we can to break down their silo mentality. From our point of view, the teepee building was very successful."

Is FedEx Knocking? Today, GeoLogistics has significant problems, despite remaining profitable in much of the world. The conglomerate's Bekins subsidiary has been successful with its network solutions and just-in-time inventory controls. Caribbean Air Service has proven to be a winner. Lep Asia and Lep Europe control healthy operational networks. The weak sister has been Lep Americas, which posted a loss in the tens of millions last year.

In March, GeoLogistics said the former Lep Americas unit, now called GeoLogistics Americas, would be restructured into two independent operations. But that attempt may soon be moot.

FDX Corp., the parent of Federal Express, is said by sources to be close to


CHICAGO
ST. LOUIS
LOUISVILLE
MEMPHIS
ATLANTA
HOUSTON
PORT
OF
SAVANNAH

announcing a purchase of GeoLogistics. Some freight forwarders say that a deal has been initiated, but will have to survive a six-month probationary period.

Fred Smith, FDX's chairman, "has indicated something of that sort is in the wind," said Steve Lewins, a transportation stock analyst for Gruntal & Co. "Federal Express has needed a freight forwarder for a long, long time."

Asked about a possible FedEx buyout, Payton said, "one hears lots of rumors. I can only say now that we have no signature on any agreement."

The rumors have led analysts to speculate about FDX's motivation for a deal, and their thoughts have focused on FedEx's desire to build a stronger international heavy freight operation.

Lep Asia and Lep Europe would offer FedEx a big network of modern warehousing facilities for what is thought to be a very cheap price. Effective warehousing would give FedEx operational bases it has lacked on the international side, particularly in Europe, compared to United Parcel Service.

Speaking generally, Cruse said FedEx Bekin's strong U.S. trucking and logistics operation would give FedEx and sister company RPS another competitive punch at UPS's dominant U.S. ground operation.

"I've always been surprised at how little of the package market FedEx has in comparison with UPS," he said. "What FedEx would get is some very well-situated warehouse operations, and some trucking operations" of real value.

Observers say the deal may be worth nothing more to FedEx than GeoLogistics' assets, which some say FedEx may be buying at below book value. The Lep Profit forwarding operation certainly isn't what it used to be, as the European forwarder has lost most of its management talent to other forwarders.

Expeditors stays within itself

Forwarder expanding cautiously but quickly.

BY GORDON FORSYTH

Amid the roar of acquisition in the global freight forwarding industry, Expeditors International of Washington has been a relatively quiet bystander.

But that hasn't stopped the company, America's third-largest air forwarder, from more than doubling net revenue in the past four years, from $154.1 million in 1995 to $353.5 million last year. Expeditors also has doubled its bottom line in the same period, from $17.4 million to $47.3 million.

How does the forwarder do it?


Rose

"Ninety percent of our growth has been organic, which differentiates us from the rest of the group," said Peter J. Rose, Expeditors' chairman and chief executive officer. "Some of the mergers and acquisitions haven't worked out as propitiously as people had hoped."

Expeditors has made its fair share of acquisitions. But Rose said that the forwarder has approached possible deals with caution, making sure that both companies knew each other well and had the same business goals.

"The acquisitions that we have done have been more like quasi-joint ventures or mergers with existing agents," he explained.

Expeditors recently completed agent acquisitions in Beirut, Tokyo, Athens and Dubai. "The difference is that these are people we have worked with for five or six years," Rose said. "We get to know them and they get know us. We trust them and they trust us.

"Just to go out and buy somebody you meet in a bar — no," Rose said. "I think that everybody is a little acquisition happy — and not just in our industry. It's silly."

That philosophy apparently sits well with Expeditors' shipping clients, who Rose said appreciate his company's consistency of service.

"The thing that is keeping us in good stead today — what I think the vendors, employees and the customers appreciate — is the fact that we are not going to make an announcement tomorrow that we just got bought out by somebody," he said. "There is continuity, and the execution is there."

Flexibility and aggressive sales drive profitability in the forwarding business, forwarders say. Growing forwarders risk losing both when management positions multiply and administrative chores weigh them down.

An "executive administrative vice president of global logistics analysis" does not actually bring in revenue for a forwarder. And when management caps commissions to pay the salaries of some 40 vice presidents, sales people begin to lose their incentive.

Expeditors tries to maintain flexibility and to encourage growth by giving its local offices control over how they manage operations and compensate staff. "Base salaries are low," Rose said. "But each office gets a percentage of the pre-tax bottom line to share with its staff. So, the big people at the top are not making all of the money."

Bottom Line. Whatever the reason, proof of Expeditors success is in the numbers. The forwarder out-performed its top U.S. competitors in 1998 and the first quarter of 1999.

In 1998, Expeditors replaced Air Express International as America's most profitable forwarder. While Expeditors increased net income by 23 percent last year, AEI saw its profit fall 11.5 percent to $43.8 million on net revenue of $490.5 million.

AEI, which is stronger in exports, was dragged down by Southeast Asia's sinking economies, while Expeditors benefited from a slant toward imports.

Expeditors is running ahead of Circle International as well. Circle watched net income plummet nearly 30 percent to $18.5 million last year, as the old forwarder under new management began to restructure for greater growth.

In the first quarter, Expeditors posted a 19-percent jump in income to $9.5 million. AEI's profit before one-time gains fell 10 percent to $8.7 million. Circle's net income dropped more than 64 percent to $1.9 million. Not including one-time charges, Circle's profit was flat at $5.3 million.

Fritz Cos. keeps a different fiscal year than Expeditors, AEI and Circle. For the nine months ending Feb. 28, Fritz's net income was down 8 percent to $12.3 million on net revenue of $433.8 million, a 4-percent increase. The company's restructuring effort has stalled somewhat, analysts say.

Expeditors is looking to expand further into Latin American, where it operates in the major air freight markets of Argentina, Brazil, Chile and Colombia. Rose said he is also watching Eastern Europe, particularly The Czech Republic, Poland and Hungary.

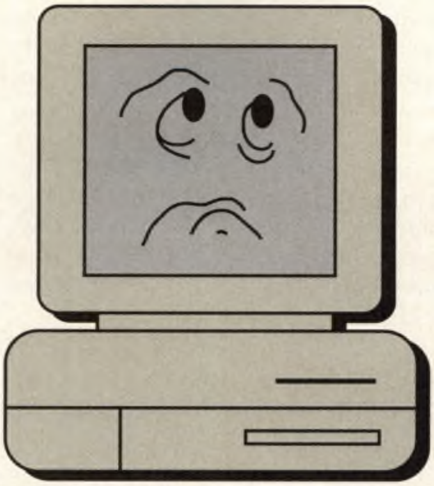
The forwarder has opened four offices in Turkey; one in East Midlands, the U.K.; one in Montreal, one in Pittsburgh; and its 11th office in China.

"Since the logistics business was purported to be an $85-billion industry, everybody and their brother wants a piece of it," he said. "There are a lot of consultants out there for people. But I think shippers are starting to ask the question, 'Why should I pay for what I already know, and for what is already available to me through a plethora of other good companies that have been the business for years.' " ■

E-Shipping blues

How to handle eBay's residential-to-residential deliveries?

By Gordon Forsyth



Here's a problem. You've built a nice-looking website for electronic commerce. It's attracting some hits — first hundreds, some days thousands.

Then, virtually overnight, millions of people are logging on to your site every day to sell each other everything from Beanie Babies to computers. And you're caught with your supply chain down.

Now what?

Under similar circumstances, eBay, the Internet auction house sensation, recently joined with Mail Boxes Etc. and software firm iShip.com to develop a parcel shipping system for eBay users.

eBay started operations in 1995 with a website that allows people to sell goods online within an auction format. The company, which grew out of a dinner conversation, now handles more than 1.8 million auctions online each day.

"The growth of eBay's person-to-person online trading has created a demand for improved shipping solutions for our community of 2.1 million users," said Meg Whitman, eBay's president and chief executive officer. "MBE, with its network of more than 3,000 centers across the country, and iShip.com, with its innovative online shipping, pricing and tracking solution, are the ideal partners for eBay to join with in developing an integrated, full-service retail shipping service to handle this demand."

Logistics Online. Indeed, Mercer Management Consulting says the sometimes overlooked function of logistics is becoming one of the keys to e-commerce success.

"Undoubtedly, e-commerce is the most dramatic new distribution channel since the supermarket and the shopping mall, and it can be expected to find its way into almost every segment of commerce," Mercer consultants said in a recent report. "Supply chain factors will be important determinants of the degree to which new e-commerce business models are successful. In fact, many new e-commerce entrants are likely to fail because of ill-conceived supply chain designs."

Of course, a supply chain is the last thing investors think about while they pour money into Internet stocks. Amazon.com's stock price was selling at more than $120 per share earlier this year; eBay's at more than $160.

However, Mercer believes that logistics will play a key role for Internet companies in creating sustainable profit, without which stock prices will drop like stones. Unless Internet retailers "can process and ship orders efficiently, they may not be able to gain the operating leverage necessary to produce acceptable profitability as revenue grows," the consultants said.

Bridging the Gap. James Amos, president and CEO of Mail Boxes Etc., says his company, the world's largest franchise operator of shipping service centers in the world, will offer eBay what it needs most — a taste of reality.

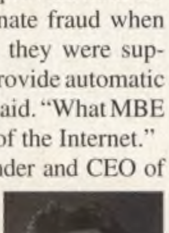

Amos

"Our mission is to lay a hard pipeline of service and distribution right along side the information superhighway," Amos said in an interview. "We have the brick and mortar. We have the physical persons to do what is an anomaly in the world of e-commerce today. And that is to provide customer service."

Amos said MBE will be the bridge between eBay's virtual world of Internet shopping and the real world of picking, packing and shipping. eBay users will be able to drop off and pick up shipments at MBE locations and eventually inspect goods bought on the eBay site at the MBE store before paying.

"We can provide security for the financial transactions. We can provide hold for pick-up services to eliminate fraud when people are not sent what they were supposed to be sent. We can provide automatic returns management," he said. "What MBE becomes is the merchant of the Internet."

Steve Teglovic, co-founder and CEO of iShip.com, said he hopes to have a shipping software application up on eBay's site by the end of July.


Teglovic

Teglovic and a team of programmers started iShip in 1997, after developing UPS's OnLine Professional shipping application. The company has created a website that small package shippers can use to access pricing and tracking information from multiple carriers and has joined with eBay to develop a co-branded interface to its shipping applications.

"One of the big things on eBay is that you may have multiple buyers bidding on a product, and the cost of shipping can be a major component in the overall price of that product," Teglovic said. "So, each bidder wants to know what the shipping cost is. But, you could have 10 or 15 bidders, all in different places, looking at a different shipping price."

In the iShip-eBay system, eBay sellers will set up shipping profiles including information on what carriers they use, and what kind of service they are willing to provide. The sellers may also mark up the shipping costs for his troubles and include the shipping data when they present a product for auction.

Based on the seller's profile each bidder can use iShip's web software to calculate shipping costs and explore shipping alternatives. The software can also help with manifesting and label printing, tracking and e-mail delivery notification.

E-Hubs. eBay's new distribution network raises many questions for express carriers, which are struggling to handle business-to-residential deliveries, never mind the residential-to-residential shipments of eBay users. But Teglovic said the eBay-MBE-iShip tie-up could actually help private carriers compete for more residential business.

"All of the carriers look at companies like eBay with a desire to make that e-commerce shipping transaction fit into a mold that is profitable to them," Teglovic said. "eBay business is primarily consumer-to-consumer, and that is not shipping volume that is attractive or profitable for carriers like FedEx and UPS.

"Those carrier are happy to see eBay direct its shippers to aggregation points, like Mail Boxes," he said.

Rethinking home delivery

Airborne will use U.S. Postal Service for residential parcels. RPS goes it alone.

BY GORDON FORSYTH

Parcel carriers Airborne Express and FDX Corp. subsidiary RPS are taking a new look at the home delivery market in hopes of positioning themselves for an expected boom in Internet-generated residential deliveries.

The move into home delivery by Airborne and RPS marks a strategic shift by the carriers, which had for several years shunned the low-margin, often unprofitable, business-to-residential market. But new competition, and the introduction of a new rate rebate program by the U.S. Postal Service in January, have greatly changed the dynamics of a market long dominated by Atlanta-based United Parcel Service (June *American Shipper*, page 77).

With electronic commerce attracting more customers everyday, Airborne and RPS say they no longer can ignore home delivery.

"We have developed cost models that suggest this is going to be a very profitable market for us," said Kent Freudenberger, executive vice president of sales and marketing for Airborne. "We have to see if those models are true."


Freudenberger

Airborne will begin using the USPS to make home deliveries for select clients in July under the name Airborne@Home. The carrier will shift to a zone-based pricing scheme for residential business and transport packages by truck to local post offices for delivery by the USPS.

RPS says it plans to set up its own home delivery network, and will begin testing residential delivery operations in the Pittsburgh area with some clients in July. RPS "is well-positioned to be competitive in residential delivery, a market whose growth is being spurred by e-commerce and which is greatly under-served by existing transportation providers," said Daniel J. Sullivan, president, chief executive officer and founder of RPS.

Better Service, Less Cost. Large parcel shippers, such as the catalogue companies, direct sellers and emerging Internet retailers, will undoubtedly see some benefit from a renewed focus on residential delivery. More competition will force carriers to improve service and to lower rates. Smaller shippers will also profit from greater service selection and from the service improvements and cost savings offered by parcel consolidators, such as CTC Distribution Direct, Paxis and Parcel/Direct.

The improvements in delivery efficiency achieved by carriers should also spur the emergence of a lucrative and growing business segment for express operators.

Integrated carriers, such as Airborne, RPS, Federal Express and UPS, have struggled with residential business largely because their delivery networks are designed to handle business-to-business parcel traffic. In that sector, carriers make many deliveries to few locations. An office building, for instance, may generate 100 packages, but require just one truck and one driver for pick up.

The residential business, which is made up of many packages going to many different locations, demands a completely different operation. It has been difficult for carriers to generate enough traffic, or package density, to homes to make the business profitable.

Back to the Future. Airborne decided to phase out its residential delivery business near the end of 1996. Consequently, the carrier saw considerable improvement in its bottom line and yields the following year. Now, Airborne is ready to try again.

"Major changes in the postal regulations in January forced us to take another look at the residential business that we said we didn't want," Freudenberger said. "The density of deliveries for our system wasn't right."

Through its new relationship with the Post Office, Airborne will deliver parcels in three to four days all over the country at rates near or below UPS ground rates. Airborne will provide package-level tracking up until shipments reach local post offices. Using its newly installed barcode scanning system, the USPS will provide Airborne electronic delivery confirmation, with signature confirmation capabilities expected later this year.

Airborne hopes to turn a profit by "zone-skipping" to save on postage under an expanded USPS work-share rebate program. Airborne says the USPS will offer the carrier postage savings of more than 70 percent, in some cases, for sorting parcels by five-digit zip code and delivering them directly to local post offices.

For example, according to Airborne, the USPS charges $5.35 to ship a four-pound parcel from New York to California with delivery in up to two weeks. Airborne will offer shippers delivery in four days for the same shipment, pay the USPS $1.32 for the local delivery, charge somewhere near the UPS ground rate of $7.20 for the entire move, and find a profit somewhere in between.

RPS hopes to apply some of the network design skills and aggressive pricing strategies it has employed in the business-to-business market to the residential sector.

Bram Johnson, vice president of marketing for the carrier, said RPS is setting up an entirely independent residential delivery operating unit to handle the pilot tests this summer in Pittsburgh. "We want to test the operation as well as the information flow, the staffing and the control over the network."

RPS hasn't set a time-frame for evaluating the pilot test and Johnson said only that the carrier will continue testing until it has enough data to decide whether to set up a national network. "The important thing is developing a system that is flexible enough to handle increases in traffic."

Bob Godlewski, a spokesman for UPS, said "RPS is trying to cherry-pick again."

UPS is always looking to improve the efficiency of its home delivery operations. The carrier has struggled with the complexities of residential deliveries since its inception early this century.

Although the carrier has examined more closely in recent years the residential business it takes on, the carrier has not considered exiting the business, he said. "UPS was founded in 1907 delivering packages to homes. It is a very big part of our business."

Godlewski said UPS is working on mapping technology that would help the carrier map out more efficient delivery routes for its trucks. He said operational complications, such as traffic density, fuel costs and repeat calls when consignees aren't home, can eat profit margins in a hurry.

"The driver has to make both deliveries and pick-ups as he goes along. We can't have drivers roaming into each other's delivery areas, driving up fuel costs," Godlewski said.

"You have to maximize those stops to the residences and make sure you have your deliveries packed into the truck in the proper sequence or you will have to back track." ■

In 1997, United became the second U.S. passenger airline to fly freighters, converting four DC-10-30s to all-cargo planes, which are flown on transpacific routes.

Sink or swim

Jim Hartigan reshapes United Cargo and the industry

BY GORDON FORSYTH

After watching the business world re-engineer, downsize, consolidate and outsource its way through the 1990s, air cargo companies can no longer escape the wake of change following a global economy and information technology into the next millennium.

To sum up the feeling of most industry officials, "It's sink or swim."

Ask them what that means, and they are likely to tell you the business of moving cargo by airplane originally developed by forwarders and airlines hasn't changed much in the past 20 years. In the following breath, they will tell you that the air freight industry will look vastly different five years from now — a rate of change that will put increasing pressure on companies large and small.

The repercussions of electronic commerce, consolidation, supply-chain management, airline alliances and new competition will touch every company involved in the air freight chain.

Few are closer to the market shifts taking place than James J. Hartigan Jr., vice president of cargo for United Airlines.

Hartigan, who started his aviation career in 1966 while going to college, working part-time as a ramp serviceman, has pulled cargo out from under the shadow of United's huge passenger operations. His strategic expansion plan aims to establish United Worldwide Cargo in the top echelon of air freight players worldwide.

In the meantime, Hartigan serves as chairman of the Cargo 2000 working group of 37 international airlines and forwarders that plans to introduce in September a standard means of communication and cooperation for delivering integrated, time-definite freight services.

He is also an executive within the Star Alliance of airlines. Star members, such as Lufthansa Cargo and Scandinavian Airline Systems, are studying the viability of an intercontinental airline cargo alliance. United has done its share of ground work too, Hartigan said.

"There is solid recognition that cargo customers need an alliance built around them," he said, "and we are in the process of doing just that."

In a recent interview at United's headquarters outside Chicago, Hartigan discussed the effect that airline alliances, United's cargo expansion and Cargo 2000 will have on air freight shippers. His observations address many of the issues facing air freight companies today, as they seek to reinvent themselves in the eyes of tomorrow's shippers.

'Co-opetition.' Born in Brooklyn, N.Y., Hartigan lived on Long Island before moving to California. "There is just something about New York — growing up there just invigorates your competitiveness," he said.

Airlines and forwarders will need a healthy dose of that New York attitude in coming years as their old nemesis, the integrated carriers — and new ones, such as Deutsche Post — seek to capture more of the freight business of multinational shippers.

But airlines and forwarders must also balance competitive fire with an equal dose of cool-headed cooperation, Hartigan said. They will need to put their historically contentious relations behind them and pool resources to battle common foes. The concept of 'co-opetition,' as consultants have coined it, is a cornerstone in Hartigan's plan to expand United Cargo and is also a major driver behind Cargo 2000.

"I really view this as a partnership business," Hartigan said. "United wants to be in partnership with a number of forwarders. What can United do best? We can work on our own core network. We can expand that network through alliances. And, we can highlight our information technology.

"If the forwarders can do that on the customer side, together we can add value to the entire industry."

Similar thinking by executives at SAir Group, the parent company of Swissair, and Swiss forwarder Panalpina led to the formation of the first joint venture between

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SwissGlobalCargo will manage Panalpina's capacity arrangements with carriers, freeing up the forwarder to focus on selling tailor-made, time-definite freight services to major shipping companies.

Bruno Sidler, Panalpina's chief executive officer, said that greater space reliability provided by the new company will enable Panalpina to go after the 'small package' business of integrated carriers. The forwarder also plans to make several acquisitions in support of its express delivery services.

The Panalpina-SAir deal marks a significant turning point in airline-forwarder relations, and is a harbinger of developments to come, air freight executives say.

"The way that airlines interface with the forwarder community is going to start to change dramatically," Hartigan said. "I think Internet and 'extranet' applications will prevail. I think forwarders will have the ability to access space electronically and to track shipments in ways that are much better than today. At the same time, the Cargo 2000 time-definite model will move off the drawing board."

First Step. Hartigan and Cargo 2000 would like nothing more than to look back, five years from now, and say, "We led the way in changing how forwarders and airlines do business."

The group unanimously approved, in March, a standard operational framework for providing time-definite air freight services worldwide. It intends to establish a common communications platform that forwarders and airlines can use to share shipment information electronically, and has developed standards of service that members are required to provide to shippers and each other.

Hartigan said that Cargo 2000's executive committee should be ready in September to present members with a blueprint for implementing its service plan.

He also said the group will assess presentations this summer from the three finalists competing to build what Cargo 2000 calls its "common data management platform." Airline automation company Sabre Group, U.K. cargo communications specialist Syntegra and U.S. technology giant Unisys are the finalists. Cargo 2000 will sign a contract by September, Hartigan said.

"We are looking for enabling technology that will allow smart tracking as the first step. We have told the finalists to view this as a long-term relationship. Beyond tracking, this could be a platform for any number of things," he said.

Cargo 2000's plan has drawn criticism from some airlines and technology experts,

"There's a solid recognition that cargo customers need an alliance built around them and we are in the process of doing just that."

James J. Hartigan Jr.
vice president of cargo, United Airlines

who say that the group has excluded shippers and settled on adopting outdated technology.

KLM Royal Dutch Airlines has been a vocal critic. KLM is working to develop its own technology platform, and, along with forwarder MSAS Cargo International and shipper IBM-Europe, recently adopted a set of service standards established by the European Air Shippers Council.

Hartigan defended Cargo 2000, saying that the group has worked with shippers' needs in mind. "Cargo 2000 has gone through several distinct phases, the first of which was the research of shipper requirements and the development of a vision based on those requirements," he said.

Indeed, industry officials say inspiring 20 airlines and 17 forwarders to agree about anything is a major achievement. "Getting just two forwarders into the same room is hard enough," one forwarding executive said.

Definitely Time. It's clear to most industry executives that forwarders and airlines must find a way to work together more effectively. How they do it is less important. The alternative is losing contact with the ultimate customer — the shipper — and, in the process, losing control over shipment profit margins to third-party logistics providers.

The "commoditization" of air freight service has troubled the airlines for years. Cargo carriers have watched yields, in real dollar terms, fall with few interruptions for three decades, and the downward trend shows no signs of abating. As it has become more difficult to differentiate the services offered by airlines, price has become the sole measure of competition, and forwarders have been keen to profit from lower line-haul rates.

However, now threatened by bigger, richer and more technologically proficient competitors, forwarders risk falling into the same commoditization trap. Multinational transportation giants, such as Deutsche Post, FDX Corp., TNT Post Group and United Parcel Service, are putting pressure on forwarders to differentiate the services they provide for shippers.

At a media briefing held at Chicago's Drake Hotel last fall, Hartigan and his team of cargo directors spoke of "perceived reliability" and the effect that concept has on the rates which carriers charge for transportation. One official offered a comparison of flower delivery services that United and Federal Express offered from New York to the West Coast, noting FedEx charged twice what United charged for the airport-to-airport movement.

"It is all reputation in my mind," Hartigan said. "As your reliability improves, you start to carry more and more of what we call 'A freight' — the highly time-sensitive product. You start doing business with your core customers and after two years of offering reliable service, they start to give you their better traffic. That has been our strategy and it has worked well for us."

Differentiation and perceived reliability form the heart of current airline strategies designed to boost cargo's bottom line. The trend toward time-definite services was sparked partly by shipper demand and partly because airlines, such as Lufthansa, Singapore Airlines, SAS, United, and most recently KLM, Alitalia and Northwest Airlines, are searching for ways to rationalize their services and to create accountable value.

Cargo 2000 hopes its time-definite plan will do the same for its members. Analysts, however, still wonder about the time-definite strategy. They say Lufthansa's "td." service line has not met revenue projections. Major questions remain about the willingness of forwarders and shipper to pay higher air freight premiums.

United introduced its time-definite service line, TD.Guaranteed, in January. Hartigan planned to have every international destination in United's network on-

Cargo 2000 members

Airlines

Aer Lingus, Air Canada, Air France, Alitalia, American Airlines, Austrian Airlines, British Airways, Cargolux Airlines, Cathay Pacific, China Airlines, Delta Air Lines, Japan Airlines, Korean Air, Lufthansa Cargo, Northwest Airlines, SAS, South Africa Airways, Singapore Airlines, Swisscargo, United Airlines,

Forwarders

Air Express International, BALtrans, BAX Global, Danzas, Emery Worldwide, GeoLogistics, Kintetsu Worldwide Express, Kuehne & Nagel, Lemuir Air Express, MSAS Cargo International, Nippon Express, Panalpina, SCAC, Schenker International, Thyssen Haniel Logistics, Wilson Group, and Yusen Air & Sea Service.

line with TDG by the end of June.

"Our revenue is above plan at this point, and our yields have been above plan too," he said. But are forwarders willing to pay airlines the express premium?

"That gets back to being realistic," Hartigan said. "All freight moves in some form of a time-definite mode. The freight that we are going after with TDG is really freight that, as FedEx says, 'absolutely, positively has to get there.' That's what we are going after.

"We expect that 25 percent of our business is going to move under TDG. We are also recognizing that in some markets where there is a lot of capacity, people are not going to buy it. Having said that, there are a number of markets where, because of the length of haul and the level of demand, there is a real interest."

Time-definite demand is strong on routes from Los Angles and San Francisco to New Zealand and Australia; from San Francisco and Los Angeles to Hong Kong; and from Japan to Singapore, Bangkok and Hong Kong, Hartigan said.

He gives credit to United's cargo employees for the TDG plan. "We brought in the ramp servicemen, the inventory people, and the air freight agents, and outlined our product requirements. The result was that the people who actually see that freight gets from the truck to the airplane and back to the truck, wrote all of the business processes."

That approach isn't uncommon at United, the world's largest company with a majority stake owned by its employees.

In July 1994, United's board approved a recapitalization plan that included selling 55 percent of the airline to its employees in return for wage cuts.

With the change in ownership came new management, led by Gerald Greenwald, chairman and chief executive officer of UAL Corp., and a former executive with Ford and Chrysler.

"Gerry in particular, coming from the automobile business, was very used to having many profitable divisions within one company," Hartigan said. "When he looked at United Airlines, he saw there were three areas that we could make into profit centers of their own. One was the service division, another was the information services area, and cargo."

In January 1995, "Gerry asked me to turn cargo into a business within a business," said Hartigan, who had been running United's western U.S. airport operations.

"My approach to business has always been to concentrate on the basics," Hartigan said. "The first thing we set about doing was coming up with a strategic plan for cargo, with the help of Cambridge Consultants. That study became the cornerstone of United Airlines Cargo."

Hartigan has assembled a team of directors to oversee execution of each plank of the plan: John Morgan, director of cargo planning; Peter Kreiser, director of marketing, and Michael Zolnierowicz, director of worldwide sales.

In 1997, United became the second U.S. passenger airline, along with Northwest Airlines, to fly freighters. United converted four DC-10-30s into all-cargo planes and is flying them on transpacific routes. Carl Norris heads up the all-cargo operation as director of freight planning and operations.

The carrier recently introduced a website that allows forwarders and shippers to check available space on any United flight and to book shipments electronically, beating out Emirates airlines by less than week for the right to claim it was the first airline to offer such a service.

United's cargo division, with nearly 200 employees, will move into its own headquarters in August, a few minutes drive from United's corporate campus.

"The relationship that we have struck with the airline is that I basically own the business process from the integration of the strategic plan, the selling of the freight and mail, the booking, the servicing at the airports and delivery to the airplane," Hartigan said.

"It is almost like a contractual relationship. By doing it that way , you are really not going to the passenger airline and saying, 'We not only want you to think about all these things on the passenger side, we also want you to think about all of this other stuff known as cargo and mail.' That isn't practical."

Cargo managers have traditionally been overshadowed by the passenger side of the business, particularly in the United States. But passenger carriers have begun to look at models like United's and are giving their cargo directors more control over freight operations.

Busy Summer. Although Hartigan wouldn't comment directly about rumors that the Star Alliance will develop a separate cargo alliance this summer, or that United will convert some of its 747s into freighters and purchase B747-400 combis for China routes, he confirmed that an alliance is definitely being studied by Star members and that United Cargo is currently drawing up a fleet plan for presentation to United's board this fall.

"We are looking at everything in a 10-year horizon on what cargo requirements will be," he said.

What does that mean for shippers who want lower costs? "Today," he said, "there is a fair amount of extra costs because there isn't an effective system in place for moving freight between airlines in a timely fashion.

"So, if a group of airlines can come together and put together a network where freight moves effectively, that takes cost and time out of the system.

"I also think there has to be an IT structure behind all of this, so that forwarders and shippers can gain access to space. That is where Cargo 2000 comes in," he said. ■

Alliances

- **Star Alliance:** Air Canada, Air New Zealand, All Nippon Airways, Ansett Australia, Lufthansa German Airlines, Scandinavian Airline Systems, Thai Airways, United Airlines, Varig Brazilian Airlines.
- **oneworld:** American Airlines, British Airways, Canadian Airlines, Cathay Pacific, Finnair, Iberia, LanChile, Qantas.
- **Qualiflyer:** Air Europe SPA, Air Littoral, ALM French Airlines, Austrian Airlines, Crossair, Lauda Air, Swissair, TAP Air Portugal, THY Turkish Airlines, Tyrolean Airlines.
- **Excellence:** Austrian Airlines, Delta Air Lines, Singapore Airlines, Swissair.
- **(Name to be announced):** Alitalia, KLM Royal Dutch Airlines, Northwest Airlines, (Continental Airlines).

Shippers' Case Law

Abstracts by Robert Mottley

Court defines basic cargo delivery terms

In 1996, Komori America Corp. bought an offset printing press from its parent company in Japan and shipped it to New York in five crates. The crates were put into a container in Japan for ocean carriage by Mitsui Line. Howland Hook Container Terminal Inc., on Staten Island, contracted with Mitsui to unload the container upon its arrival. Mitsui charged Komori a fee for ocean carriage, a separate fee for destination delivery, and a separate container freight station (CFS) receiving charge. U.S. Customs notified Komori through its customs agent, American World Cargo (AWC), that the cargo had arrived and had cleared customs.

An employee of AWC telephoned Howland Hook and asked for the crates to be loaded onto a truck that Komori would send to the terminal. Howland Hook said the service would cost $326.73. AWC faxed the container terminal a copy of a check for that amount, so that loading would not be delayed. According to the Customs agent, Howland Hook did not cite any limitation of liability. During the loading, Howland Hook's forklift operator dropped one of the crates, which fell about four feet to the ground. Komori alleged that part of the press in that crate was damaged. The shipper's insurance company, Nippon Fire & Marine, paid $226,735 for the loss.

In a lawsuit filed in federal court in New York, Komori argued that Holland Hook could not limit its liability to $500 per package, as stated in the bill of lading, because the container terminal was not working for Mitsui at the time the crate was dropped.

Komori and Howland Hook "disagree over whether the bill of lading stops applying before or after Howland Hook loaded the cargo onto the truck, and whether Howland Hook was acting as a servant, agent, or subcontractor of Mitsui when it dropped the crate," said U.S. District Judge John S. Martin.

Whether Howland Hook is entitled to the $500-per-package liability limitation contained in Mitsui's B/L "raises two related issues," Martin said.

"The first is whether the bill of lading governs the loading of crates onto the truck at all." The crucial point was when "delivery" occurred, because the bill of lading stated that Mitsui's obligations continued until "delivery."

"The second question is whether Howland Hook may seek protection of the $500 limit in the bill of lading," he said.

"If it is clear that Howland Hook was acting solely under a contract with Komori when it loaded the truck, then it follows that Mitsui's obligations must already have ended."

Martin said, "Most significantly, Komori entered into a separate contract with Howland Hook to load the cargo on its truck.

"Howland Hook had a contract with Mitsui to unload containers from its ship and strip the cargo from those containers. Komori had to pay extra for that, but it paid the money to Mitsui, one fee for 'delivery' and a separate fee for 'CFS.' That stands in marked contrast to its payment of money directly to Howland Hook for the loading of the truck."

Why, the court wondered, "would Komori pay Howland Hook a separate loading charge if Mitsui had already been obligated under the bill of lading to load the truck?"

Martin went on to define some basic terms, as the court saw them. "CFS" next to the destination means that the carrier will strip the cargo and charge extra for it, typically by contracting with a stevedoring terminal to actually perform that service. The designation "pier to pier" also means that the carrier stuffs and strips the shipper's cargo into and from containers. The term "house-to-house means that the shipper loads its cargo into containers, the carrier picks up the entire container and ships it to the consignee, who in turn strips the cargo from the it.

"CFS" and "pier-to-pier" differ from "house-to-house" in one respect, the court noted. "The terms assign to different parties the task of stuffing cargo into and out of containers." However, "the terms do not make the further distinction that "CFS" means the carrier has undertaken the additional task of loading the stripped cargo onto the consignee's trucks."

When Howland Hook charged an additional $326.73 for loading Komori's truck, a line was crossed and the loading went beyond "what CFS encompassed in the bill of lading," Martin ruled.

Martin, in finding for the shipper in September, was careful to say that his ruling meant only that the $500 liability limitation in the bill of lading had "no application in this case" to Howland Hook. "The issue of whether there was a break of contract, breach of bailment duties, and of the measure of damages, remains to be decided."

In mid-June, it was learned that this case had recently been settled. An attorney for the shipper would say only that the container terminal paid "more than $500."

[Komori American Corp., et al., v. Howland Hook Container Terminal Inc., U.S. District Court, Southern District of New York, 97-Civ. 7243]

Inconvenience isn't enough

Shipper K.K.D. Imports Inc., sued Karl Heinz Dietrich GmbH & Co., a German freight forwarder, in a New York federal court on grounds that Dietrich negligently misdirected freight shipments. KKD asked for damages of more than $2 million. The freight forwarder sought to have the case dismissed because forum selection clauses in the parties' contracts allegedly barred New York as an appropriate legal forum.

U.S. District Judge Lewis Kaplan observed that Dietrich had issued 66 invoices to KKD from 1995 to 1997. Each invoice bore the statement, "All business is undertaken subject to the standard trading conditions of the German Institute of Shipping & Forwarding Agents (ADSP)." Those conditions stipulated that all parties concerned "insofar as they are 'full traders' " would settle claims in a German court. The shipper, KKD, argued that it would be inconvenient to go to Germany for litigation.

The court agreed, while noting pointedly that the shipper had "exaggerated the difficulties (of such litigation) quite substantially." However, the mere fact of "inconvenience" was insufficient, in Kaplan's view, to avoid a forum selection clause.

"These parties, by their established course of dealings and their actions with respect to the disputed shipments, evidenced their intention to be bound by the terms of Dietrich's invoices." Accordingly, Kaplan ruled in favor of the freight forwarder.

[K.K.D. Imports Inc., v. Karl Heinz Dietrich GmbH & Co. International Spedition; U.S. District Court; No. 98 Civ. 7588 (LAK).; Date of decision: Feb. 23.]

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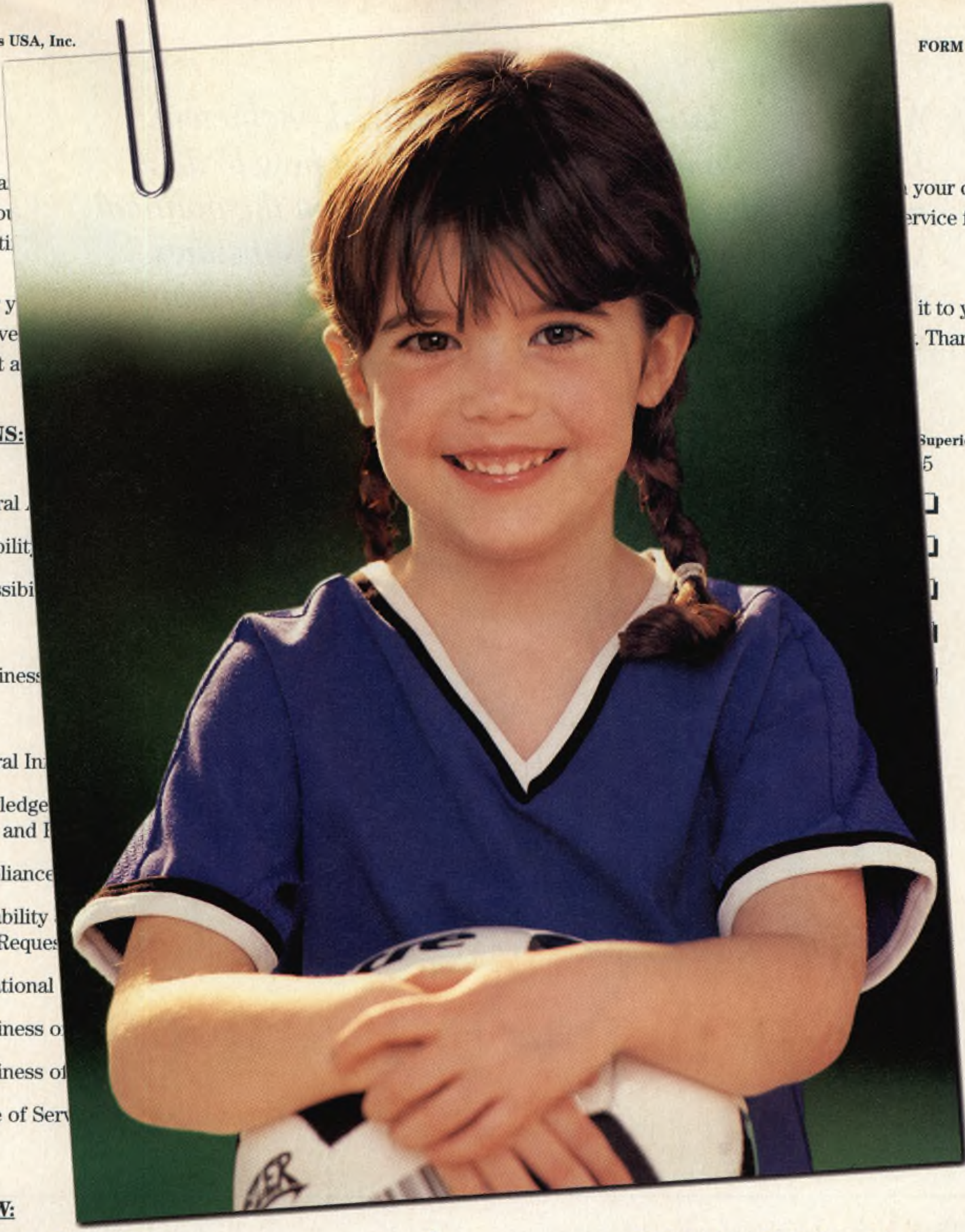

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INTERVIEW:

NAME Tammy Armstrong AGE 6 TITLE Daddy's Little Girl

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REASON: Soccer practice and other things she gets to do with her dad. Tammy's father is responsible for making sure parts from all around the world get to his factory on time. Recently his company switched to Nippon Express and things started running smoother. Now a complete inventory snapshot is available with the click of a mouse. Access to an advanced global network has virtually eliminated day to day problems in supply chain management. To a 6 year old it all makes perfect sense. The less time daddy spends at the office, the more time he spends with her.

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***1974:** An over-regulated, heavily subsidized, inefficient U.S. maritime industry was uncertain how to deal with containerization. It depended upon the political strength of labor unions to maintain its subsidies. The industry was threatened by predatory pricing tactics of Russia's rapidly expanding merchant fleet.*

25th anniversary

Very few people expected the upstart magazine *American Shipper* to survive one year, much less 25. It was begun and remains based in Jacksonville, Florida, which a British journal described as an "unlikely place for a major shipping publication."

There was no start-up capital. The first issue was nothing more than a renamed and dressed up issue of the small regional magazine *Florida Journal of Commerce*. The staff of four consisted of myself, my son Hayes, secretary Ann Burt, and the part-time help of Harry Hart, who had retired to Jacksonville after serving as public relations director for the U.S. Maritime Academy at Kings Point.

The magazine was poor in capital, but rich in terms of the encouragement from shipper and carrier executives I had gotten to know during my years as a maritime writer and editor in Florida.

The idea of a national magazine as a medium of communication between shippers and carriers came from Ken Johns while we were having sandwiches aboard the *Sea-Land Jacksonville* in 1972. Ken had been a salesman for Malcom McLean in the days when McLean's newfangled containerships only served New York, Jacksonville, Houston and San Juan. He was a vice president of Sea-Land in 1972 and concerned at the lack of trust between shippers and carriers due, he believed, to the fact neither understood the problems of the other. He urged me to turn *Florida Journal of Commerce* into a national magazine and introduced me to Bill Neuhauser, who provided invaluable help as I developed the idea. Neither of us saw it as a viable business venture.

I decided on my own to give it a try by gradually expanding the editorial, advertising and circulation scope of the Florida

1999: A global network of huge ships and very efficient, low-cost transportation services is provided by competitors sharing vessels, terminals and equipment, regulated by agencies in the U.S. and abroad still uncertain how to foster proven benefits of rationalization but avoid the inherent threat of cartelization.

American Shipper over 25 years

A retrospective look at changing events as recorded in 300 issues of this magazine.

By Robert Mottley

magazine.

While the name *American Shipper* dates from May 1974, it was April 1976 before I could enlarge the staff, hiring David Ress, a recent graduate of McGill University, as Associate Editor in Washington. Two months later, William T. Sullivan joined the staff in New York as advertising manager. Sullivan persuaded me to write an editorial for each issue and to place it on the last page of the magazine to make the inside back cover more attractive to advertisers.

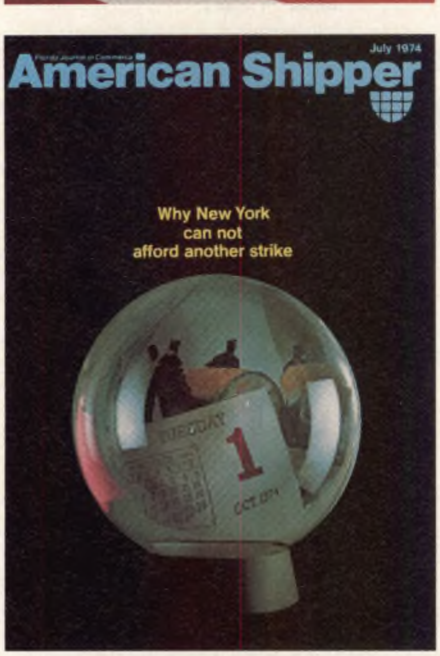
My first editorial ran December 1976.

In March 1977, *American Shipper* sponsored its first (and only) international forum in New York, focusing on the need for regulatory reform, a subject still not resolved to satisfaction of all shippers or carriers. Paul Richardson, who had stepped down as president of Sea-Land, moderated the forum and brought together as speakers and attendees what I believe to be the most powerful and inclusive group of maritime carrier, shipper, labor and government officials assembled in the United States.

Richardson's effort gave *American Shipper* cachet among those diverse interests, making my work much easier.

The next editor of this magazine will not have it so easy. He must maintain balanced coverage; seek common ground between international shipper, forwarder, NVO, carrier and labor interests here and abroad; have considerable depth of knowledge plus self-confidence to express opinion with wisdom and restraint; and adapt to the new requirements of electronic media.

David A. Howard




WILTON B. JACKSON

DuPont's Export Traffic Man Explains How He Deals With Carriers and Warns Against the Lure of Ocean Rate Wars

1974

MAY

"This magazine seeks to cultivate the loyal readership of the American shipper. It is devoted to what we consider **his** best long-term interest.

"We confess to a passionate love of ships and the sea, yet (we) remind ourselves the reader is more concerned with service and its cost to him than exotic concepts of maritime equipment and systems. The shipper becomes concerned only when these exotic vessels and systems have a direct bearing on his position in the marketplace.

"We hope the name ... evokes patriotic fervor — though not the kind that leads to total isolation. We believe in free trade and the right of all nations to share in trade and to look out for their best national and private interests ...

"The word America denotes to us a feeling of fairplay as well as pride. If it does to you also, then *American Shipper* is indeed as great a title as *Fairplay* (still flourishing British maritime journal founded in 1883), and we trust it will earn your respect and continue publication just as long."

"Battle for trade: Who can resist a bargain?"

The lead article described how the Soviet-flag Far Eastern Shipping Co. (FESCO) was undercutting U.S. carriers in the Pacific. For electronic equipment eastbound from the Far East to the U.S., FESCO had set a rate of 12 percent under the established steamship conference rate. When U.S. carriers, reacting to FESCO, dropped their rates to a point 3.4 percent over FESCO's, the Soviet-flag carrier within six days lowered its rate again to a point 15 percent under the already reduced conference rate.

In the Pacific trade, Sea-Land and NYK Line had published a rate of $45 for television sets. FESCO's was $38. In the Atlantic, Sea-Land and Hapag-Lloyd had a rate of $75 for tobacco. The Soviet-bloc Polish Ocean Line was $56.

The cover depicted two gunboats firing at each other, one made from an American dollar bill, and the other from a Soviet 5-ruple note.

JUNE

"Minibridge operating in the red?"

"Lykes Lines Vice President Eugene F. McCormick thinks minibridge operators may be doing themselves in with a short-term outlook. Present 'compensatory' rates, he says, don't cover the long-term costs of operation."

DECEMBER

"Shippers will get a better hearing" *(editorial)*

The Department of Justice had frustrated attempts to set up shippers' councils within the United States — basing its objections on antitrust law.

The magazine's first editorial endorsed a proposal by Paul F. Richardson, then chairman of the National Maritime Council, for shipping conferences to set up open forums "in which the views of the shipping public can be heard."

Such forums "will provide shippers with a mechanism for stating their common needs, and a method for carriers to give shippers an insight into the problem of running ships in the liner trades."

1977

FEBRUARY

"Let's get rid of subsidies" *(editorial)*

The prevalence of subsidies around the world distorts trade.

"All we have to do is limit the number of ships which can share our business. Issue passports and visas, if you want to call it that. We do it for people. Why not ships?"

"We have in our hands ... a simple little device like the handle on a faucet. And there will be plenty of business for everyone, without subsidy."

A Conferential Ditty

It is a habit nowadays
in shipping circles here
To go upon a pleasant jaunt
in the springtime of the year.
The wanderlust possesses man
and seeking some pretense,
"By Jove," they say, "Happy thought;
"let's hold a conference."

Like charity, a conference,
it covers many sin,
And is a most superb excuse
for Paris or Berlin,
For Brussels or for Budapest,
or such convenient base;
It's strange how long these meetings last
when in a pleasant place.

The members of a conference
who go on such a trip,
They travel by the train deluxe
in suites upon the ship;
Partake of hearty dejeuners
and dinners in the car,
With coffee, cognac '59
and half a crown cigar.

The members of a conference,
they do themselves right well.
I'd like to use their little bills
incurred at their hotels.
With mutton rochelle for their lunch,
and heitsik when they dine,
It's good to be a delegate
for some big steamship line.

The members of a conference,
they work both day and night.
That is what they say, for weary
hours they sit and talk and fight.
But after all I rather think
they have some time to spare,
To see the sites and paint the town
vermillion here and there.

The members of a conference,
they have a lot of fun,
And back they come to English shores
when all the work is done,
With livers that are terrible,
with gool that is intense,
Yet keen to hold, when duty calls,
another conference.

Karl-Heinz Sager

MARCH

American Shipper sponsored its first (and, thus far, only) international forum on March 7-8, 1977, at the New York Hilton Hotel. The forum, moderated by Paul F. Richardson, was called "a discussion of national maritime policy in relation to our future as an island nation."

Reading a transcript of all the remarks, from the perspective of 1999, one is struck by NYK Lines Chairman Y. Ariyoshi's blunt discussion of American-Japanese cooperation.

"I wish to remind you of the miserable days ... in 1953," Ariyoshi said, "because of the rate war caused by a strong outsider."

In words that are still relevant today, "this chaotic condition benefited no one," he explained. "It was considered at first that ... exporters and importers would enjoy low rates on their goods carried by sea. On the contrary, they could not do a proper business because of uncertainty as to what rates their competitors were getting, and general confusion made it practically impossible for anyone to offer any reasonable cost price quotation."

For some in the industry, that could also be said of today's post-ocean shipping reform environment.

Also relevant — given the likely demise of conferences after the reforms that became effective May 1, 1999, are comments by Karl-Heinz Sager, then deputy chairman of Hapag-Lloyd. According to Sager, the Justice Department's antitrust push left both shippers and carriers facing "a grotesque situation."

> ***"The conference system in the American trades is sick."***
>
> **Karl-Heinz Sager**

Although no one disputed that "the conference system in the American trades is sick," what the Justice Department sought "simply prescribes poison."

Sager noted that "$200 million could have been saved in a single year if (shipping) lines had been able and willing to approach the container age jointly. I assume shippers and consignees would have been quite satisfied if they could have saved two-thirds or even half of this amount in the form of 15 to 20 percent lower rates."

Sager made several recommendations as to the antitrust leeway that should be accorded carriers participating in conferences. The gist of what he suggested duly became part of the Shipping Act of 1984.

The New York forum established *American Shipper* as a part of the industry.

MAY

"What this country doesn't need is a 5-cent forwarder"

"FMC says no; those (forwarders) who are charging General Service Administration cut-rate prices must put the rates back up to commercial price levels."

SEPTEMBER

"Everyone frowns on consortia, but they work." *(editorial)*

"Antitrust considers consortia un-American, and American lines look upon them with envy. But they create stability in rates and service."

1978

MARCH

Shipper councils and antitrust law *(editorial)*

Language used by Justice Byron White in a Supreme Court decision in a Pacific Coast longshore case, determined by a vote of 5-3, pointed to unique features of the shipping industry.

"As a substantive matter, Congress anticipated that various competitive restraints, forbidden by the antitrust laws in other contexts, would be acceptable in the shipping industry."

Seatrain Shifts Land & Mini-Bridge Operation to Charleston and Uses Run-Through Unit Trains to Pacific

"Has the Supreme Court cleared the way for the Federal Maritime Commission to take its own initiative on the issue of shipper councils?

"The way we read it, the Court has done just that."

MAY

McLean buys U.S. Lines; gives up subsidy

"The founder of Sea-Land has completed his purchase of United States Lines. His first move was to cut the ties of government aid, except for one tie which lingers on (the Title XI mortgage guarantee). His second move will undoubtedly be a competitive one against the men he trained."

JULY

***Antitrust Division softens its position** (editorial)*

"The Antitrust Division of the Justice Department has begun to soften its public statements regarding the shipping industry.

"We cannot forget the appearance of young Antitrust staffer Bruce Fein as a speaker (at the magazine's 1977 international forum). The agenda was dominated by major carrier and shipper spokesmen, and we thought it essential to have an antitrust spokesman on hand. We had hoped to get a leading policymaker. Instead, we got Fein, who knew very little, if anything, about the practical world of shipping but was well grounded in classical theory dealing with free markets and the advantage of wide-open competition. Needless to say, young Fein got a rough working over from the carrier people attending.

"What surprised him was that he got an even rougher working over from the shippers.

"Fein handled himself remarkably well and gained the respect of everyone attending. Others in the Antitrust Division seem to be learning also."

SEPTEMBER

Tony Beargie joins editorial staff

When Davis Ress left *American Shipper* to be a financial writer for *The Baltimore Sun*, an editorial welcomed C. Anthony (Tony) Beargie as Ress's replacement in Washington. Beargie continues to work for the magazine today.

1979

JANUARY

FMC judge says space charters help shippers.

It's legal to pass savings on to shippers. It should be a very obvious thing, but an administrative law judge within the Federal Maritime Commission considered the issue sufficiently unclear that he focused attention on it in a ruling about Japan's space charter groups.

Judge Norman D. Kline urged the FMC to approve a cargo revenue pooling agreement among six Japanese carriers.

The judge also nudged the FMC to own up to the "M" in its name: "The commission has responsibilities different from those of the Department of Justice or the Federal Trade Commission."

MARCH

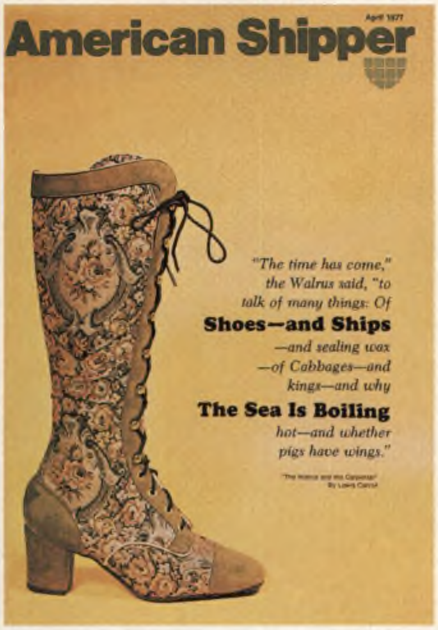
"Paperless" paperwork

A feature about the Cargo Data Interchange System predicted that computer-created "documents such as the ones illustrated here will become the paperwork of future shipping."

JUNE

Straw poll

63 percent of shippers "opposed mandatory conference membership."



1980

MARCH

Ports no longer assured of hinterland business

Growth of containerization has stripped many ports of what they believed was protected, tributary hinterland. Philadelphia was one of the first to learn a cargo-rich hinterland does not assure success."

"The Delaware Valley is an American Ruhr, and Philadelphia is its center. But the port has watched much of its general cargo business go to neighboring ports."

JUNE

"Money: The ultimate flag"

"The coup in Liberia has made shipping people take another look at what London banker Paul Slater had to say in Monrovia last winter. When the chips are down, ships are actually controlled by the financial interests with money at stake. Slater thinks the world will be better off if everyone recognizes this fact."

"Which way did the chicken go?" *(editorial)*

EEC regulates the direction a chicken is moving when it is frozen, the editorial noted.

"American producers use a two-step chilling process in which the spin chillers move the poultry in the same direction the water flows. Many EEC producers, however, use a one-step process in which the chicken and the water move in opposite directions."

NOVEMBER

"RJR removes for sale sign at Sea-Land"

"For a while, the tobacco company considered getting rid of the robust shipping company which was consuming almost as much in physical assets as the highly profitable tobacco end of the business. Things are looking up, however, and Sea-Land may soon meet RJR profit standards."

1981

FEBRUARY

"Is bribery rampant in maritime field?"

"Defendant in Bethlehem Shipyard case stood before a federal judge and described a system of bribery, rebates, and payoffs which he said were common practices in the shipping industry."

U.S. District Judge Vincent Broderick let the defendant, Thomas A. LaMonica, off easy. The court fined LaMonica $700,000, but allowed him to pay $200 a month (at that rate, it would have taken 300 years to pay the judgment). LaMonica had pleaded guilty to helping defraud Victory Carriers, a New York tanker firm, of $50,000. For its part, Bethlehem Shipyard called the charges "scandalous," "scurrilous," and "utterly baseless."

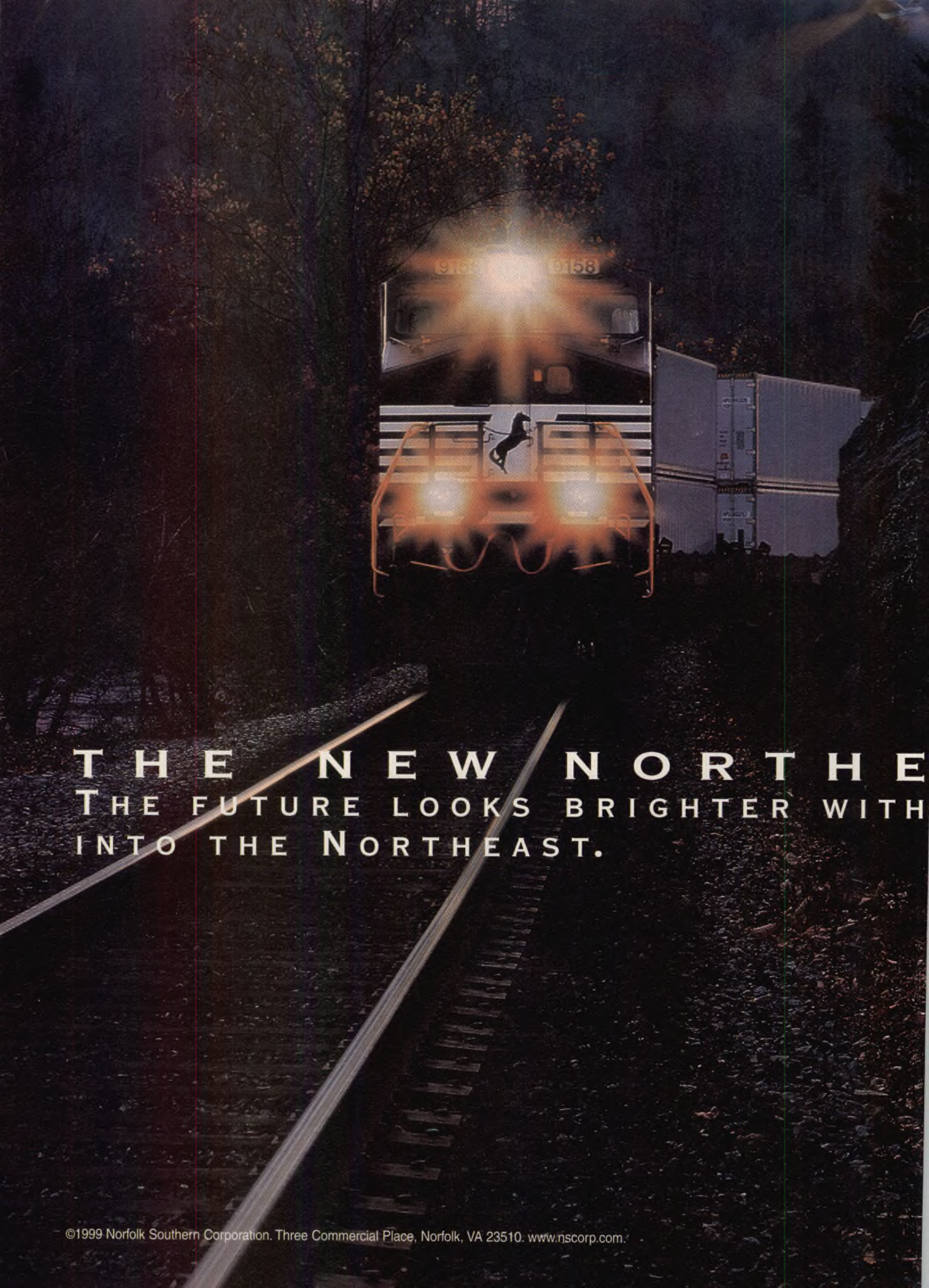
JUNE

Federal throne *(editorial)*

"The conference lines used various schemes (from 1976 to 1980) to fill their ships and protect their heavy investments in containerization. Many sought the protection of conferences, while others turned to the government. Others tried suicidal rate cutting in efforts to purchase market share.

"Shippers spoke fervently in public about the need for stability and frequent, reliable service. In their offices, however, they worked hard to maintain a high degree of competition, and succumbed to the wiles of the suicidal rate-cutters, however temporary the benefits might be."

"Government sat on its throne, complicating life for both the shippers and carriers, accomplishing very little in a constructive way."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THE FUTURE LOOKS BRIGHTER WITH
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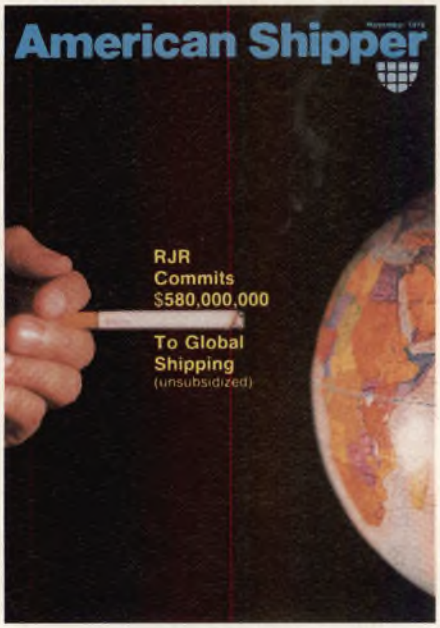

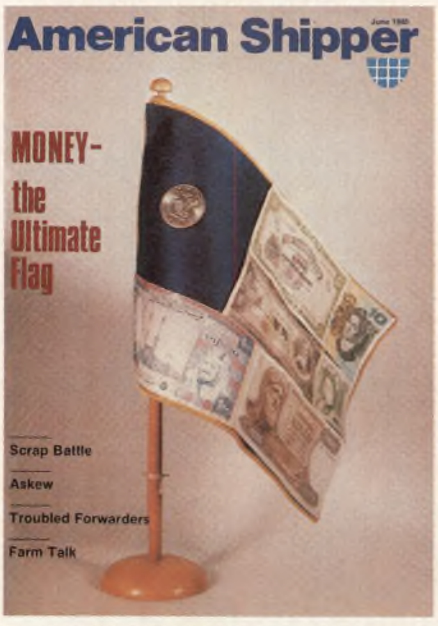

JULY

"The case of the bankrupt forwarder"

Corning Glass, B.F. Goodrich and others were forced to make good on freight payments when their forwarder died, leaving his company, Black and Geddes, in a bankrupt position.

Accountants and lawyers found a Pandora's box of problems — including an insurance policy of about $100,000 on the life of the forwarder, to which a former Corning official was the beneficiary.

Staff members at the FMC say that although the case is unique, they would like to see tighter restraints placed on forwarders' handling of funds.

Federal Maritime Commission members said it's a matter between shippers, forwarders, and carriers, and defend a recent decision to allow longer payover periods.

(Editorial) "The fact remains it would be a very good idea for all shippers to look their forwarders and NVOCCs straight in the eye and ask some very pointed questions about how their money is being handled.

"The forwarder and NVOCC who has nothing to hide will welcome the inquiry.

"To remove all doubts, simply pay your ocean carrier direct. The forwarder will get his brokerage, the carrier will get its money, and you will get peace of mind."

1982

APRIL

***Slow pace of reform** (editorial)*

"Deep down I wonder whether Congress will ever get around to enacting maritime reform legislation.

"European and Far East shipowners constantly comment on the fact that American owners must surround themselves with a large staff of attorneys and consult each before acting or making a decision. There is a time and a place for lawyers to be used, and the rest of the world seems to understand that better than we do."

JULY

Forwarder roulette

"Just what do you want your forwarder to be," asked an article on the nature and status of freight forwarders. Four answers were proffered to that sensitive question:

(1) Your agent.
(2) Freight broker.
(3) Entrepreneur.
(4) "Just don't bother me about details."

AUGUST

"Forwarder scam against the government"

"Officials of the Agency for International Development thought nothing about it when an NVOCC (called Cargo Export Corp.) showed up as a middle man in the paperwork on certain shipments to Bangladesh. After all, what is a novice supposed to know about such things? Later, AID discovered the NVOCC apparently being used to cover up inflated charges; indictments drawn."

1983

MARCH

"Cargo sharing unpopular at DOT"

Judith Connor, Transportation Department assistant secretary for policy and international affairs, "is taking a hard-line stance in opposition to cargo sharing, although she admits bilateral pacts are inevitable."


June
the 8 th
The French force
is here !
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The global French shipping company has expanded into the Pacific.
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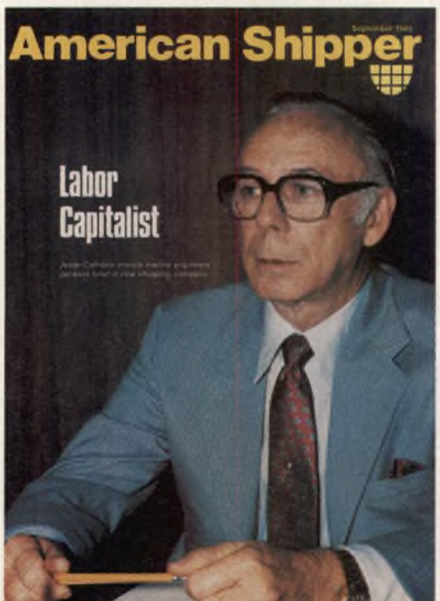

APRIL

***Moving away from protectionism** (editorial)*

J.C. Carras, a spokesman for Greek shipowners, was quoted as saying there were "clear signs" that major trading nations are moving away from protectionism. That "fits nicely with new American shipping policies. It will please most American shippers, who seem now to have gained some measure of recognition in Washington.

" 'Recognition' is a far cry from 'standing,' however. Unless shippers find some way to get their act together, overcome personal or corporate interests, and speak to Congress with a single voice, their newly won recognition will never achieve standing."

MAY

"How much are you entitled to know?"

"In return for their antitrust exemptions, conferences accept the fact they must share

A tale of three shippers *(editorial, May 1983)*

"If I were a small shipper:

"My principal duties involve domestic and warehouse operations, and I have little time to learn the details of international distribution. I'm flattered by the attention I get from well-traveled carrier salesmen, but turn everything over to a friendly freight forwarder and hope for the best. The only thing I do out of the ordinary is to insist on paying my forwarder a fee, rather than permit him to route my goods over whatever line happens to pay the highest brokerage. Any brokerage from carriers is credited to my firm. (If my plant were in Wyoming, with no forwarder nearby, I would turn for help to a reputable trucker with NVOCC operations.)"

"If I were a medium shipper:

"My duties are divided between domestic and foreign operations. My company's export business is growing, and we have a position in overseas markets. My duty is to protect that market by insuring a steady flow of our goods at the lowest cost consistent with reliable service.

"I require brokerage from carriers to be credited to my company, and pay my forwarder an appropriate scale of fees for his work.

"My forwarder lets me know when a carrier salesman offers a lower rate if we switch our business. (Carriers who already have our business never make such calls.) This helps to keep me informed, but I am more interested in which carrier, joint service, or consortium offers the most frequent, reliable service. So long as it is reasonable, rate is secondary to our success in overseas marketing."

"If I were a large shipper:

"I have a closely knit and very competent staff devoting our entire effort to the multifaceted, multinational shipping operations of a very large firm. As much as we love the good old U.S.A., we are flag blind when we go about our work.

"We use our forwarder — a large firm with offices around the world — only to handle our paperwork and keep track of what happens at each port. We pay him a fee, but all the traffic decisions are made by our own team. We probably have more intermodal experience than all but a few of the carrier people who call on us. We know what it costs to move goods, and we expect carriers to give us rates in line with those costs.

"Our company controls enough business to run our own ships — or set someone else up in business if we feel it necessary. Shipping is not our game, however, and we much prefer to do business with established carriers.

"Virtually all our shipments move on time/volume or contract rates. We look upon the carrier as a link in our supply and distribution system, and feel we must take the carrier into our confidence to make the system work. As Jesse Jessen likes to say, we are very statesmanlike."


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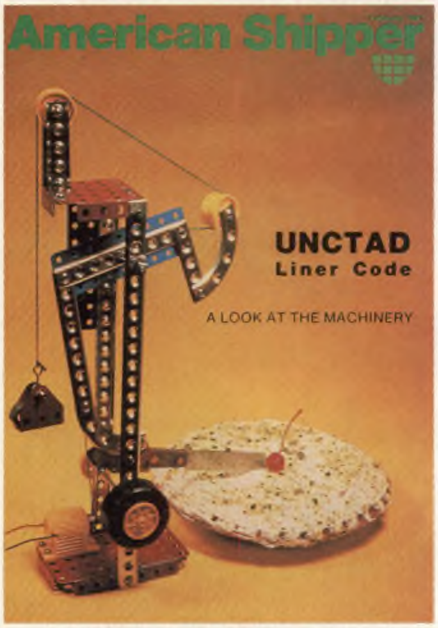
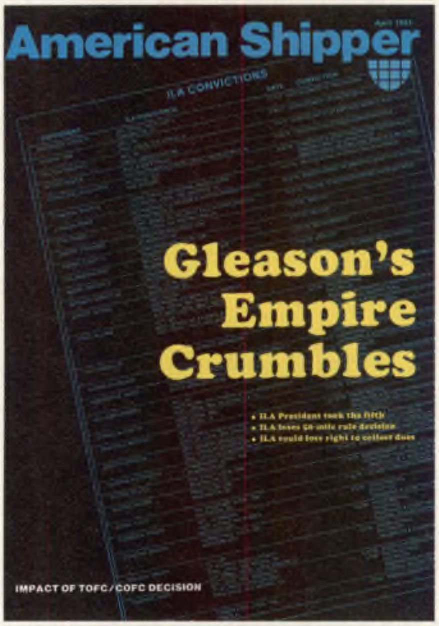
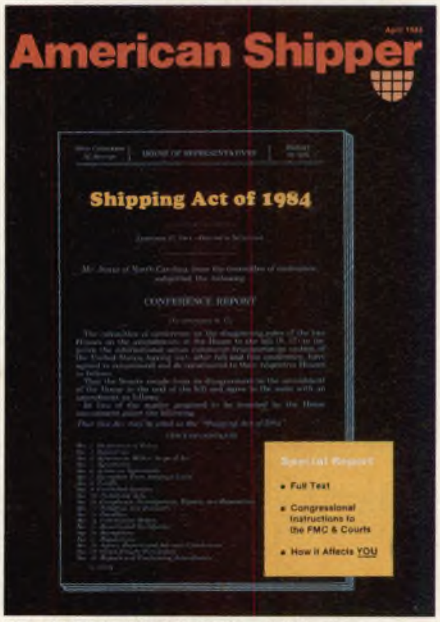






a certain amount of data with shipper customers, but most shippers want to know still more about carrier costs and earnings."

SEPTEMBER

"Reagan backs down on tariff filing issue"

"(Department of Transportation) Secretary Elizabeth Dole passed the word to House committees that the White House will accept continued filing of tariffs at FMC."

NOVEMBER

Gleason wins again. Shippers will pay *(editorial)*

ILA president Thomas W. "Teddy" Gleason "outmaneuvers management negotiators and walks off with still another layer of financial burden, ultimately to be borne by shippers."

DECEMBER

"Some like 40-40-20 UNCTAD Code; most don't"

"The proposed UNCTAD Code is supported by many European governments as a token of support to small nations with struggling merchant fleets. The Code would give 40 percent of the cargo in any trade to ships flying the flag of the shipper's country; 40 percent to ships flying the flag of the consignee country; with 20 percent available to ships flying other flags.

"At a London conference, commodity brokers expressed fear for the Code; one Britisher wondered if it all may be a 'damp squid.' "

1984

MARCH

Only two reasons for maritime subsidies *(editorial)*

"There are only two reasons for the federal government to be involved in the maritime industry:

Congress enacts Shipping Act of 1984

"To assure access to foreign markets and sources of supply at reasonable cost to American industry and agriculture.

"To meet a national defense requirement to maintain a shipbuilding and repair base to serve Navy and other military ships, and to provide the capacity — meaning cargo ships — to deliver troops and war material wherever they are needed.

"The dilemma arises from the fact that these two national objectives have been administered in such a way that they are diametrically opposed to each other."

MAY

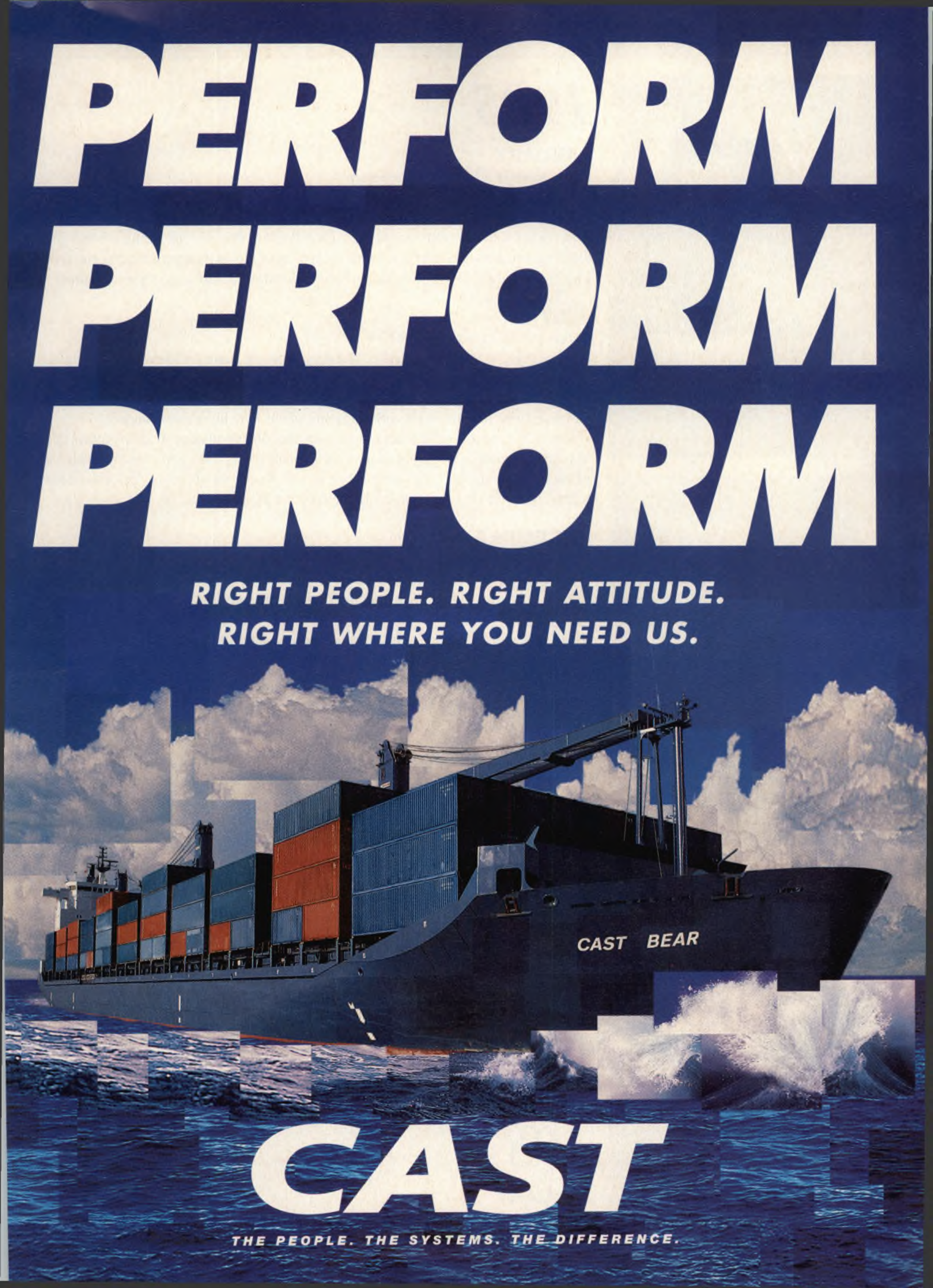
"Shippers must look to FMC for protection" *(editorial)*

"The Shipping Act of 1984 gave unusual authority to steamship lines and conferences to rationalize their services. As a balance to that power, the Federal Maritime Commission was installed as the principal watchdog to which shippers must look to for protection. If shippers think anything is going wrong, they must speak up promptly when new agreements are proposed."

NOVEMBER

Vexations in implementation of Shipping Act *(editorial)*

"Shippers are failing to negotiate service contracts and other long-term working agreements with carriers. Traffic managers are holding back, either out of a fear they are making a mistake, belief that someone will come along a few weeks later with a slightly better deal, or the secret pleasure which may come from day-to-day contention with carriers."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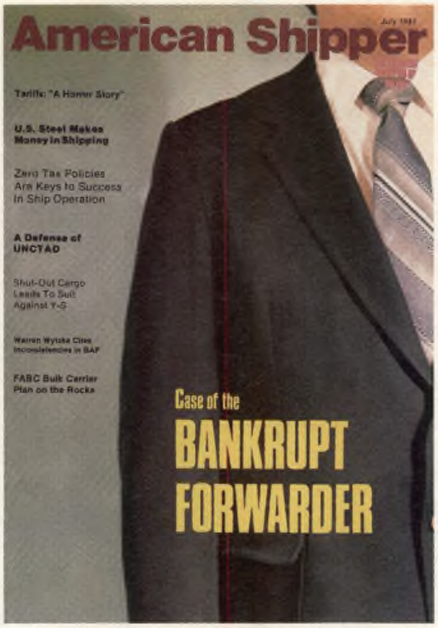
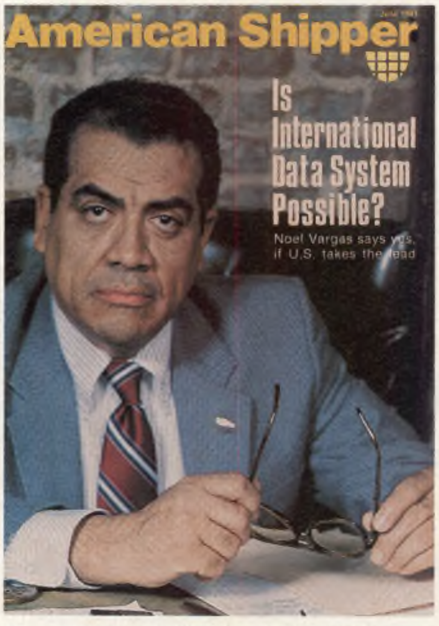


Intermodal Tariffs Shake Up North Atlantic Trade



1985

JANUARY

"How to write your service contracts"

"Indications are that the use of contracts may follow the same pattern as in the rail industry following passage of the Staggers Act — slow at first, then a stampede. One FMC official says that based on the first 303 filed, shippers are doing a better job drafting contracts than carriers. Some shippers want to deal on percentage contracts; FMC frowns on it. Don't forget to include an arbitration clause in a service contract."

JULY

Idiotic subsidies *(editorial)*

Adm. Harold Shear resigned as Maritime Administrator on May 30.

"Admiral Shear was under fire from many directions. If Shear had a weakness, it was failing to assume command when there was no alternative. He had the right objective, but never ventured beyond patchwork decisions which were his ultimate undoing."

One millstone that pulled Shear down was the subsidy system of "cash outlays that MarAd has been parceling out annually with many strings attached — the most stupid string of all being the long outdated system of basing subsidies on 'essential trade routes' which no longer conform to the realities of transportation."

DECEMBER

"Inside views on consortia"

"Prior to the advent of containerization, most (but not all) shipping companies were closely held corporations managed by fiercely independent businessmen with vast knowledge of world economics and the political and social systems which drive the world. The capital requirements of container and intermodal transportation changed that. Increasingly, shipping companies are rationalizing their investments through consortia in which each gives up a portion of its own corporate identity to create a stronger transportation system for better service and frequency of sailings."

(Editorial) The editorial stressed the importance of consortia, noting that major international carriers such as Wallenius and Atlantic Container Line "feel they must build a total transportation system (with a capital S) to retain their customer base in the years ahead. If they don't, someone else will. And both believe the task and capital investment is too large to do alone, or within the fragile framework of conference and space charter agreements. That is why they invest their money in consortia — the wave of the future in international transportation."

1986

MAY

The dangers of deregulation *(editorial)*

"The swing to deregulation of air, sea and land transportation over the past decade was based on the sound logic that adjustments were necessary and it was better to have them made in the market place than in the lobbied halls of Washington.

"There is one very big danger, however. It can be overdone. The marketplace is undisciplined. It is easy to create monopolies, and shippers can tie a noose around their own necks without realizing it."

1987

JANUARY

McLean's bold plan brought down *(editorial)*

"Nothing less than full ships and good rates could have returned the profits United

States Lines hoped to achieve with its ambitious Round-the-World intermodal system. A great deal less was necessary, however, to avoid seeking protection under Chapter 11.

"The theory was good, provided it could be made to work, and the big lenders went into the deal with their eyes wide open. The key to success was the ability of USL to contract its services to large, multinational industries operating on a global basis, and to serve as a trunk-line carrier chartering space to smaller steamship lines and national flag carriers. And, if the grand plan failed, there was still a potential need for the big ships in the busy Atlantic and Pacific trades — perhaps operating as big ferries space-chartering slots to other conference lines, as one individual suggested.

"Financial statements for 1985 had revealed that despite enormous, highly publicized losses, the company showed a loss of no more than 6 percent on its gross. That was not bad, considering the enormity of the Round-the-World undertaking. A swing of only 6 percent could put the company in a breakeven position.

"McLean Industries' 10-Q statement for the third quarter (of 1986) reveals just how close McLean came to getting the system under control. USL's average revenue per container was, in fact, up 6.4 percent in the third quarter, and operating routes were trimmed as planned by cancellation of certain routes. It could have been enough to save the day — but other factors were at work like a cancer which could not be contained.

"The number of container loads was down by 22 percent. Talk of possible bankruptcy made shippers, especially those overseas, afraid to book with USL and run a risk of having their cargo stranded. The 10-Q aptly referred to the problem as "customer perception of the company's financial position." Put another way, just as it was getting it's affairs in order, USL became another victim of the rumor mill.

"The maritime industry has been hit by many bankruptcies during the past decade — too many. But none struck home like the failure of United States Lines. Not only is McLean the father figure of this industry, the name of the line is a matter of pride to every U.S. citizen.

"Other carriers must certainly realize, 'there, but by the grace of God, go I.' "

JULY

Paper flags for 11 Kuwaiti tankers *(editorial)*

"One of my more conservative friends was touring Russia with his wife when they were caught up in the May Day parade in Leningrad. Engulfed in the thousands corraled by the local police to march down the parade route, they had no choice but to move along, occasionally sounding off whatever seemed to be the cheer of the moment. As they marched, a Russian noted they had no Soviet flags to wave, and handed them each a paper flag on a stick — which they dutifully waved until the mass march was over.

"The little red flags changed the politics and loyalty of my friends not a twit.

"The same can be said about the Kuwait Oil company tankers and their non-U.S. citizen crewmen and officers to whom President Reagan is trying to hand paper American flags to fly from the sterns of the vessels.

"When my friends returned to their hotel in Leningrad, they turned the Soviet flags into trash, worth no more than the paper on which the flags were printed — exactly nothing.

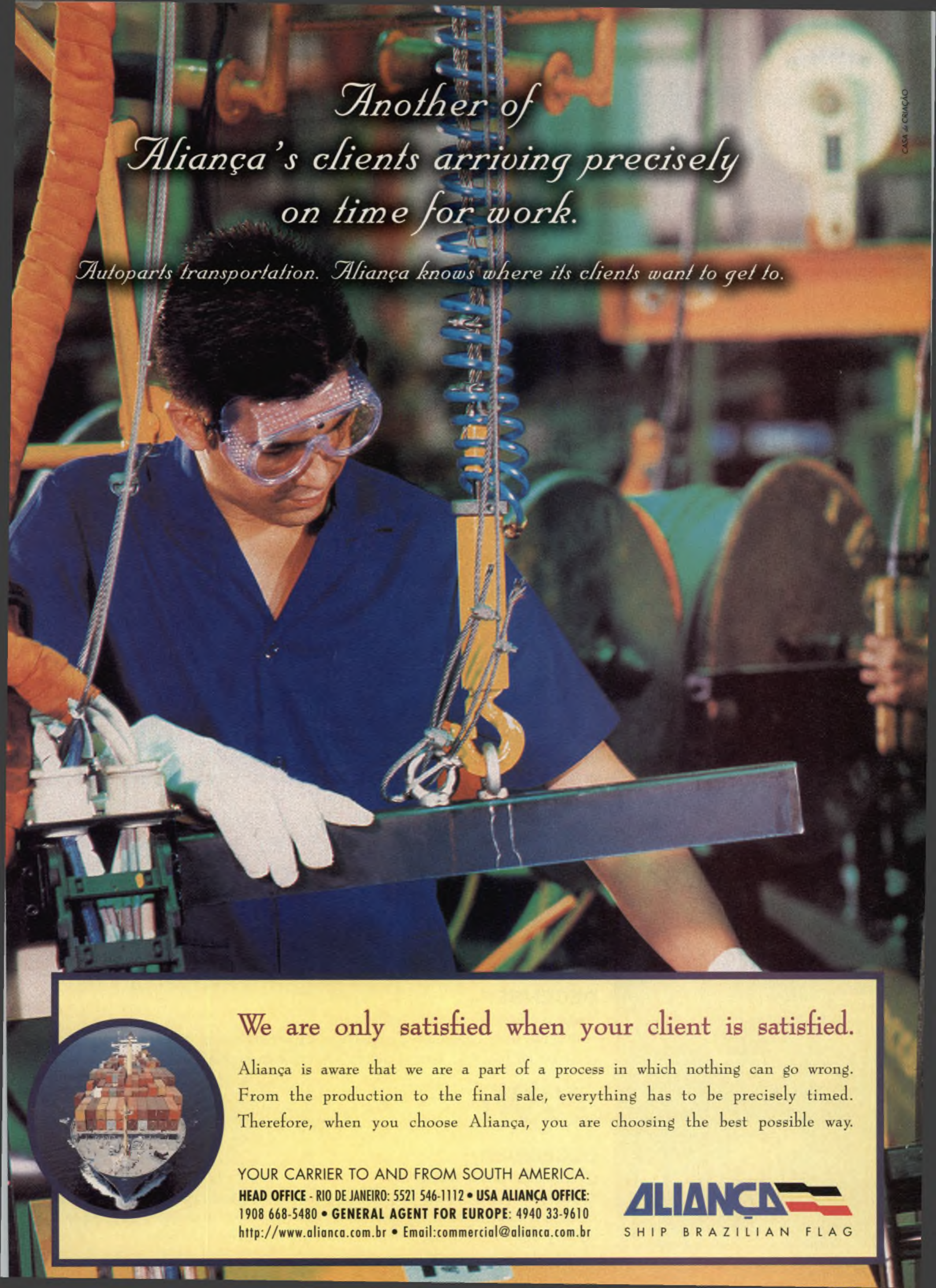
"To my mind, Reagan has similarly trashed the American flag without regard to what the flag really is."

SEPTEMBER

Gleason retires from ILA

An article about the retirement of Thomas W. "Teddy" Gleason, who served for 24 years as president of the International Longshoremen's Association, caught the flavor of one of the industry's greatest labor leaders.

Unable to find work on the waterfront during the Depression, Gleason at 33 got a job working 10 hours a day at 40 cents an hour at the Arbuckle sugar refinery in Brooklyn. He would ride the trolley to Coney Island after work and sell frankfurters until late in the night. Back on the docks after the New Deal, Gleason bucked his own ILA bosses by calling wildcat strikes that brought ILA members hospitalization benefits and pension plans, eventually winning the ILA's presidency in 1963.



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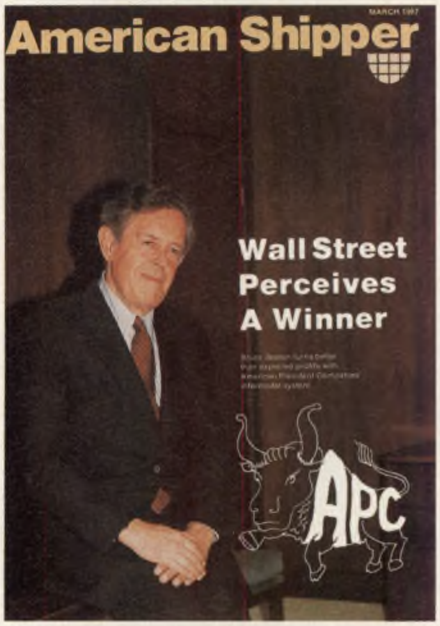


Unwelcome on a visit to England by left-wing British trade unionists, Gleason recalled that "the Commies started to razz me before I could speak, so I started singing *The Green, Green Grass of Home,* drowning them out."

Gleason remembered with pride that "I think it was about $42,000 in the ILA treasury when we took over. The assets of the international now are $42 million."

An editorial noted that Gleason and Malcom McLean "have been the dominant figures in the shipping world for the past quarter century." John Bowers, Gleason's successor, "now has the opportunity to set his own agenda, and it will be no reflection whatsoever against what Gleason accomplished."

1988

NOVEMBER

***"Complete logistical system" a dangerous illusion** (editorial)*

The alleged non-human perfection of computers is a dangerous illusion.

"Any company which offers a 'complete logistical system' must be suspect, unless it has a network of intelligent people at every point along the system."

1989

APRIL

***Shipper association requires deadfreight bonds** (editorial)*

Deadfreight bonds (or letters of credit) required by the American Import Shippers Association of its own members to guarantee the fulfillment of commitments under service contracts, is "one of the better ideas to be adopted in this industry in recent years."

"If adopted by carriers and conferences," AISA's deadfreight bond program "could solve many of the problems arising from abuse of the service contract systems authorized under the Shipping Act of 1984.

Since it puts the police authority in the hands of the entity being harmed (in this case, AISA), it should be a much more effective policing agent than any outside group or the Federal Maritime Commission — neither of which would have direct or immediate evidence that a contracting party was falling down on its obligations." Best of all, the bond program "was adopted by the shippers themselves, probably at the insistence of members' corporate attorneys.

"It's a good sign that the new romance between shippers and carriers, which began with passage of the Shipping Act, has completed its passage through teenage exploration and will soon mature."

JUNE

***Ever try to define "logistics?"** (editorial)*

"Until someone develops a set of standard terminology which is universally accepted and understood, it is wise for everyone to avoid indiscriminate use of the term."

DECEMBER

***When you have no enemies** (editorial)*

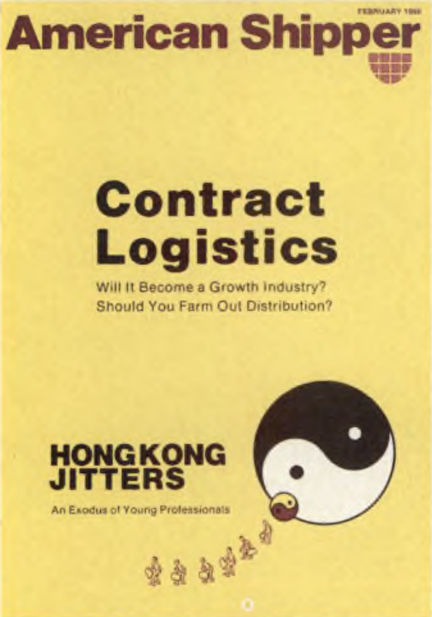
Reacting to the collapse of Communism in Eastern Europe: "What do you do when you have no enemies? You create one. Or, one creates you."

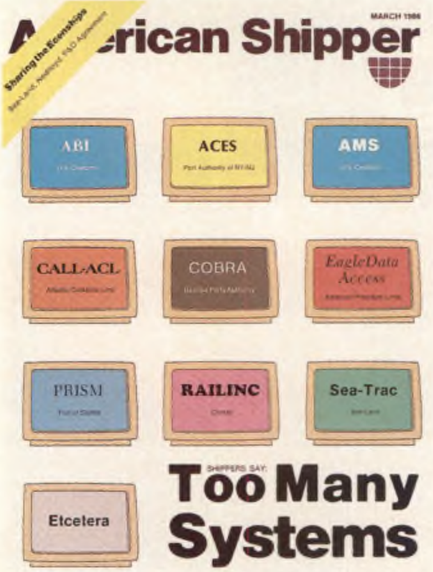
1990

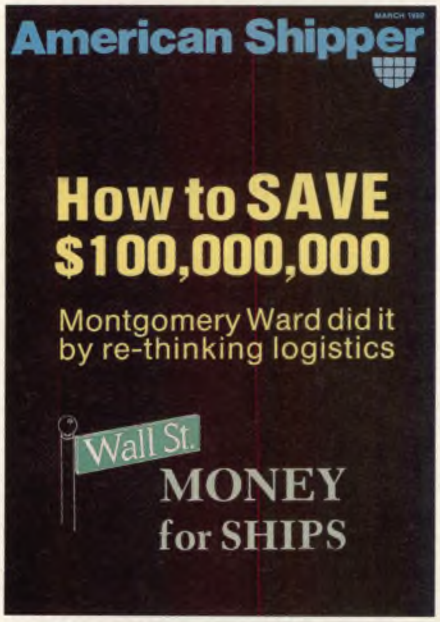
DECEMBER

***Quartel and cartels**. (editorial)*

"Maverick FMC Commissioner Rob Quartel is raising some points which need to be raised in Washington. Unfortunately, he is raising others which serve only to prove he is not very well informed, and diminish the effectiveness of the valid points he has raised.







"Quartel seems to think what was good (in the eyes of some) for the airline and railroad industries is even better for shipping.

"Heaven, protect us."

"Rationalization carries with it the inherent danger that a new and more powerful worldwide shipping cartel could be formed to the ultimate detriment of shippers. That is a legitimate fear, but a total deregulation of the shipping industry in the style of (Cornell professor Alfred Kahn) and Quartel is the surest way to guarantee that such a cartel will be formed by a few lines with very deep pockets."

1991

JANUARY

***Declining role of agents** (editorial)*

"As recently as 35 years ago, most of the world's steamship lines (large and small) traced their lineage to trading interests which invested in ships to protect and control their primary trading business. Governments subsidized, and sheltered, steamship lines for the same purpose. I'll never forget, as a young reporter, asking a Swedish steamship executive why his company would continue taking rather obvious losses year after year on a service into Jacksonville. 'We do it to keep the Americans from messing up our trade,' he responded.

"Today, large American and European corporations and trading companies find such an abundance of fungible shipping service they seldom consider owning ships themselves. Unless, of course, they operate in the liquid and dry bulk trades and control enough ships to stabilize their freight costs.

"Prior to 1956, steamship lines relied heavily on agents in the ports to generate cargo. Good agents were treasured associates, retained for many long years and treated as essential components of the lines' operating team. Agents received brokerage on the cargo they produced, but their principal income almost invariably came from labor intensive stevedoring contracts to load and discharge cargo. Freight forwarders performed essential work as they do today, but the bond was forwarder-to-agent (neighbors in the port) rather than to the steamship line."

"Containerization reduced the number of longshoremen needed to work a ship, and cut into the agents' primary source of income.

"Agents became weaker, therefore, at the very time container lines required stronger, more sophisticated representation. When container lines began putting stevedore contracts out to bid annually, the last bond with the old agents was destroyed."

"Instead of a steamship agent who was a strong ally, carriers found themselves dealing with people who consider ships and containers as interchangeable services which they can play, one against another, to drive down rates."

APRIL

***Small shipper at risk** (editorial)*

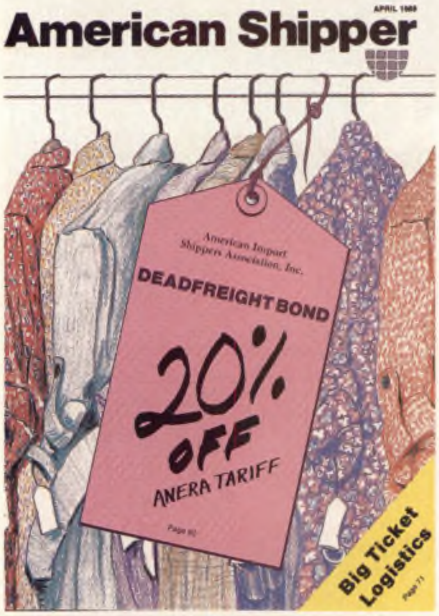
"The small shipper is at great risk when he entrusts his product to any carrier for a voyage or flight overseas. A single shipment misdirected, with faulty documentation, or held in a warehouse waiting on other cargo with which it can be consolidated, can have a devastating impact. The largest and most responsible carriers will mess things up occasionally, and the small shipper suffers, but a responsible carrier takes the blame and helps the shipper recoup. Unfortunately, it is the small shipper who is most likely to be relying upon a small, under-financed and under-staffed NVO to handle his shipments. He needs protection, but he is not getting it."

JUNE

***"Let's clean up the shipping act"** (editorial)*

"The place to start is the exterior. Let's get rid of the excess garbage hung on the act since it was enacted.

"The biggest piece of garbage is the mistaken belief that the act is really The



Intermodal Door-to-Door Through Rate Transportation Act of 1984.

"It was, and still is, a law enacted at the urging of steamship lines to enable them to rationalize liner shipping services without fear of being sent to the federal penitentiary, and without the burden of regulations which enabled the Department of Justice, a shipper, a competitor, or any John Henry off the street to block any effort to rationalize service simply by filing a complaint, thereby stalling action for years. ...

"We discover that the act is not such a bad law after all. Problems can be solved simply by cooling our romance with easy to read door-to-door rates, which are not really door-to-door rates at all but the bottom line of a long list of charges used to construct what has been labeled door-to-door."

NOVEMBER

***Confidential service contracts** (editorial)*

"Service contracts are better negotiated privately with individual carriers than with conferences."

1993

JANUARY

***Confidentiality is readily attained** (editorial)*

Although the Trans-Atlantic Agreement did not address the issue of confidentiality in service contracts, "confidentiality is readily attained when inland charges are dealt with separately from ocean rates. TAA provides a perfect solution to this problem."

APRIL

Maritime reform; moving away from ODS subsidy.

Former FMC commissioner Rob Quartel, in a new job as president of Ole Skaarup's U.S. Shipbuilding Consortium, aired an extensive series of reform proposals. Quartel's hit list included the Jones Act, operating differential subsidies (ODS), all forms of cargo preference, the Federal Maritime Commission, the carriers' conference system, and Capital Construction Fund tax breaks.

(Editorial) Most of Quartel's recommendations "are nothing more than the mouthings of an ideologue intent on destroying an entire system of maritime aid because some of the elements are ineffective and, in many cases, counterproductive." A subsequent editorial in May called for the government to "move away from the ODS subsidy system entirely and, as an alternative, require that 100 percent of all government cargo, included government-assisted cargo, be shipped on American vessels."

1994

MAY

***Shippers must offer constructive suggestions** (editorial)*

Although shipper/carrier one-on-one discussions about moving goods tend to remain civil, both sides in public discussions of policy issues "invariably skip the practical and fire away like two tribes struggling for power in Rwanda."

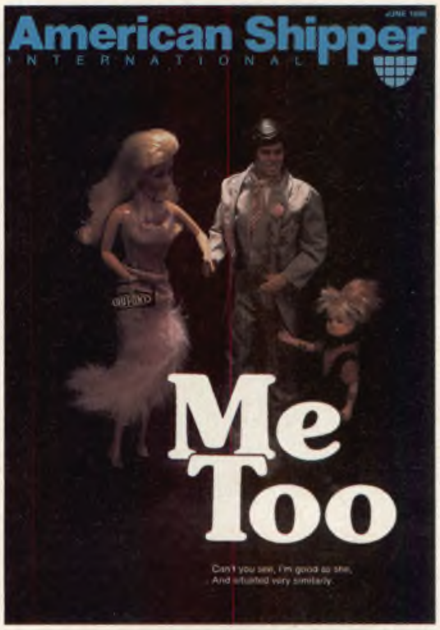
"Until shippers start thinking about carriers' needs as well as their own, and begin to offer up constructive suggestions on policy issues, this industry will be doomed to the meddling of government officials in Washington and Brussels, whose basic instinct is to seize more power for themselves."

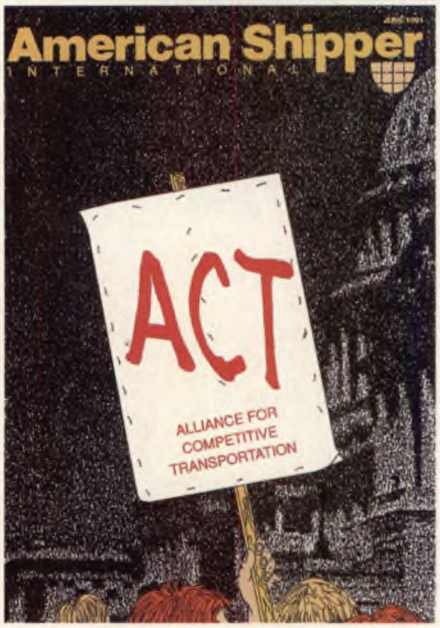
JUNE

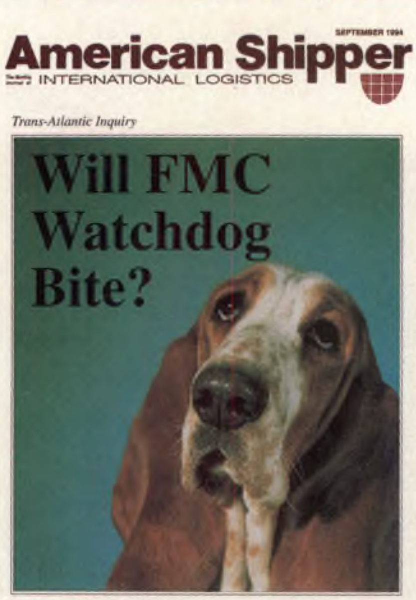
***"Read the fine print"** (editorial)*

The Treaty of Rome, specifically a clause in the section prohibiting cartels in the European Union, concerns actions "which may effect trade between member states."

"The key word is 'between.' The European Commission clearly has the authority







to regulate trade between Rotterdam and Felixstowe, or coastwise trade between Rotterdam and Le Havre. By the same token, it has the authority to regulate trade across borders between France, Germany, Belgium, etc.

"This does not, however, convey authority to regulate trade between EU member nations and non-EU member nations, for example, trade between Rotterdam and New York or Hamburg and Tokyo."

AUGUST

"We need 12 good men" *(politically incorrect)*

Women in the transportation business have commented on occasion — usually by telephone — that *American Shipper* has at times resorted to the generic "he" when referring to a shipper, which is grammatically justified if not politically correct.

This matter came to a head rather dramatically in a column by Michael Berzon, a regular contributing editor. The sub-headline read, "Shippers and carriers need a permanent discussion group to resolve problems." Over that appeared the headline: "We need 10 good men."

Berzon promptly received a clipping of the page with the following comment in red ink: "As long as you feel you need *10 good men*, you've eliminated much potential talent from the female species. Get out of the 1970s mentality, for Christ's *sake!*" That notation was signed simply "a female." She had underlined the italicized words.

Berzon wrote his next column on the topic, "Time to re-appraise diversity."

(Editorial) "I would hate to see a well-thought out proposal for a shipper/carrier discussion group get bogged down in a sexist argument about the role of women, Hispanics, Asians or any other group. Consider Berzon's proposal on its merits, then let us know what you think. And, please, sign your name."

SEPTEMBER

"Will FMC watchdog bite?"

American Shipper's cover depicted a placid basset hound with a soulful stare, under the headline "Will FMC Watchdog Bite?" Those who inquired, hoping that the hound was a staff mascot, were disappointed to learn that the picture was a stock shot from a photo agency.

Shippers pressuring the Federal Maritime Commission to investigate the Trans-Atlantic Agreement's activities labeled the agency more lap dog than watchdog — unlike its regulatory counterparts in Brussels.

Shippers accused the FMC of being a patsy for the carriers and of being reluctant to exercise its authority to move against anticompetitive practices by carriers.

In late July, however, the FMC announced a wide-ranging investigation into whether TAA carriers violated the 1984 Shipping Act. Specifically, the commission asked TAA to provide information and documents relating to alleged restrictions on TAA carriers' right to take independent action and the members' non-exclusive transshipment and connecting carrier agreements.

NOVEMBER

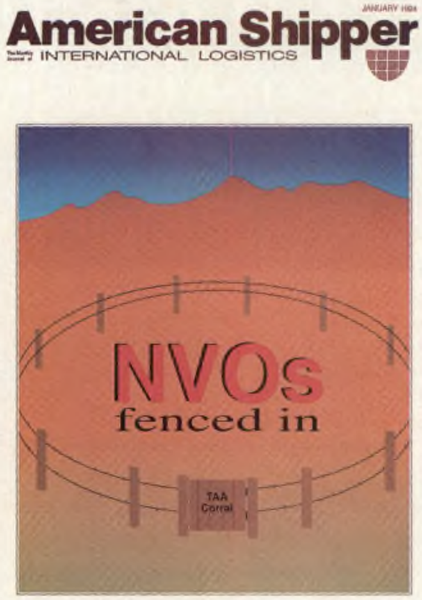
NIT League's Ed Emmett declares war against carriers, FMC

Ed Emmett, president of The National Industrial Transportation League vocally waded into battle over U.S. maritime policy. Emmett, a former commissioner of the Interstate Commerce Commission, extended the NIT League's deregulatory theme that had characterized the shipper association's approach to rail and truck issues to the maritime.

The league had pressured the Federal Maritime Commission to investigate the Trans-Atlantic Agreement, and began arming itself to take on the FMC, the liner conference system and major provisions of the Shipping Act of 1984.

"We are at the beginning of a war. A real life war," Emmett said in the December issue.

Emmett and the league have remained at the forefront of the maritime dergulation debate, and played a role in crafting the Ocean Shipping Reform Act of 1998.



1996

MARCH

Toss those shippers a hush puppy *(editorial)*

"Fish fries have long been a feature of Southern country life. They are fun and an economical way for good people to gather around, socialize, and let the children play. It is always a friendly affair, complete with hunting dogs, whose yapping becomes strident as food is spread on wooden tables.

"To quiet the dogs, the country folk invented a ball of cornbread which could be deep-fried along with the fish. The ball was then tossed to the dogs with a vocal command to 'hush, puppy!,' a phrase which became attached to the deep-fried ball itself."

"When the Shipping Act was being debated in the early 1980s, strong opposition came from lobbyists representing low-rated forest products, scrap metal, waste paper and farm bloc shippers. To quiet them and get the Shipping Act passed, Congress tossed a legislative hush puppy — exemption from open tariff and service contract features of the new law.

"The act has enabled the common carrier shipping industry to put together the most efficient and reliable global transportation system imaginable. But a few yapping dogs always linger around Southern picnic tables, and so it is with shippers. Not surprisingly, they are the strongest, healthiest and most aggressive, never satisfied until they get a little more.

"Some of these shippers now propose that Congress give them the same exemptions given to the forest products, scrap metal, bulk and waste paper shippers in 1994. They want a 'hush puppy' in return for an agreement to let the remainder of the shipping world do business as the shipping act intended.

"If that is the price of maintaining a system which works so well, I'd say toss them the hush puppy.

"About 20 years ago, the chairman and CEO of a vast shipping operation providing both contract and common carrier service told me he did not believe contract cargo should ever be carried on the same ship with common carriage cargo. I did not agree with him then, or now. But I'm beginning to lean his way."

1997

JANUARY

Downside of outsourcing *(editorial).*

In the late 1990s, as relationships between users and third-party logistics providers increased and became more tense, an editorial by associate editor Robert Mottley suggested that "the sobering prospects of a legal challenge should mute some of the unrealistic promises trumpeted by consultants and providers. They might not be able to have it both ways: equals at the start, vendors after a snafu."

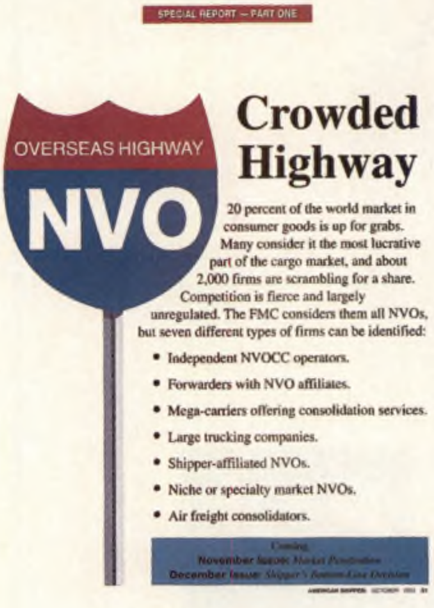
"The patriarch of a family-owned corporation that has grudgingly given work to a third-party provider expressed some of the qualms being heard about this issue: 'I brought two sons into my business, and they were each in it for five years before I told them things that we rush to tell providers today.' "

1998

APRIL

"A prediction of things to come" *(editorial)*

"If conferences are doomed, as many believe, their ratemaking roles will probably be taken over by strong alliances or consortia competing with each other and with major independents. So long as market shares are limited to about 35 percent, consortia and alliances will not face antitrust restrictions imposed on conferences. Even if some regulatory agencies forbid the use of common tariffs within an alliance


SPECIAL REPORT — PART ONE

OVERSEAS HIGHWAY

NVO

Crowded Highway

20 percent of the world market in consumer goods is up for grabs. Many consider it the most lucrative part of the cargo market, and about 2,000 firms are scrambling for a share. Competition is fierce and largely unregulated. The FMC considers them all NVOs, but seven different types of firms can be identified:

- Independent NVOCC operators.
- Forwarders with NVO affiliates.
- Mega-carriers offering consolidation services.
- Large trucking companies.
- Shipper-affiliated NVOs.
- Niche or specialty market NVOs.
- Air freight consolidators.

or consortium, a convergence of prices within groups seems inevitable.

"A multitude of niche carriers will survive in short sea service, many of them providing feeder service under contracts with large consortia and independents.

"Each of the large shippers (more than 100 TEUs per month) who responded to the *American Shipper* survey said that rates which fluctuate with market conditions are better for their business over the long term than stable rates and service. In contrast, small shippers (especially the merchandise importers) and a majority of forwarders said that stable rates and service are better over the long term. The difference in opinion is due to the fact that very large shippers have the clout to protect themselves, while smaller shippers seek comfort in the tariff system. The comfort factor will be lost in the future and small shippers will become even more dependent upon forwarders to protect their interest.

"Some editors review the past; others review the future. It is an easy and accepted way to sell advertising, but I consider a review of the past to be redundant and a review of the future to be impossible."

January 1992 editorial

"There is strong underlying support for independent carriers throughout the transportation industry, but no shipper or forwarder wants to jeopardize economies of scale created by large ships and planes shared by carriers within consortia, alliances or conferences. Shippers also will support shared operations which extend to inland terminals through use of unit trains operated under contract to a group of carriers to meet ships at a port of call. (The European Commission came up with the term 'fused services' to describe such operations.) Shipper support for 'fused' operations will be on the condition that pricing for the inland portion is negotiable, and no penalties are imposed for merchant haulage to and from ports."

1999

MAY

Are tariffs really useful? *(editorial)*

Some shippers will tell you that tariffs are a huge waste of time. They say no cargo (or very little) actually moves at tariff rates, so why bother. They say the only important thing is your confidential contract. Invariably, the shippers who take this attitude are big enough to have the clout to get whatever they want from the liner companies.

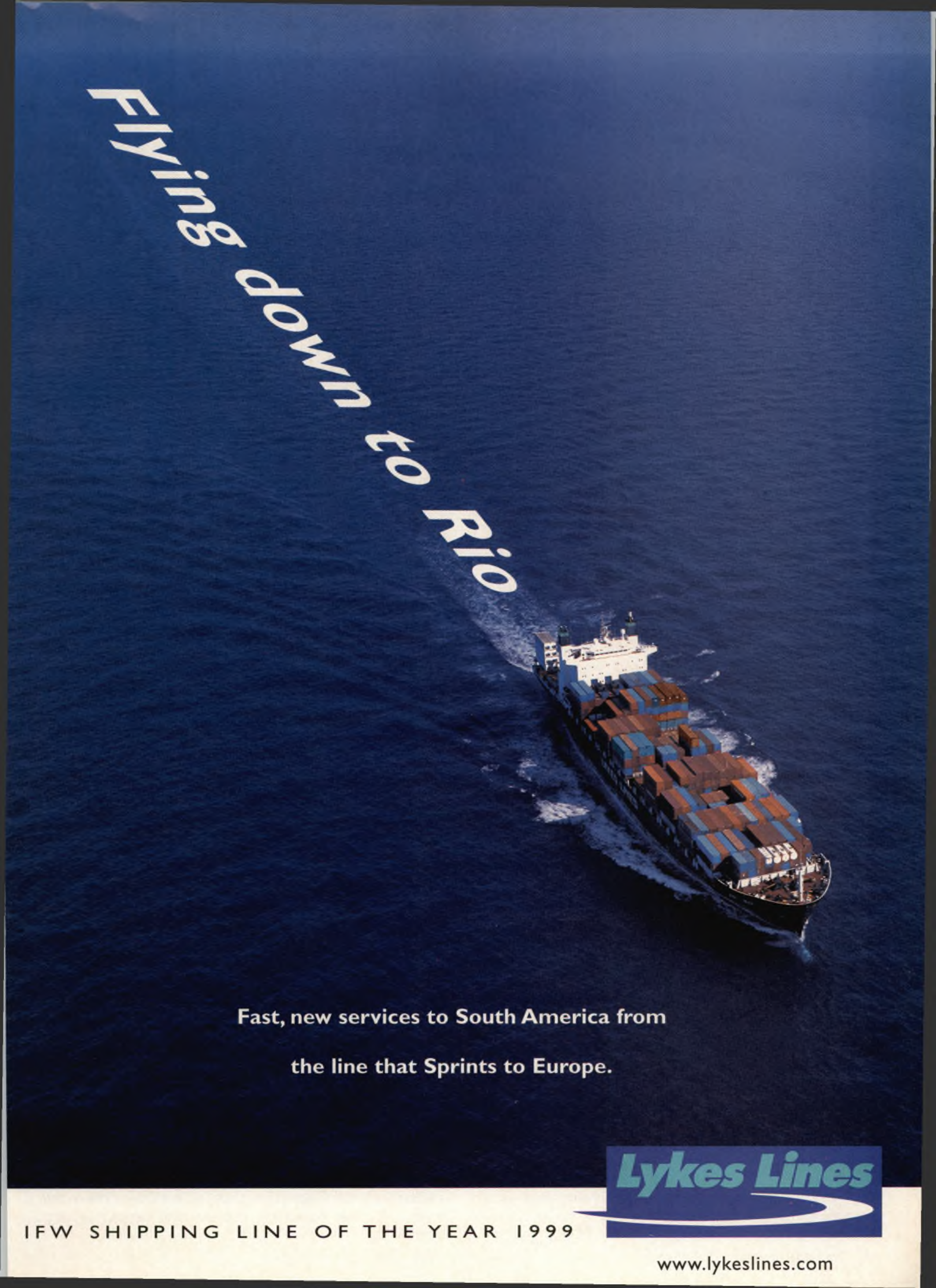
"Within two years, I'll wager they will be lobbying Congress to strip away the requirement (in the Ocean Shipping Reform Act of 1998, which became effective May 1) that carriers make tariffs public, and more importantly, to strip away the requirement that *any contract terms* be filed with the FMC. ..."

Ocean Shipping Reform Act of 1998 takes effect

Although "no more than 15 to 20 percent of cargo is expected to move under public tariff rates — and possibly, none at all — that does not prove that tariffs are useless or a waste of time. They provide benchmarks against which contracts are negotiated. ...

"Average port-to-port tariff rates of the major alliances operating fleets of 5,000- and 6,000 TEU ships will create a baseline against which all carriers will calculate actual rates and contracts."

"In day-to-day business operations, the most useful feature of the new tariffs is the fact that they give exporters the ability to quickly establish maximum transportation costs and provide pro forma data to prospective customers overseas. No more long, suspenseful waiting on clerks to come up with data that may be incomplete or full of error. Also, inland pricing can be split out, making it easier for shippers to decide whether they should use merchant haulage."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Brokers, Forwarders & NVOs

By Chris Gillis, National Press Bldg., Rm. 1269, Washington, DC 20045; (202) 347-1678; fax (202) 783-3919

Ready for Mod Act II?

During the past seven years, the Customs Modernization and Informed Compliance Act has set the tone for how the U.S. Customs Service interacts with industry. Now there's a growing movement among some industry and government officials to revise the legislation.

The Mod Act shifted much of the responsibility for following Customs' rules onto the shoulders of the industry, which accepted the conditions with the understanding that Customs would upgrade its automated systems in line with modern business practices.

But a new system to replace the agency's 16-year-old Automated Commercial System has not been forthcoming because of lack of funding.

"I don't recall there being any discussion at the time that to get these new automated programs we had to agree to pay more taxes or that these systems would only be provided if a detailed cost-benefit analysis was completed," said Kevin Smith, director of custom administration for General Motors at a recent meeting of the American Association Exporters and Importers in New York. "If we had anticipated these events, we would not have supported the passage of this act."

In 1998, Customs processed more than 19.7 million import entries at 301 ports. The agency says it expects the number of entries to double by 2005.

"The current process by which these entries are filed dates back to practices established in the 1950s and 1960s, and to systems implemented in the early 1980s," Smith said. "In our view, the process for filing a Customs entry today is the equivalent of requiring each taxpayer to file an income tax return on each pay check."

Shippers say that in their day-to-day business they issue purchase orders, ship and receive, and pay for production materials and goods on a monthly basis through computer systems. The only paper that's required is for Customs purposes.

The industry wants to get away from processing import data with Customs on an entry-by-entry basis by moving toward a simplified account-based process.

"The fact is that Customs' process in many cases is outdated," Smith said. "The world has moved on and the Customs process has been left behind."

Shippers want to be part of Customs' automation efforts, such as systems design and data elements.

"When we understand these issues we need to challenge ourselves to find the best way to provide what is actually needed," Smith said. "Literally every data element must be challenged to see if, when and how it's provided."

It's uncertain whether Customs will receive meaningful funds to build its future Automated Commercial Environment much before 2001.

In the meantime, industry officials should concentrate on amending the legislative structure of the Mod Act, said John Simpson, deputy assistant secretary of Treasury.

Simpson said that it's going to take "self-initiative" on the part of large industry groups, such as the American Association of Exporters and Importers, the National Customs Brokers and Forwarders Association of America and the Joint Industry Group, to bring about legislative changes to the Mod Act.

ACS on life support

While U.S. Customs struggles to fund its future umbrella system, the industry is concerned that the current system may be neglected.

The 15-year-old Automated Commercial System, plays a major role in the operations of importers and customs brokers. Last year, the system started showing signs of information overload and hinted at crashing.

"We cannot forget about ACS," said Arthur L. Litman, vice president of Tower Group International at a recent American Association of Exporters and Importers conference. "As old and terrible as the system may be at times, it's going to be at least four to seven years before the new system is done."

Customs promises the industry that it will keep ACS alive until the new system, the Automated Commercial Environment, is built.

The agency is upgrading ACS this year, at a cost of $12 million. Customs Commissioner Raymond W. Kelly pulled some funds from other Customs' budgets to pay for ACS's upkeep.

Customs recently installed a new IBM mainframe which helped ease the capacity problem in ACS.

The agency is also improving the communication link between ACS and the industry. Customs has implemented a new messaging system, known in the agency as "MQ." This replaces the "job entry system" which has been the cause of most slowdowns in ACS.

S.W. "Woody" Hall Jr., Customs' chief information officer, said the agency plans to spend about $100 million on ACS maintenance during the next four years while ACE is being built.

Downtime in ACS could cripple much of the country's top manufacturers in days. General Motors, for instance, keeps less than a day's worth of inventory on hand.

Customs tested its ability to handle paper import entries at the ports of Savannah and Charleston in late June. The purpose of the test was to show Customs what it will need to do if it experiences an actual systems shutdown.

Customs has told the industry that if ACS shutdown completely, it could take as long as 48 hours to fully restore the system.

"I guarantee you that Customs will not be able to handle paper for two days," Litman said. "The ramifications would be felt for months."

Carriers say Customs rules should include NVOs

Ocean carriers say they are tired of taking the penalties for mistakes made by non-vessel-operating common carriers.

"Customs should go after NVOs for discrepancies on manifests," said a carrier executive at a recent Customs Electronic Systems Advisory Committee in Baltimore.

The carriers suggested that it would require a definition of NVO to be written into Customs regulations. NVOs would also need to be bonded with the agency.

Since ocean carriers are bonded with Customs, they receive penalties for late filings of shippers export declarations and misclassifications of cargo.

"I'm an NVO, and I would love to have it defined by Customs," said Sandra Scott, international trade and customs advocate for Roadway Express. "Otherwise, everyone will just keep passing the buck."

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Kelly reorganizes Customs

Appointments, shuffling of staffers improves operations.

WASHINGTON

Raymond W. Kelly has begun to put his stamp on the U.S. Customs Service.

During his first year as Customs commissioner, Kelly has made substantial changes to the way inspectors and other agency officials conduct their business. His goal is to create a more efficient Customs Service based on "integrity" and "accountability."

"Reinforcing integrity at U.S. Customs has been and continues to be our top priority," Kelly told the Senate Finance Committee during the recent oversight hearings on Customs. "Any organization with powers like those granted to Customs must uphold the highest standards and ethics and integrity."


Kelly

Since the 1993 Customs Modernization and Informed Compliance Act, the agency has increasingly found itself in the "schizophrenic" position of assisting industry with moving goods and while enforcing trade rules.

Customs has been criticized for lacking clear direction and uniform standards in the field. Kelly believes that attacking the problems from within the agency will lead to a more focused, streamlined service in the field.

"Any agency, no matter how proud of its past, can develop weaknesses over time," Kelly said. He and the agency developed a list of priorities to improve the way it does business, called Action Plan 1999.

"The plan covers all major areas that we have to be concerned about, from both law enforcement and a trade perspective," Kelly said. "These areas are integrity, accountability, discipline, training, automation and passenger services."

Internal Affairs. Kelly knew that straightening out Customs' Office of Internal Affairs would be one of his first priorities when he took over the agency last August.

Internal Affairs came under fire earlier this year after Treasury's Office of Professional Responsibility released a report which cited concerns about possible corruption among the agency's ranks (March *American Shipper*, page 48). Although the report uncovered no evidence of organized crime within Customs, it said that some of the agency's 19,200 staffers may be involved in some form of corruption.

"The large amounts of illegal drugs that pass through the U.S. land, sea and air ports of entry, and the enormous amounts of money at the disposal of drug traffickers to corrupt law enforcement personnel, places Customs and its employees at great risk to corruption," said the Office of Professional Responsibility.

Nine Customs officials have been convicted of taking bribes from drug smugglers during the past 10 years. But federal investigators say the number of corrupted agents could be higher, judging from the amount of drugs that slip into the country. In 1997, Customs processed about 17 million cargo shipments and seized about 400 tons of narcotics.

Customs officials could aid drug smugglers by simply waving drug-laden vehicles through ports of entry, disclosing drug intelligence information, coordinating the movement of narcotics across the Southwest U.S. border, or selling drugs, the report said.

The Office of Professional Responsibility found that from 1995 to 1997, Internal Affairs conducted only 12 investigations of alleged criminal conduct among Customs staff. The report also found a backlog of 5,600 reviews in Internal Affairs.

Customs encountered similar criticism from the General Accounting Office. In 1989, the agency tried to eliminate part of its backlogs without much success.

Internal Affairs was also criticized for lacking an efficient computer system to track criminal cases.

To clean up Internal Affairs, Kelly appointed an assistant commissioner for internal affairs — William A. Keefer, a Justice Department attorney with 20 years of experience in prosecuting public corruption and organized crime cases.

Kelly also used the recommendations in the Office of Professional Responsibility's report. Now all allegations of misconduct must be reported to Internal Affairs, which has a added a separate unit to handle the most serious cases.

"We replaced a weak, fractured and inconsistent allegation and disciplinary process with a new, integrated system," Kelly said. "It's designed to stop integrity and disciplinary problems from falling through the cracks."

Accountability. Customs' last major reorganization was in 1995. The biggest change then was replacing the customs regions and districts with 20 Customs Management Centers.

Kelly said the reorganization needed further refinement, because the role of the Customs Management Centers was left unclear. There were still 301 ports reporting to the Office of Field Operations at headquarters, which became too much to handle at that level.

Last year, the commissioner announced that Customs Management Centers would assume more responsibility over the ports and reports to headquarters. The task of improving Field Operations — the largest division of Customs with 12,500 staffers — was given to assistant commissioner Charles W. Winwood.


Winwood

Customs Management Centers will now implement headquarters policy and provide technical assistance to ports under their jurisdiction, while port directors manage the day-to-day operations in the field.

Field Operations has also changed its policy for responding to industry issues. "We used to start off with fraud, and work our way back," Winwood said. "Now we find the root cause of the problem and go from there."

Customs hopes that its redefined Field Operations will lead to more uniform practices across the agency.

Other changes include routine training for field inspectors. Customs recently hired Majorie L. Budd to be assistant commissioner of the newly formed Office of Training.

Budd has more than 15 years experience managing training offices for government agencies, such as the National Institutes of Health, the U.S. Office of Personnel Management and the Defense Department. In her new role, Budd will oversee the agency's entire training process from basic entry-level to senior-level management.

Additionally, the agency changed its hiring and promotion process, and developed new field and dress uniforms for inspectors.

It's unlikely that the changes in the Customs' organization will be felt by the industry much before the end of the year.

Some importers and customs brokers also say Customs inspectors in the field should focus more on collecting the correct amount of import duties instead of the highest amount. They say Customs inspectors should be better trained on classification and valuation of goods.

Customs believes that national approaches to issues will enhance its relationship with industry. But industry will be held to the same level of standards. "It's a two-way street," Winwood said. ■

Customs enforces unclaimed cargo rules

Carriers must have unclaimed merchandise off their piers in 20 days or pay penalties.

WASHINGTON

If carriers aren't following U.S. Customs' new rules for handling unclaimed cargo by now, then they better expect to pay fines.

Customs implemented new rules for handling unclaimed cargo, known to the government as "general order," about six months ago.

"We're moving from informed compliance to enforced compliance," said Steven T. Soggin, program officer for Customs' Office of Field Operations in Washington. "There's no more excuse for not following the rules."

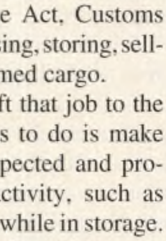
Soggin

Customs has also completed a six-month study to find out how compliant carriers are with the new rules for unclaimed merchandise. The agency did its sampling at the ports of Miami, New York, Newark, N.J.; Laredo, Texas, and Los Angeles. "Our preliminary findings are telling us that most carriers are compliant," Soggin said.

Before the 1993 Customs Modernization and Informed Compliance Act, Customs was responsible for processing, storing, selling and destroying unclaimed cargo.

The new rules now shift that job to the industry. All Customs has to do is make sure that the cargo is inspected and protected against criminal activity, such as theft and drug smuggling, while in storage.

Carriers are responsible for making sure unclaimed goods are placed in special warehouses within 20 days after the cargo arrives in port. In the past, it wasn't uncommon for unclaimed merchandise to sit on a carrier's docks for up to six months waiting for importers to claim it. This often resulted in high demurrage charges and idle containers for carriers.



Abel

"We need our containers empty and moving," said Adi Abel, manager of global customs and regulatory EDI processes at Sea-Land Service. "We don't want to be in the business of handling general order merchandise."

Carriers that fail to comply with the new Customs rules for unclaimed cargo risk a $1,000 fine for each violation.

"We haven't experienced any problems," said Chris Corrado, director of customer support processes for APL. "From our standpoint, we prefer to have the rules in place."

Tighter Capacity. The movement of unclaimed cargo from piers to storage saw its biggest increase in February and March after the implementation of the new Customs rules.

> ***"We saw a lot of old general order freight coming off the docks. We saw some cargo going into storage which had sat on docks since 1992."***
>
> Gilbert "Skip" Benjamin
> *president,*
> *Warehouse Service Inc.*

"During this time, we saw a lot of old general order freight coming off the docks," said Gilbert "Skip" Benjamin, president of Philadelphia-based Warehouse Service Inc., and chairman of the National Bonded Warehouse and Cargo Council. "We saw some cargo going into storage which had sat on docks since 1992."

Customs has registered about 390 unclaimed shipments during the first six months of this year in Laredo alone, compared to about 270 registered in the port for the entire year of 1998. The agency expects unclaimed cargo volumes to increase with the rise in imports to the U.S.

Customs estimates that less than 5 percent of all import cargo goes into general order warehousing each year. About 85 percent of this freight is claimed and cleared by importers within six months. "It's often a case of the importer not having enough money to cover his duty and entry costs when the freight arrives," Soggin said.

Some carriers say they have experienced tight warehouse capacity for unclaimed cargo in certain ports, such as Tampa, Fla. and Seattle. There have also been incidents when Customs has allowed carriers to use containers as temporary general order facilities in ports where none exist. But most of these problems have been remedied by Customs port directors adding more storage capacity.

Other carriers have had trouble finding warehouses to handle unclaimed hazardous freight.

"General order warehouses cannot be forced to accept hazardous cargo," Soggin said. "Their facilities may simply not be equipped to handle these types of materials."

If a carrier cannot find warehouse storage for unclaimed hazardous freight, it must contact the Customs port director and make arrangements to store the goods on its docks or re-export it.

"The carriers brought this stuff into the country and remain liable to handle it under their international carrier bond with Customs," Soggin said. "Most of the time, carriers will opt to re-export unclaimed hazardous cargo."

GO Coalition. Earlier this year, a group of 30 warehouse operators in the National Bonded Warehouse and Cargo Council formed the GO Coalition to raise the level of professionalism in the unclaimed cargo storage business.

"We handle the dredge cargo," said Benjamin, who also heads the coalition. "This cargo doesn't come to general order if there wasn't a problem with it."

The GO Coalition helped Customs create the new rules for unclaimed cargo.

"The biggest thing Customs can do now is to start fining those who are not compliant," Benjamin said. "It's the only way to move this program forward."

It's not difficult to become a general order warehouse. The warehouse operator requires a minimal bond of $50,000. It must also show Customs that it has sufficient security and an inventory management system for tracking unclaimed goods.

Unclaimed cargo may sit in storage for up to six months before it must be auctioned or destroyed. Customs contracts with EG&G Services, based in Fairfax, Va. to manage its auctions. The proceeds go to paying off transportation and storage costs.

Under the new rules, general order warehouses are responsible for destroying any unsold cargo. "This was a real issue in the past. The government doesn't want to be in the position of destroying the nation's unwanted cargo," Soggin said.

But the general order warehouses believe this rule will work to their advantage by limiting the number of new operators in the ports. There are currently about 100 general order warehouses in the U.S. ■

U.S., U.K. Customs expand data sharing

More shippers expected to join International Trade Prototype. Customs agencies work out differences.

WASHINGTON

Customs in the United States and United Kingdom say they are moving forward with their effort to share international trade data.

The program, the International Trade Prototype, has been in the works since the mid-1990s. The goal is to allow shippers to send one set of shipment data to satisfy import and export requirements in both countries.

Earlier this year, U.S. and U.K. Customs had to delay their efforts to test the system by several months because of funding and systems programming for year 2000.

"It's important not to forget that this is a long-term project," said Pamela J. McGuyer, ITP project coordinator for U.S. Customs. "We've continued to make steady progress in moving this forward."

U.S. Customs Commissioner Raymond W. Kelly appropriated some funds from other internal agencies to keep the International Trade Prototype going forward.

The system on the U.S. side is part of Customs' Automated Export System. In the U.K., Customs operates the prototype off its Customs Handling of Import and Export Freight system, or CHIEF.

Four shippers are active in the program: Xerox, General Motors, Philips and Hewlett-Packard. The customs agencies plan to open the system to more participants this summer.

"The interest in the system grows incrementally with the progress that we make with it," said Elizabeth Durant, executive director for U.S. Customs' Office of Trade Programs. "The questions that we're receiving from the industry are more practical than theoretical. That's an indication to me of genuine enthusiasm for ITP."

U.S. Customs says the international system is the ocean and air equivalent of what it's developing on the U.S. land border with Canada and Mexico, called the National Customs Automated Program.

To participate, shippers must be able to connect electronically with both customs agencies. In the U.S., shippers are testing the system in Baltimore; New York's JFK International Airport; Newark, N.J.; Detroit; Chicago; and San Francisco.

"We have limited this to internal company traffic," said Michael Bailey, ITP business manager for U.K. Customs. "At some point we'll move away from that to other types of shipments."

Eight data elements are shared between the customs agencies — a unique consignment reference number for tracking, name of exporter and importer, port of loading, country of export and import (U.S./U.K.), transport mode, shipper reference number and quantity shipped.

After June, the customs agencies will complete the first phase of the International Trade Prototype by initiating automated cargo releases for shipments. The customs agencies expect to get feedback from the industry during a meeting in London on July 28.

The next step will be to use the system's data to create statistical and financial reports and entry summaries for the customs agencies. The agencies are also working out some legal issues and operational differences.

Participating shippers are taking a "go-slow" approach with the International Trade Prototype. "Our participation has been mostly with low-volume air-cargo shipments," said Kevin Smith, director of customs administration at GM. "We'll probably maintain our volumes where they're at and see what happens."

"Xerox will increase participation as the project expands to include vendor material and other trade lanes," said Linnea Erickson, Xerox's customs automation program manager.

But shippers say that to increase the system's use in their operations would require its expansion to other countries.

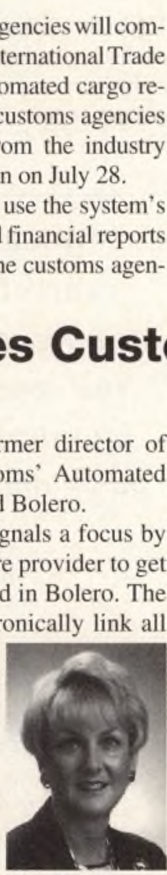
"I would hope that it would pave the way for a truly international set of standards," Smith said. "It could be the forerunner of what may be extended to the rest of the European community."

Bolero hires Customs' Morris

WASHINGTON

R. Patricia Morris, former director of marketing for U.S. Customs' Automated Export System, has joined Bolero.

The executive's hire signals a focus by the London-based software provider to get customs agencies involved in Bolero. The system promises to electronically link all data aspects of shipping.



Morris

Bolero is a joint venture of the Through Transport Club, the London-based transportation insurance mutual, and the Society for Worldwide Interbank Financial Telecommunications, better known as S.W.I.F.T., a Belgium-based electronic communications cooperative with 3,000 member banks worldwide.

A majority of shipment data today is needed to satisfy customs' data requirements. Control of this type of data is key to Bolero's success. The company wants U.S. Customs to be the first government agency to try out the system.

"The participation of U.S. Customs is pivotal to the long-term success of working with other customs agencies," said Morris, manager of business development for Bolero. "U.S. Customs is perceived as innovative but cautious with what they do."

Bolero has been in development in Brussels for six years. It has recently started catching the attention of customs agencies.

Customs agencies that have been particularly interested in Bolero include the U.S., U.K., Germany, Hong Kong, Australia, Japan, Canada and the Netherlands. The European Commission Directorate General on Customs and Excise and the World Customs Organization, both based in Brussels, are closely watching Bolero's development.

"It won't cost anything for U.S. Customs to participate," Morris said. "Bolero will provide all the programming to interface with Customs' system."

A key to Bolero is that its electronic transmission of shipping documents are based on a binding legal environment and common procedures established in the Bolero "rule book." But the rule book could run into trouble with customs agencies, because they operate on national customs codes which determine a shipper's obligations and the conditions under which an electronic document would be acceptable, legally binding and qualify as evidence in court.

Many customs agencies still face a great deal of work on their internal operations before taking on any international projects. U.S. Customs, for example, is facing budgetary constraints to build its new umbrella system, the Automated Commercial Environment.

Some shippers worry that customs involvement in Bolero would give the agencies too much information about their shipments.

"It won't be any more information than they give today to Customs for import and export filings," said Morris, who plans to meet with shippers to answer their questions about Bolero and promote the system. ■

New rules for customs brokers

Customs' rules for conduct strengthen brokers' position with importers.

WASHINGTON

When U.S. Customs released its proposed rules for how customs brokers should conduct their business with importers, there weren't many surprises.

Customs and the brokers have spent the past decade hashing out the precise language for what it means to provide brokerage services to importers. The revised rules, known as Part 111 of the Customs regulations, are expected to become effective this summer.

"We vetted it with the brokers," said Jerry Laderberg, chief of entry procedures and carriers branch for Customs' Office of Regulations and Rulings. "They were definitely involved in this every step of the way."

"It's been long awaited by the industry," said William S. Ansley Jr., president of Baltimore-based Samuel Shapiro & Co. "It's what we need to go forward to operate in today's environment."


Ansley

The National Customs Brokers and Forwarders Association of America was the primary broker group to negotiate with Customs for the Part 111 revisions. Most brokers believe that the work paid off.

"We got a lot of experience out of this," said Harvey A. Isaacs, general counsel for the NCBFAA. "Both sides knew what they wanted."

"We had an appropriate amount of time to develop the draft proposal of the revised regulations. I don't think there will be much controversy," said Robert A. Perkins, vice president of customs operations at A.N. Deringer, based in St. Albans, Vt.


Perkins

Most brokers will probably not notice much difference in the way they operate their business once the revised regulations are implemented.

"It's simply codified the responsibility of a good broker," said Stewart B. Hauser, president of D. Hauser Inc., a New York-based broker. "I think the vast majority of brokers were already complying with these regulations."


Stewart B. Hauser
president,
D. Hauser Inc.

"It's simply codified the responsibility of a good broker. I think the vast majority of brokers were already complying with these regulations."

Changes. Many of the changes to the rules were required by the 1993 Customs Modernization and Informed Compliance Act. But the Washington-based NCBFAA also pointed out the need for other changes.

For the first time, brokers will be able to apply for national permits, which will allow them to file their import entries from anywhere in country, a process called Remote Location Filing. Brokers have traditionally had to file entries in the Customs district where they hold a license.

To participate in the national permit program, however, brokers must be a part of the National Customs Automation Program.

"Most brokers don't qualify for national permits right now," Ansley said. "A broker would need to meet all of Customs' automation requirements."

Brokers also say the national permit program needs a more efficient way to electronically transmit commercial invoice data to Customs. The NCBFAA has spent the past two years trying to convince Customs to adopt its method, the Enhanced Electronic Entry Program, or EEEP.

Customs requires some of the data to clear shipments and assign valuations. But the agency doesn't need to look at the entire document unless it decides to conduct an investigation of the cargo.

The problem is that the electronic filing of invoices has been an all-or-nothing deal. There's no way to strip out the parts of the invoice that Customs doesn't need or want to see.

The agency says it doesn't have the money to program EEEP into its Automated Commercial System. Customs did tell the brokers that it may incorporate some of EEEP's aspects into its future umbrella system, the Automated Commercial Environment.

For brokers to acquire their license with Customs, they will no longer have to file an application when they take their exam. Many brokers don't pass their license exam the first time, and the application process is arduous. Now they can file a license application after they pass the exam.

Other Changes. Other important changes were made to broker record-keeping requirements.

Brokers no longer have to seek approval for where they store their import records. They will only need to notify Customs of where their records are actually kept. This change will encourage brokers to use new forms of electronic storage for documents, such as digital imaging.

The new Part 111 regulations will allow brokers to put employees in the offices of importers, operations known as "implants." Broker employees will be able to process import documents on site, but they still have to forward them back to the licensed broker's office to make the final import entry with Customs.

Brokers foresee the benefits of lower operations costs, and importers will have closer contact with their broker representatives. "That's what smart importers want today," Isaacs said.

The revisions also strengthen the position of brokers that specialize in duty drawback. Drawback is a refund of customs duties paid on imported materials that later are exported or used in the manufacture of exported articles.

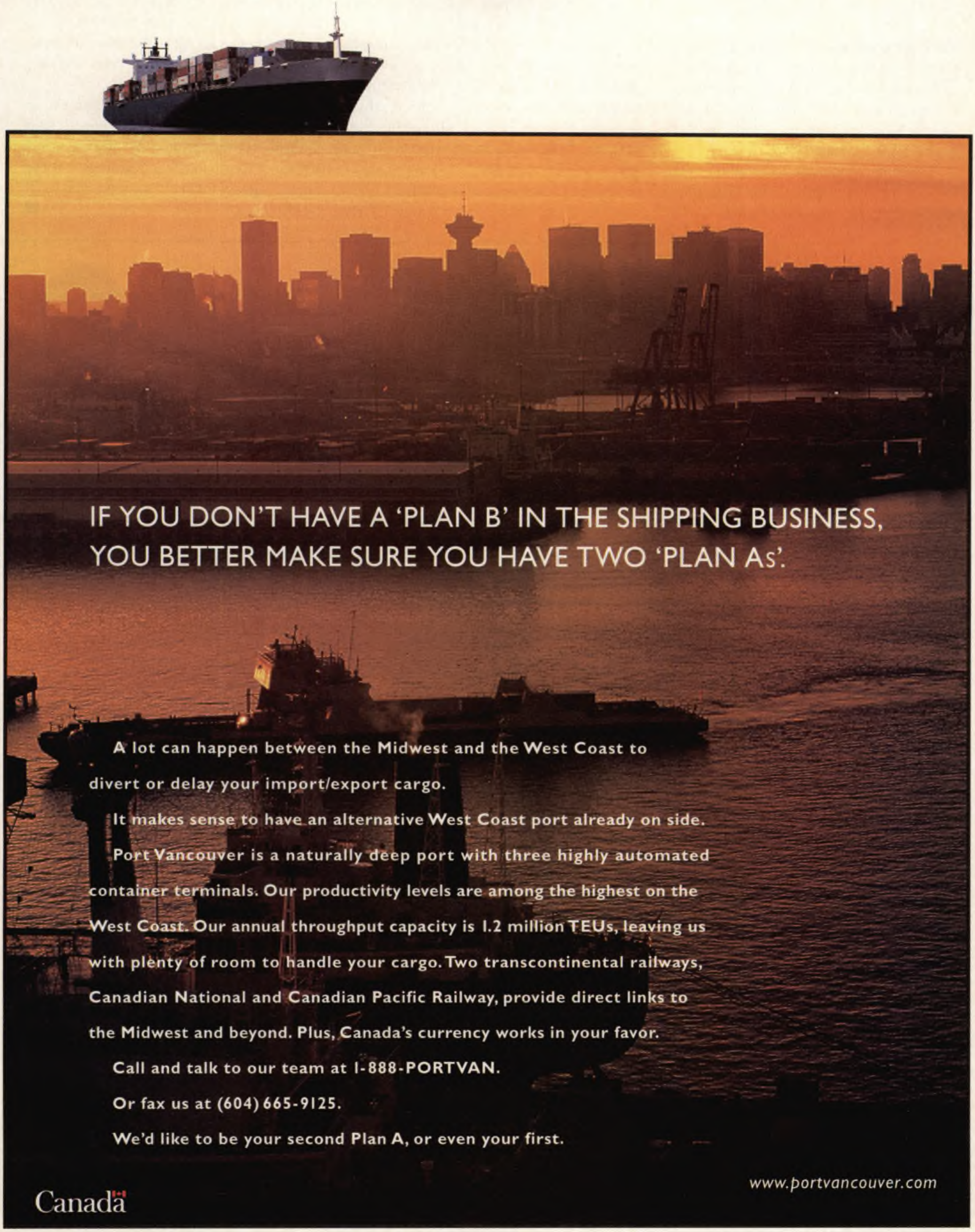
"Before, brokers would routinely process drawbacks with limited experience," said Russell Jones, president of R. L. Jones Customhouse Brokers, based in San Luis, Ariz. "Now there's a lot more exposure. Drawback processing requires true expertise."


Menendez

But brokers say that the revised Part 111 is not perfect. "It's like anything that you negotiate," said George A. Menendez, president of Sack & Menendez in Tampa, Fla. "You win some, you lose some."

One of those areas in Part 111 that may need further change is the provision which

PORT VANCOUVER



requires employees who sign Customs documents to be U.S. residents. On the northern border, many brokers have employees who are Canadian. "No one thought of it," Isaacs said. "Until it comes up, it's not an issue."

Further Clarity. This summer Customs plans to create a document which specifically outlines what types of Customs activities require a broker license. Customs and the industry have been studying these issues since January 1997.

"Customs brokerage is a tightly regulated profession and that's not changing," said Leroy F. Berven, director of corporate compliance and special projects for Global Transportation Services in Seattle. "We need the government to continue recognizing that the professionals in this business want to be compliant and want to work with the Customs Service."

In recent years, more lawyers, consultants and accounting firms are helping importers in many areas of import transactions, such as valuation and classification, which lawfully belongs in the realm of licensed brokers. "They do a lot of work that brokers say is on the edge," Laderberg said.

"No one is saying that accounting firms can't do these things," Ansley said. "They just may have to have a licensed customs broker on staff."

The penalties for acting in the capacity of a broker without a license can lead to severe penalties. Customs issues a $10,000 fine for each incident, up to $30,000.

The biggest driver in the changing relationship between Customs and industry today is automation.

"When a broker furnishes software to an importer, is that Customs' business?" said Georgina Grier, an attorney with Customs' Office or Regulations and Rulings. "These are the types of difficult questions that we'll be looking at." ■

Air forwarding

By Gordon Forsyth, 5 World Trade Center, Suite 9259, New York, N.Y. 10048; (212) 912-1077; fax (212) 912-1244

Cost vs. Value

In the business cycle, as in physics, every action has an equal and opposite reaction.

Accordingly, market consolidation in the air freight industry will almost certainly drive more shippers to smaller forwarding companies that offer tailored logistics services, particularly in lucrative niche markets, such as perishables, valuables and fashion.

Small forwarders will not only survive, many will thrive, says Fauad Shariff, vice president of Crescent Air Freight, a small family-owned forwarder that has moved freight in and out of New York for 23 years. Shippers have and will pay handsomely for the personal service small forwarders provide to shippers, he said.

"The small forwarder is capable of operating more flexibly," Shariff said in a recent interview. "Despite the lack of global reach, the smaller forwarder can offer reliable service through partnerships. We provide flexibility and interactivity, and customers are willing to pay for that still to this day."

Contrasting the thinking of his larger competitors, Shariff isn't concerned about growing. Crescent has built a profitable business with strong ties to loyal clients. Growth can ruin that. Larger forwarders often cause pricing problems for themselves by discounting freight rates to gain business, he explained.

Forwarders are partly to blame for the depressed pricing environment in air freight, but only because they have helped foster ineffectual relationships with their customers.

"Shippers have negotiated good pricing," said Joseph L. Rosiek, director of marketing freight business solutions, for Unisys Corp., at a recent industry meeting. But, "together the airlines and forwarders have to lift the shipper management viewpoint up. They have to go to management and justify their services."

Pricing has become an increasingly complicated issue for forwarders. In such a cut-throat marketplace, there are always competitors willing to give shippers an additional penny or two off transportation rates. Shippers, meanwhile, are demanding logistics services — warehousing, assembly, information management, etc. — from forwarders, some of which have struggled to account for providing those services.

"Don't sell what you can't bill," salesmen have been told.

Large forwarders are forced to use price as a key threat in their competitive arsenal because, inevitably, they lose flexibility and the ability to provide personal service as they grow. Large forwarders leverage their shipping volumes to win better rates from airlines, who are happy to carry the steady stream of freight.

Indeed, consolidation has made air freight affordable for many shippers who might never have considered using airplanes to move anything but emergency shipments. But, it has also reinforced a mentality evident in too many shipping departments — that transportation is purely a question of cost.

Airplanes, containers, ships and pallets do not generate revenue for shippers. But if managed effectively, those things can enhance product value. When goods hit the retail shelf in a timely manner, consumers buy more. When demand and transportation are carefully balanced, less inventory can be used to make goods, thereby reducing overall production costs. That penny or two shippers can save on transportation may cost a nickel in the long run from service failures and mismanagement.

Too few traffic managers realize that today. So, the forwarders complain. But, forwarders — and airlines — should take more responsibility for showing shippers the benefit of a properly managed distribution strategy. Once shippers can quantify the value and cost-savings transportation adds to overall operations, they will be more inclined to pay prices that keep service partners healthy.

New Breed

Because nothing should exist without a label, Deutsche Post Group and TNT Post Group have been officially identified.

During opening remarks to the recent World Express and Mail conference in Brussels, Francine Wachsstock, chairwomen of Belgium's national postal company, introduced a new group of logistics provider — the postal integrator. DPAG and TNT are founding members.

These postal integrators will dominate the global mail market, Wachsstock said. "In no more than a few years time, the global postal market will be like a huge domestic market, totally open to competition," she said. "By that time, only a few major operators will be left to compete."

Time running out for AERP filers

Census, Customs warn exporters to make transition to new export declaration filing system soon.

WASHINGTON

The U.S. Census Bureau has issued a strong warning to exporters using its 30-year-old export reporting system to get off by the end of the year or start filing shippers export declarations on paper.

The system, the Automated Export Reporting Program (AERP), will be turned off on Dec. 31, and be replaced by a new one operated by the Customs Service, called the Automated Export System (AES).

"Time is running out," said C. Harvey Monk Jr., chief of the Foreign Trade Division at Census. "AES will be the only alternative to electronically file shippers export declarations."

Census uses data from export declarations to calculate the country's export statistics.

During the past three years, Census representatives have visited with exporters that are still using AERP to inform them about the need to switch over to AES.

Many exporters have delayed changing to AES, waiting for Census and Customs to come up with definite rules for how the system will operate.

"AERP has worked great for us over the years," said Gary Simpson, export regulations manager for Eastman Kodak's U.S. export and import logistics services. "The problems with the system were minimal because we filed our export declarations once a month."

Last year, Census, Customs and the industry came up with four options for filing export declarations:

- File all export declarations on paper prior to export.
- File all shipment data prior to export through AES.
- Require that some data to be filed prior to export, with the full information to be filed five days after export.
- Permit Census-approved exporters to file all their export data 10 days after export. Forwarders may file export declarations under this option for approved shippers if they have the power of attorney.

"The first plans of development for AES would have brought U.S. exports to a screeching halt," said Inka T. Neumayr-Omholt, manager of international logistics for E.I. du Pont de Nemours & Co. in Wilmington, Del. "Now we think its more manageable."

Census expects that most large shippers will use the options that allow them to file after export. Shippers with export licensing requirements will likely file their export declarations prior to export through AES.

But the switchover to AES has been slow going. By May, Census still had 90 exporters, four ocean carriers and 170 forwarders filing export declarations on AERP. The agency hopes to have at least half of these companies on AES by midsummer.

AERP filers are scrambling to convert their operations to AES.

Kodak files 6,000 to 7,000 export declarations a month through AERP. The Rochester, N.Y.-based company plans to be operating on AES by the end of the year. If it's not ready in time, Kodak will have to use its forwarder, MSAS Global Logistics, to file its export declarations.

A number of large exporters are already using AES, such as Briggs & Stratton, Mattel, Glidden Co., Johnson Controls and Xerox.

Many ocean carriers plan to use the third option in AES to file export declaration on behalf of shippers that need the service. Four carriers, Crowley, Sea-Land Service, P&O Nedlloyd and APL, are switching from AERP to AES.

"We're on target for conversion," said Arthur O. Thomas, manager of trade and regulatory affairs in North America for APL. "We're working internally with our programmers to make that happen."

So far, the biggest users of AES are the forwarders. There are about 150 forwarders using the second and third options in AES. Forwarders currently file export data for about 21,000 exporters in the system.

"We're projecting that 35 percent of all export trade volume from the U.S. will be filed through AES by the end of the year," said Gerry Horner, a statistician at Census and a member of Customs' AES support team.

Horner

Only two non-vessel-operating common carriers are using the system and about 10 more will follow. Ocean carriers blame NVOs for most of the late filings of export declarations.

Census is concerned about the impact of numerous companies coming onto AES in October and November. "We're concerned about whether we will be able to keep up with that," Monk said.

The agency plans to increase its AES staff to 13 this year. Census will have six programmers and one technical representative on staff at Customs' Office of Information and Technology in Newington, Va.

Census will also provide shippers free access to AES through the Internet. The service, which is scheduled to be operating by September, will mostly cater to small to mid-sized exporters and forwarders.

Census says AES will help improve the quality of data collected for export statistics. Half of the paper export declarations filed with the agency's Jeffersonville, Ind. data processing center contain errors. AES's error rate is about 4 percent. ■

Drawback rules revision sought

Customs brokers say that 2-year-old rules need revising; penalties to be assessed for errors.

WASHINGTON

Customs brokers say that duty-drawback rules revised by U.S. Customs two years ago are tricky to follow and need further adjustment.

Drawback is a refund of customs duties paid on imported materials that later are exported or used in the manufacture of exported articles. With documented proof, shippers can receive refunds from Customs of up to 99 percent on duties paid on the imported materials.

The process of filing a drawback claim, however, has traditionally been highly technical and paper intensive. Although exporters can file their own drawback claims, most hire licensed customs brokers with drawback experience to manage this activity for them.

Two years ago, Customs released new drawback rules in response to the 1993 Customs Modernization and Informed Compliance Act.

"It was a tremendous effort by Customs to revamp the drawback rules," said Michael V. Cerny, chief executive officer and general counsel for Global Customs & Trade Specialist, based in Brewster, N.Y. "But with any revision of this size, there will still be aspects that need changing."

A chief concern for brokers is the guidelines for proof of exportation. "Customs at the port level is inconsistent with what it accepts as proof of exportation," Cerny said. "There needs to be a meeting of the minds to decide what's reasonable proof of exportation."

Customs prefers signed original copies of ocean carrier bills of lading or air waybills to be used as proof of export. But these documents are often difficult for brokers to obtain because of the commercial sensitivity of the information contained in them.

Some brokers suggest that Customs could find proof of export through cargo manifests which are filed to Customs by the carriers.

"Manifests should be Customs' focus for proof of exportation," said Bobby Waid, executive vice president for AEI Drawback Services in Katy, Texas. "They have access to this information. All they have to do is verify it."

Brokers have also had problems filing drawback claims under the North America Free Trade Agreement. NAFTA has limited drawback on exports to Canada. Similar limitations will be phased in for exports to Mexico by 2001.

But brokers say they should still have the ability to file drawback claims on exports that fall under "same-condition" drawback rules. These are products imported into the U.S. and re-exported to Canada or Mexico without change.

In order to claim "same-condition" drawback to Canada and Mexico, a company must use an accounting system to match its imports to its exports. The controls and requirements of this system, as set up by Customs, are unworkable for many companies, Cerny said.

One way to avoid this problem is for Customs to allow "substitution" drawback for exports to Canada and Mexico, in which products being exported originate from a country not part of NAFTA. So far, Customs has refused to allow this, although industry experts believe it's allowed by the rules.

Customs has also made it more difficult to claim drawback on destroyed merchandise. Today, drawback-eligible goods must have no commercial value. "This isn't reasonable in today's environment where recycling is an issue for many companies," Cerny said.

The agency will not approve drawback claims on products that are recycled. This has become a big issue for companies in the textile and electronics industries.

Additionally, Customs changed the rules for "waiver of prior notice," which used to allow shippers to go back three years to claim drawback on imported goods used in export production. Now Customs limits the "waiver of prior notice" program to drawback claims going forward.

Many drawback specialists have raised objections to this change in the regulation. Large companies may have many divisions. If one division receives a one-time waiver of prior notice, other divisions may not be able to receive drawback on goods that they're manufacturing and exporting.

Brokers know that it will be difficult to make changes to the new drawback rules. Industry groups, such as the National Customs Brokers and Forwarders Association of America and the American Association of Exporters and Importers, represent many of the brokers on drawback issues.

Several provisions in the Miscellaneous Trade Bill, which passed the Congress in early June, offered some benefits to drawback claimants.

The legislation permits petroleum exporters to assign their drawback rights over to the company that purchased the product. The legislation also allows for filing drawback claims based on "quantitative accounting."

"Quantitative accounting is necessary for claiming drawback with petroleum products," Waid said. "We can't physically track a molecule of petroleum through the pipelines and tank farms."

The Miscellaneous Trade Bill granted a popular gasoline additive (methyl tertiary-butyl ether) to the list of products eligible for petroleum drawback treatment.

The legislation also makes the distinction between companies who make packaging materials and those who use them for their products. This will allow companies that manufacture packaging materials to file drawback claims easier.

Customs plans to meet with the industry this summer to discuss drawback concerns.

Customs: drawback filings decline

NEW YORK

Despite new rules and automation for duty drawback, U.S. Customs says it has seen a decrease in drawback claims filed this year.

It's estimated that more than $2 billion of potential drawback refunds go unclaimed by shippers each year. Last year, Customs issued $550 million in refunds for 26,000 drawback claims.

Customs attributes the decrease in drawback claims to the North America Free Trade Agreement, the Uruguay Round and the Asian economic crisis, said Maryanne Carney, chief of the agency's drawback and records branch in New York.

But drawback specialists blame the decrease in drawback filings on confusing rules and fear of penalties.

Customs said it will soon penalize filers for drawback mistakes going back as far as Nov. 28. The agency has told drawback claimants that they can limit their penalty exposure by participating in a voluntary drawback compliance program. To join, exporters and their drawback specialists must demonstrate to Customs that their drawback claims process and record keeping are in compliance with the new regulations.

Almost any commodity is eligible for drawback possibilities. About 80 percent of drawback claims are filed today by 10 percent of the companies that are eligible for refunds.

The industry hopes that after further refining of drawback rules and automation processes more exporters will take advantage of drawback opportunities. ■

Export license applications in a SNAP

Export Administration to use Internet to eliminate more paper.

WASHINGTON

The Export Administration has developed an Internet-based program for filing export license applications: the Simplified Network Application Process, or SNAP.

"We want to reduce the amount of paperwork at the Export Administration," said Miriam Cohen, project manager for the SNAP program.

The Export Administration, a Commerce Department bureau, tracks exports of certain commodities that can be used in the manufacture of dangerous weapons by hostile countries. The agency oversaw about 10,000 export licenses for U.S. shippers last year.

About 60 percent of applications are still filed with the Export Administration on typed paper forms. Once received, the agency has to scan these documents into its system before the application review process begins.

If data is missing, it could take weeks before a shipper's application is approved. Paper documents also lead to backlogs of export license applications at the agency.

SNAP uses an encryption system, similar to what banks use today, to move the data from the shipper's computer to the Commerce Department mainframe.

The system was designed for ease of use. "We tried to develop the initial format to mirror the paper forms," said George Ipock, assistant program manager for SNAP.

SNAP allows for the Internet submission of commodity classifications, which exporters must file if they're trying to find out if their products require export licenses. The agency receives 3,000 to 4,000 of these requests a year. SNAP also allows for the filing of re-export applications and high performance computer export notices.

The Export Administration says another benefit of the system is its "built-in edits," which prevent companies from filing incomplete applications.

The service is free to U.S. exporters. To access the system, companies must register to receive their personal identification numbers. The website is at www.snapbxa.com.

The Export Administration's sister agency, the Census Bureau's Foreign Trade Division, is developing a similar free Internet-based service for companies to file their shipper export declarations.

Exporters are eager to use SNAP to help them reduce the complexity of preparing and filing export applications with the Export Administration. "The system appears to be very straightforward with filing data," said Robert I. Kimbrel, export control administrator for 3M Logistics in St. Paul, Minn.

In the first two months of use, SNAP gained about 400 users from small and large companies. The Export Administration wants to especially target those smaller firms that still file export applications on paper.

Many large exporters file license applications through third-party service providers, which use electronic-data-interchange connections with Commerce's mainframe, called the Export License Application Information Network. The three service providers are OCR Services, MK-Ibek and Vastera.

"These companies offer services beyond what SNAP can do," Cohen said.

In fact, SNAP still cannot process other documents, such as marketing brochures and diagrams, which often accompany export license applications. These documents must still be faxed or shipped by courier to the Export Administration after the application is filed over the Internet. ■

Pacific services target niche ports

New entrants find smaller ports to gain edge over established lines.

BY PHILIP DAMAS AND SIMON HEANEY

For years, transshiping cargo over a bigger Asian hub port was the only way to ship containerized goods across the Pacific to or from smaller Asian outports such as Xiamen, China and Jakarta, Indonesia.

That's changed.

Pacific shipping lines CMA-CGM, Norasia, Mediterranean Shipping Co. and Trans-Pacific Lines recently began offering direct service to and from what were previously categorized as "feeder ports."

The transpacific "is a trade where all the shipping lines are offering services," said Rodolphe Saade, general manager CMA-CGM. "To be different from the other carriers, we try to cover ports that are not well served."

In the process, the lines are creating more Pacific capacity, welcome news as the transpacific trades enter their peak season.

CMA-CGM, whose ships started calling Los Angeles and Oakland in early June, is one of only two carriers to provide direct service from Jakarta to the U.S. West Coast (see table 1).

Eastbound, CMA-CGM's transpacific service calls at Port Kelang, Jakarta, Chiwan (South China), Hong Kong and Shanghai. Westbound, the ships call at Kawasaki, Kobe, Hakata, Busan, Inchon (Korea), Xingang, Dalian, Qingdao, Xiamen and Port Kelang.

Swiss carrier Norasia Lines is also entering the transpacific with a niche port strategy.

But whereas Norasia's "APX" weekly transpacific service will call at Vancouver,

TABLE NO. 1

Direct transpacific services for Southeast Asian niche ports

Service	Carrier and service type	frequency	EB *WB*	Los Angeles/ Long Beach	San Francisco	Oakland	Seattle/ Tacoma	Vancouver, BC
Manila								
PM&O - Micronesia	niche	21 days	- -	38 - 25 -		37 - 27 -		
Trans-Pacific Lines/Madrigal	new entrant new service	fortnightly	Th *Tu*	19 Tu 19 Th	22 Fr 17 Sa			
Laem Chabang/Bangkok								
Grand Alliance - PNX	established	weekly	We *Mo*			20 Tu 19 We	16 Fr 23 Sa	18 Su 22 Su
New World Alliance - SAX	established	weekly	Mo *Sa*	17 Th 19 Mo		22 Tu 17 We		
Norasia - APX	new entrant new service	weekly	Fr *Fr*				TBA	22 Sa 20 Sa
Port Kelang								
CMA-CGM - North China/ Japan Transpacific Express	new entrant new service	weekly	Fr *Mo*	25 Tu 34 Tu		27 Th 32 Th		
Evergreen - RTW eastbound	established	weekly	Mo -	22 Tu - -				
Grand Alliance - SSX	established	weekly	Tu *Tu*	17 Fr 20 We				
Hanjin/Cho Yang/DSR - PDM 1	established	weekly	- *Su*	- - 22 Sa		- - 20 Mo		
Hanjin/Cho Yang/DSR - PDM 2	established	weekly	Tu -	20 Mo - -		23 Th - -		
New World Alliance - PS1	established	weekly	Tu *Tu*	21 Tu 19 Th			17 Fr 23 Su	
Norasia - APX	new entrant new service	weekly	Mo *Mo*				TBA	19 Sa 23 Sa
S-L/Maersk - SZX/AE4	established revised service	weekly	Th *We*	18 Mo 21 We		21 Th 20 Th		
Jakarta								
CMA-CGM - North China/ Japan Transpacific Express	new entrant new service	weekly	Su -	23 Tu - -		25 Th - -		
Norasia - APX	new entrant new service	weekly	We *We*				TBA	17 Sa 25 Sa

Notes: The days of the week shown under the Eastbound/Westbound heading are the day of the week of departure from the Asian port (eastbound) and the day of the week of arrival at the Asian port (westbound).
The numbers shown in the body of the table are the transit times eastbound (first line) and westbound (second line).
The transit times are followed by the day of the week of arrival at the American port (eastbound) or of departure from the American port (westbound).
TBA - To be announced.

Source: ComPair Data. More information available on-line at www.compairdata.com

TABLE NO. 2

Direct transpacific services for Chinese niche ports

Service	Carrier and service type	Frequency	EB *WB*	Los Angeles/ Long Beach	San Francisco	Oakland	Seattle/ Tacoma	Vancouver, BC
Dalian								
CMA-CGM - North China/	new entrant	weekly	-	- -		- -		
Japan Transpacific Express	new service		*Sa*	25 Tu		23 Th		
COSCO/Yangming -	established	weekly	Su	22 Mo				18 Th
China Northeast CEN	new service		*Su*	18 We				23 Fr
Xingang								
CMA-CGM - North China/	new entrant	weekly	-	- -		- -		
Japan Transpacific Express	new service		*Th*	23 Tu		21 Th		
COSCO/Yangming -	established	weekly	Tu	20 Mo				16 Th
China Northeast CEN	new service		*Mo*	19 We				24 Fr
Qingdao								
CMA-CGM - North China/	new entrant	weekly	-	- -		- -		
Japan Transpacific Express	new service		*Su*	26 Tu		24 Th		
COSCO/Yangming -	established	weekly	Th	18 Mo				14 Th
China Northeast CEN	new service		*We*	21 We				26 Fr
Grand Alliance - JCX	established	weekly	Tu	14 Tu		17 Fr	21 Tu	20 Mo
			Tu	26 Th		25 Fr	20 We	21 Tu
New World Alliance -	established	weekly	Su	15 Mo		18 Th		
Guam China Express	revised service		*Su*	18 We		16 Fr		
Wilhelmsen - main ro/ro	established	2/monthly	-	16 -				
			-	- -				
Xiamen								
CMA-CGM - North China/	new entrant	weekly	-	- -		- -		
Japan Transpacific Express	new service		*We*	29 Tu		27 Th		
COSCO/Yangming/"K" Line -	established	weekly	Sa	19 Th		22 Su		
China Southeast CES	revised service		*Fr*	20 Sa		18 Mo		
Trans-Pacific Lines/Madrigal	new entrant	fortnightly	Su	16 Tu	19 Fr			
	new service		*Sa*	23 Th	21 Sa			

Notes: The days of the week shown under the Eastbound/Westbound heading are the day of the week of departure from the Asian port (eastbound) and the day of the week of arrival at the Asian port (westbound).
The numbers shown in the body of the table are the transit times eastbound (first line) and westbound (second line).
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TBA - To be announced.

Source: ComPair Data. More information available on-line at www.compairdata.com

British Columbia, and a yet-to-be-named U.S. Pacific Northwest port, CMA-CGM will move cargoes via southern Californian ports.

Norasia's Pacific service started in June, with a port rotation of Laem Chabang, Port Kelang, Singapore, Jakarta, Hong Kong, Keelung, Busan, Vancouver, a U.S. Pacific Northwest port, Busan, Kaohsiung, Hong Kong and Laem Chabang again.

Trans-Pacific Lines, the new Taiwanese operator, has started a fortnightly link between Southeast Asia (Manila), mainland China (Xiamen and Yantian), Hong Kong, Busan and Los Angeles and San Francisco Trans-Pacific recently merged its service with Magrigal Wan Hai.

The new transpacific service of Mediterranean Shipping Co. isn't as unconventional as those of the three other new entrants, but it includes direct calls in China at both Shanghai and Chiwan.

The rotation of Mediterranean Shipping's new weekly service is Los Angeles, Oakland, Yokohama, Busan, Shanghai, Chiwan, Hong Kong, Busan and Los Angeles again.

By adding direct services to and from Chinese ports, both new transpacific operators and established carriers have widened the range of direct service options available to shippers (see table 2).

China Ocean Shipping Co., China's national carrier, seems to have anticipated the new competition. It has just launched an additional China Northeast weekly loop and a revised China Southeast weekly service. Combined, these two COSCO loops provide direct service to and from Xiamen, Dalian, Xingang, Qingdao and Shanghai.

Yangming Marine Transport, COSCO's partner in the COSCO/Yangming/"K" Line alliance, said recently that it will also have space on the China Northeast service.

Maersk does not offer a direct transpacific connection to Jakarta and Xiamen, said Thomas Eskesen, director of strategy, Pacific services, for the Danish megacarrier. But Maersk provides a daily feeder service from Jakarta that can connect to Maersk's motherships, he said. Frequent feeder service is also provided between Chiwan and the main ports of Kaohsiung and Hong Kong, where motherships call several times a week.

"We don't see the need to go in there (into smaller Asian outports) with 4,000-TEU ships," Eskesen said. Maersk and Sea-Land are currently adding new 6,600-TEU vessels to their Pacific services.

How will the new shipping lines compete with the big-ship, multiple-loop, global alliance carriers? The new players have just one loop each, no alliance partners and their vessels are half of less the size of their established competitors' ships.

The new niche operators will have an edge because they won't bear transshipment costs — and they may attract shippers or forwarders who prefer direct services.

But the new entrants will have to demonstrate if they can afford to send smaller vessels to small and generally less-productive outports, while missing out on the economies of scale of bigger vessels.

"The only chance, on a long-term basis, to be competitive (with small vessels in the Pacific) is to serve smaller niche ports and save money on transshipment," said Mark Page, research director of Drewry Shipping Consultants. He added that carriers that charter ships can also benefit from very low vessel charter rates.

Research on comparative transit times by *American Shipper,* using the ComPair Data global shipping database, shows that the new services aren't any faster than transshipment services.

For example, carriers of the Grand Alliance (NYK, OOCL, P&O Nedlloyd, Hapag-Lloyd) and of the New World Alliance (APL, Hyundai and Mitsui O.S.K. Lines) can match the 23-day transit time of CMA-CGM from Jakarta to Los Angeles/Long Beach.

From Xiamen to Los Angeles/Long Beach, several established carriers can provide a 17-day transit using a transshipment service that is comparable to Trans-Pacific Lines' 16-day direct niche service.

TABLE NO. 3

Additional Pacific services and capacity

Service name	Avg. vessel size (TEUs)	frequency	Add'l one-way capac. (TEUs)
New entrants			
Mediterranean Shipping Co.	3,080	weekly	160,000
CMA-CGM – NCJ/TX	1,800	weekly	94,000
Norasia – APX	1,100	weekly	57,000
Trans-Pacific Lines	1,800	fortnightly	47,000
Total new entrants			358,000
Existing operators			
COSCO – China Northeast CEN (7th West Coast loop)	2,010	weekly	105,000
Evergreen – KJW (5th loop)	1,810	weekly	94,000
Zim Pacific Line (2nd loop)	1,800	weekly	94,000
APL/TMM – Mexico Asia Express	1,800	weekly	94,000
FESCO – Pacific Line (2nd loop)	1,700	12 days	52,000
Total existing operators			439,000
Total new capacity			797,000

Note: The table only includes additional capacity of new loops. It does not show the capacity added by Evergreen, Maersk and Sea-Land by introducing bigger ships into existing loops.

Source: ComPair Data. More information available on-line at www.compairdata.com

This does not mean that established transpacific carriers are always content to stay with transshipment operations.

In addition to COSCO's new direct services, Evergreen, Zim, APL, Transportacion Maritima Mexicana and FESCO added new loops since April (see table 3). These services have added new direct port connections, as well as new capacity.

Sea-Land and Maersk have also started revamping their "TP5," "TP6" and "Suez Express" services between Asia and North America and added capacity to the trade.

Many eastbound shippers, forwarders and non-vessel-operating common carriers, worried about space availability during the approaching peak season, will welcome the addition of extra capacity.

But the wholesale addition of nine new loops raises the likelihood that overcapacity could return to the Pacific trade.

Not only will the new services add 797,000 TEUs in one-way annual capacity, but the introduction of bigger ships into existing services by Evergreen, Maersk and Sea-Land will also add more than 100,000 TEUs a year. Combined, these changes will represent an increase in capacity of more than 10 percent.

Will this reverse the supply/demand balance in the eastbound trade?

Kim Balling, general manager of OOCL in Hong Kong, points out that the late start of the new loops this year won't impact the full-year ship utilization of carriers. And cargo volumes are also increasing steadily in the eastbound direction.

OOCL predicts an increase in eastbound traffic of about 15 percent this year.

"The trade growth will absorb the new capacity — it's a given," Balling said.

A spokesman for Yangming Marine predicted that ship utilization "will be kept at an acceptable level."

Several established carriers, including Evergreen and Yangming, sought to play down the new competition.

"There are operators with no experience of the transpacific," a Yangming executive said, adding the transpacific trade "cannot be handled as easily as other trades."

An Evergreen spokesman said recently that newcomers in the Pacific trade have "no adequate facilities to handle intermodal point inland and on-chassis operations as required in the trade" (June *American Shipper,* page 74).

But Norasia, for example, has signed a contract with Canadian Pacific Railway to move transpacific container traffic to and from the Midwest via its Vancouver/Chicago rail corridor.

Norasia calls weekly at Vancouver, the first eastbound North American port call of the service. This enables the shipping line to provide a fast transit time from Asia to the Midwest. ■

Nothing sacred

Carriers try to implement confidentiality programs, but industry experts still skeptical.

NEW YORK

To many industry experts, the ocean carriers' claim that they can keep contract rates secret is like pouring water through a cracked pipe.

Confidential service contracts between carriers and shippers are permitted for the first time in the U.S. under the Ocean Shipping Reform Act, which took effect in May.

Although clauses for secrecy are in the contracts, the true test of confidentiality will come when the details flow from carrier to shipper. In between them are many intermediaries, such as forwarders, customs brokers and non-vessel-operating common carriers, which view rate information.

Powell

"Confidential contracts are seen as a panacea. It will not work in the trade today," said Peter H. Powell Sr., chief executive officer of C.H. Powell, a Peabody, Mass.-based forwarder and customs broker. "

"It is naive to think we'll keep rates secret," said John G. "Jack" Partilla, former vice president of logistics for Olympus America during a conference of the American Association of Exporters and Importers in New York.

Partilla

There's also an inability in the industry's workforce to keep rates secret. Even information technology cannot guarantee 100-percent protection of rate data.

Finding Leaks. But carriers are taking confidentiality seriously. Many of them have recently implemented in-house programs to insure that rate information is not leaked.

"We're trying to think of every type of leakage that we may have," said Edward Kelly, chief operating officer for Cho Yang America. The carrier recently required all of its employees to sign letters holding them to strict confidentiality.

Even freight cashiers on the piers and messengers are looked at suspiciously as potential leakage points. Carriers have to make it a point to hand over hardcopy documents in sealed envelopes. "You can no longer take any chances," Kelly said.

> ***"Confidentiality is going to be a problem because there are a lot of loose ends. There's a fear of breaches on both sides."***
>
> **Paul Keane**
> *senior partner, Cichanowicz, Callan, Keane, Vengrow & Textor*

In the past, carrier staff didn't concern themselves with confidentiality of rates because the information was made public at the Federal Maritime Commission. The only rates that will be available to the public now are the commercial tariffs, which are required under the shipping reform act to be posted on the carriers' Internet websites.

Carrier trades outside the U.S. have been less sensitive to the issue of confidentiality, because most freight in these trades are moved on a port-to-port basis. The need for intermodal services in the U.S. makes rates more of a competitive issue to shippers, Kelly said.

In-House Reckoning. When a shipper calls asking about rate information, the carrier employee must take extra care to identify the caller and its relationship to the shipper, and then document the discussion.

Some carriers have reduced the ability of their sales forces in the field to discuss specific rates. Any rates that are given out will likely be market-based averages.

"We're keeping all pricing centralized at our U.S. headquarters," said Thomas Eskesen, director of strategy for Pacific trades at Maersk, based in Madison, N.J. "No deals will be made out in the field."

Most carriers also believe that rate data can be more easily secured by centralizing their document production. Bills of lading can be sent directly to shippers via the Internet.

Carriers say the only time that they will disclose confidential rate information is when they are required by law. Many customs agencies require copies of rated bills of lading for assessing duties. Bills of lading are also needed for processing letters of credit.

But carriers know that it will be a constant battle to maintain confidentiality of carrier rates. "Anyone who says they have a lock on this is only kidding himself," said Arthur O. Thomas, manager of trade and regulatory affairs for APL in North America.

'Me, Too' Contracts. One concern of carriers is the likelihood of being socked with lawsuits from shippers for leaking rate information. "Confidentiality is real," Kelly said, "Someone, some place will take it seriously."

The trouble is that being a little bit confidential is like being a little bit pregnant. You either are, or you're aren't.

"Confidentiality is going to be a problem because there are a lot of loose ends," said Paul Keane, senior partner in the New York admiralty firm of Cichanowicz, Callan, Keane, Vengrow & Textor. "There's a fear of breaches on both sides."

"A shipper uses a freight forwarder, who has other customers in the same kind of trade. The forwarder can let out whatever rate that shipper is getting."

"You've got the same situation with customs house brokers," Keane said. "They know the value of the freight that's coming in.

"A lot of service contracts are going to have clauses that say, 'if you give someone a better rate, you'd better give it to me, too.' "

In that situation, Keane said, "if you don't lower the rate, you're violating your contract with company A, and if you do lower it, you're violating your agreement with company B."

Generally, where leaks have occurred, "I think you're going to see contracts terminated, rather than much litigation developing. It depends on the provisions in a specific contract. If a clause says that 'if we find out you're not giving us the lowest rate, you're going to have to pay $X amount in estimated damages,' that could lead to a lawsuit."

On the shipper side, "they're worried about what carriers will discuss in discussion agreements and conferences," Keane said.

Carriers are not so much worried about their own people, he said, as they are about contractors on the shipper's side, meaning freight forwarders and customs house brokers, revealing to other customers a favorable rate that a particular shipper has obtained from a carrier. ■

APL offers EDI transparency via Internet

Module for ocean carrier's HomePort program manages shipments by exception, without costly EDI.

OAKLAND, Calif.

APL has introduced an Internet-based shipment management program that offers shippers many of the benefits of electronic data interchange, but without the heavy development costs.

QuickReport is a new module for APL's HomePort program, a customizable web page introduced in February. QuickReport enables shippers to sort and filter their shipment data and view exceptions that may be of interest at any moment.

APL believes that it will give shippers or forwarders information on their shipments much faster, and enable them to focus on problematic exceptions.

Hickler

"The Internet, with all its benefits, has the potential to overload logistics managers with extraneous data," says Hans Hickler, vice president of customer service and information strategy for APL.

"Logistics managers may have hundreds of shipments moving between various origin and destination points on a particular day, and they don't have the time to sort through endless pages or screens of data looking for a single 'exceptional' shipment that could represent a special opportunity or problem," he explained.

QuickReport can generate a customer-specific report on shipments that will flag such exceptions.

"They (shippers) want to know: 'Have all my goods from Hong Kong been delivered in Chicago, or could I still divert a container to New York?' Or, 'Are any of our computer monitors from Rotterdam or Silicon Valley stuck in customs at Dubai?' " he said.

Using the APL system, the shipper or supply-chain manager sets the parameters to configure the shipment management reports and can modify or save the parameters in the system to generate future reports. Having defined different steps (or status) of the journey of their typical shipments, shippers can view and print a list of shipments for each status and get instant visibility of their progress.

APL said that the delivery of the customized reports can be pre-scheduled, so they automatically arrive by e-mail at the same time each day or each week. The reports can be downloaded and printed.

Hickler said that the visibility of the users' data on the Internet "reverses the way they do business." Instead of calling APL by telephone to check routinely whether shipments have arrived or are on time, they are alerted virtually automatically about the few shipments that are problematic.

APL updates its shipment database in the system twice a day.

While APL and other carriers already provide advanced shipment management systems, via EDI, to their large customers, APL's Internet-based tool extends this functionality to medium and smaller shippers.

"We have mass-produced that capability," Hickler said. "It's a big shipper tool for everybody."

APL provides the system free to all of its customers regardless of shipment volume. Users must request an approved user login name.

Users can define and generate reports using some 50 data fields, such as bill of lading number, bill of lading status, consignee name, vessel, origin receipt date or U.S. Customs cleared. The system goes down to the level of B/Ls, but not to that of stock keeping units.

By using the Customs clearance "flag" entered in the system, a shipper can see, for example, which goods have arrived, but have not yet cleared, Hickler said.

APL's HomePort program is a "portal" — meaning a customer-specific, personalized gateway or window to the website.

One APL portal is assigned to a given individual. If different traffic managers are responsible for different routes or regions, each traffic manager will have a specific portal that will follow shipments on particular routes, Hickler said.

When users log in using the portal, the first thing they see is a "shipment summary," showing status of all active shipments from origin to destination.

The users can customize the portal so that they see only the information and the "tools" they routinely require.

In effect, the website centralizes all the various information modules of the APL website, such as schedules, vessel tracking, interactive booking, bills of lading printing and shipment summaries.

APL's home page (www.apl.com) includes demos of the HomePort and QuickReport programs. ■

Shipping lines beef up Internet services

CHARLOTTE, N.C.

For ocean carriers, the Ocean Shipping Reform Act provision which allows them to post their tariffs on the Internet has become an opportunity to expand services to shippers online.

Sea-Land Service, "K" Line America and P&O Nedlloyd Container Line are at various stages of developing online services.

Sea-Land has appointed Manhattan Associates Inc., an information technology firm based in Atlanta, Ga., to develop a global inventory management system.

Sea-Land and Manhattan Associates will develop streamlined processes in the Asian market that will "change global inventory management by shaving weeks off of inventory cycle times," the IT firm said.

Gary Gilbert, president of Buyers, the consolidation division of Sea-Land, said that Manhattan Associates will "contribute to Sea-Land's war against inventory."

The IT system will allow Sea-Land and its customers to predict overseas shipments and plan accordingly to fulfill retailers' orders.

In addition, value-added services, previously performed for each retailer by the manufacturers' distribution centers, will be fulfilled by Sea-Land in one of its port facilities.

"K" Line America Inc. has launched Global Tracking capability through the Internet.

Real-time cargo status information can be obtained through a search of bills of lading or container numbers via "K" Line's website (www.k-line.com). A search by North American booking number will be added soon.

The information displayed is based on electronic data interchange information exchanged among the shipping line's global offices, terminals and inland carriers.

P&O Nedlloyd Container Line will add shipment tracking, interactive booking and bill of lading printing functionalities as it revamps its Internet site.

The functionalities will be introduced in phases through the end of the year.

Meanwhile, COSCO Container Lines said that it has started tests on paperless transmission of vessels manifests on several routes.

The Chinese carrier said that it has sent its manifests — or documents containing details of cargo on board a ship — by electronic data interchange to its local agents in Xingang (China), Hong Kong, Singapore, Israel, Italy, France, Spain and North America.

COSCO will also transfer agents' handling and disbursements data by EDI, the carrier said. ■

PAL's major creditors

Creditor	PAL aircraft owned	Outstanding principal
European Credit Agencies	12	$890 million
U.S. Export-Import Bank	4	$341 million
Marubeni Airleasing U.K., Mitsui Trust & Banking Co., Ryoshin Aviation Ltd.	2	$69 million
Kreditanstalt fur Wiederaufbau	1	$35 million
Korea First Bank, First Bank of Korea	1	$12 million

Source: Philippine Airlines' rehabilitation plan (Reuters)

Philippine Airlines still alive

Philippine government moves to restrict competition.

MANILA

Debt-strapped Philippine Airlines is holding on by the skin of its B747s, having met a liquidation deadline for uncovering $200 million in fresh capital, the airline said.

Lucio Tan, chairman of the ailing Philippine flag carrier, said PAL deposited the money in June, ending another chapter in an ongoing ordeal during which several restructuring plans have been rejected, aircraft seized and lawsuits filed.

Now the hard part begins.

Under a proposed restructuring plan, analysts say PAL will have to cut some 3,000 jobs from a staff of 8,000, win back its customers who long ago switched to other airlines and consolidate its international operations.

The transition will be a painful one for the airline and its employees. "We are already down to the bone," said Steve Yia, U.S. cargo sales and services manager for PAL in San Francisco. "If they make more cuts here, they are going to be drawing blood."

But the effects of PAL's potential resurgence are already reaching beyond the carrier, forcing market changes that may reduce competition, lower the quality of air freight service to and from the Philippines and raise rates for shippers.

The Philippine government set an ominous precedent in May, when it repealed the right of Emirates airline to serve Manila from Hong Kong in an apparent effort to remove competition. Due to the loss of its fifth freedom rights, or the right of an airline to serve a country from another country other than the airline's home nation, Emirates now flies directly to Manila from Dubai without serving Hong Kong's strong travel market.

> ***"We are already down to the bone. If they make more cuts here, they are going to be drawing blood."***
>
> **Steve Yia**
> *U.S. cargo sales & service manager, Philippine Airlines*

"Unfortunately, this is what happens when governments protect national airlines," said Ram Menen, senior general manager of cargo for Emirates. "The problem is that it ends up actually halting growth and hurting taxpayers."

Philippine regulators are reconsidering an "open skies" policy adopted by the Philippine government earlier this decade. That decision reportedly is based on a request made by PAL in the airline's restructuring proposal presented to the Philippine Securities and Exchange Commission in May.

U.S. officials, however, do not expect U.S. airlines to be affected by any changes in the Philippines. "It's business as usual," a spokesman for the U.S. Department of Transportation said.

Any new policy will likely target the rights of Asian carriers in order to secure certain lucrative intra-Asian routes, PAL's Yia said. "The Asian carriers have been dumping a lot of capacity into the Philippine market and using beyond rights to serve the U.S.," he said.

Yia said PAL is serving Los Angeles and San Francisco daily with four B747-400s owned by the U.S. Export-Import Bank. The carrier has completely pulled out of Europe and Asia.

The Philippine policy poses an even more dangerous threat. Re-regulation could set an example for other nations with troubled flag carriers of their own. The financial world has seen Malaysia move to re-regulate its currency markets in the wake of Asia's economic crisis; protectionism in the aviation industry could follow.

Flag airlines in Asia, and throughout the world, are symbols of prestige and prosperity. That's why many nations feel obligated to protect their carriers. Particularly in Asia, analysts say some airlines in Indonesia, Malaysia and Korea have suffered as badly as PAL from the declines in passenger and cargo traffic brought on by Southeast Asia's financial collapse. These airlines may also owe just as much money.

Due to a lack of transparency, the Asian flu's actual effect on the aviation industry may never be known.

"We have an archaic system in the airline business, in the sense that there is no foreign ownership allowed," Pierre J. Jeanniot, executive director and chief executive officer of the International Air Transport Association, said earlier this year. "There is still very much a 'flag carrier syndrome,' and that feeling is going to stay for some time.

"The minute we see the constraints change, we will see airlines buying each other and we will see truly global airlines emerging," Jeanniot said. "But it is like the Berlin Wall. It is there, and you don't know when it is going to fall." ■

Malaysian Airline System plans to sell planes

KUALA LUMPUR, Malaysia

Malaysian Airline System, Malaysia's national airline, plans to sell 15 airplanes this year in an effort to reduce the carrier's debt load.

MAS has been suffering from lower traffic and a growing debt burden caused by Asia's financial crisis. The airline reportedly owes more than $3 billion to creditors.

MAS reported a loss of 700 million ringgit ($184 million) in the fiscal year ending March 31, compared to a loss of 260 million ringgit in the previous year.

MAS has been one of the airlines hardest hit by Southeast Asia's economic problems. The airline's net loss from foreign currency exchange exceeded 390 million ringgit for the fiscal year. ■

Continental, Northwest have cargo plan

Alliance partners integrate domestic package services.

NEW YORK

Northwest Airlines and U.S. alliance partner Continental Airlines have taken a first step toward greater cargo cooperation by integrating their domestic express package services.

The carriers said the agreement is the first phase of cargo plan that will lead to joint development of a domestic freight service line and perhaps more cooperation on international routes.

"The long-term goal is to see how much we can cooperate with Continental on the cargo side," said Mark Fullerton, a cargo marketing specialist for Minneapolis-based Northwest. "We are going to see how it goes in this first step."

Edward R. O'Meara, senior director of cargo revenue management for Houston-based Continental, said the second phase of the cargo plan will be completed in September, when Northwest and Continental introduce a joint international express air freight service and integrate their domestic heavy-freight operations.

Next year, the airlines plan to form a broader network through strategic interline agreements with other partners, such as Alaska Airlines.

Under the new express program, shippers can ship Continental same-day Quickpak shipments and Northwest's VIP branded express shipments on either airline to more than 230 U.S. destinations. The two airline's will offer the same service for each shipment — money-back-guaranteed delivery of shipments weighing less than 100 pounds with 30-minute recovery times at destination.

Northwest and Continental have no plans to match their international heavy-freight operations. However, O'Meara said the airlines already cooperate on some routes in Asia through interline and bilateral pro-rate agreements. Continental sells capacity on some of Northwest's intra-Asian flights to Narita Airport in Japan for connection to Continental B777 flights to Newark and Houston. The airlines also have interline agreements in Honolulu.

"Northwest gives us rates that are better than what we were getting from other carriers," O'Meara said.

Meanwhile, Northwest has acquired its ninth B747-200 freighter, which will begin flying Sept. 1 in the airline's transpacific all-cargo network that includes service to Japan, Hong Kong, Taiwan, Thailand, Singapore and the Philippines from New York, Chicago, Los Angeles, San Francisco and Seattle.

Jim Friedel, vice president and general manager of cargo at Northwest, said the freighter will enter service at an "opportune" time. "The Asian economies are showing signs of a rebound," he said, "and we will be well-positioned to accommodate the needs of our customers with increased capacity for the upcoming fall peak period."

Pending approval from U.S. regulators, Northwest also hopes to begin freighter service to China in September.

Rumors were flying at a recent industry meeting about a possible all-cargo debut from Continental. But O'Meara said the carrier has no plans to fly freighters in the near future. "We are sharpening our wits about freighters," he said. "We are trying to make sure that we understand the economics of flying those things."

Continental and Delta Air Lines are awaiting a decision by Air France as to which U.S. airline the French carrier will choose as its global alliance partner. The decision, which may force Continental to fly freighters, is expected by the end of the year.

"Air France has said whatever partner they choose will probably have to fly freighters," O'Meara said.

The growing relationship between Continental and Northwest, however, opens the door for Continental to develop stronger ties with Northwest's European partner, KLM Royal Dutch Airlines, and KLM partner Alitalia. Some industry sources have even said the four airlines have discussed forming a global alliance called Wings.

Although Continental shares space with Alitalia Cargo on some transatlantic routes, O'Meara said there has been no talk of cargo integration with any carrier but Northwest.

A lawsuit filed by the U.S. Justice Department opposing Northwest's ownership stake in Continental should have no effect on the two airlines ability to align services, he said.

Under the alliance agreement struck by the carriers last year, Northwest bought a 14-percent equity stake in Continental. Northwest purchased class A stock — created when Continental was in financial turmoil — which carries additonal voting power, giving Northwest 49 percent of the airline's voting rights. The Justice Department says a Northwest-Continental merger will reduce competition. ■

Wim Bosman saves Rutges

Will provide air freight trucking services to airlines, shippers.

AMSTERDAM

Dutch logistics company Wim Bosman has given air freight trucking in Europe a major boost by taking over the Rutges Group, an airport-to-airport trucking company that was forced into bankruptcy this year.

Wim Bosman said it will use its new trucking subsidiary, now called Rutges Cargo, to build a pan-European airport-to-airport and airport-to-door ground network for air freight.

Rutges Cargo, based in Amsterdam, maintains an office at the Aalsmeer flower market in the Netherlands and at London's Heathrow Airport. The trucker plans to open operations in Frankfurt, Paris and Sweden.

"The thing in Europe now is one-stop shopping," said Ton van Peperstraten, general manager of Rutges Cargo. "We have a big opportunity with Wim Bosman to set up a European network for offering customers more door-to-door transport in combination with the airlines."

Trucking operations tailored to the air freight industry have grown substantially in the U.S. Indeed, most "air freight" in America actually doesn't move on airplanes, but inside trailers rolling on the country's extensive interstate highway system.

As the demand for time-definite services has grown, reliable air freight trucking has taken a more prominent role in the business as a link between the airport and the shipper or consignee. The airlines have even set up an independent U.S. organization, Air Cargo Inc., to manage the interaction between airlines, freight forwarders and ground carriers. ACI provides billing, communications and contracting services.

In Europe, trucking has developed more slowly. Before deregulation, customs delays made air freight trucking untimely and inefficient. But as the barriers to trade have come down, international trucking service is improving and expanding. That doesn't please the environmentalist movement, but more efficient trucking should improve the level of service available to shippers.

Rutges, a collection of trucking operations in the United Kingdom, the Netherlands, Germany, France and Belgium, was one of the first companies in Europe to operate trucks based on airline flight schedules.

Van Peperstraten, who has been with Rutges for 11 years, said the company ran into trouble as economic conditions in northern Europe deteriorated in 1997. Rutges' domestic trucking operations in the U.K and Germany sank into the red and the company was forced to seek bankruptcy protection for its still-healthy Dutch business earlier this year.


Goes

Wim Bosman took over Rutges' Dutch business and bought the old Rutges office in London in May. The rest of Rutges Group has faded away and Bosman has no plans to revive the company's domestic operations. The logistics firm hopes Rutges will give it penetration into Europe's growing air freight market.

"We were not very involved in the air freight industry. So, Rutges fits in well with our system," said Chris Goes, Wim Bosman's marketing manager. "We expect a lot of growth in the airport-to-airport market because of the concentration of airlines at European airports. The airlines are trying to remodel their operations and that means more volume will be trucked. There will be more regular flights with smaller airplanes, so there will be less air capacity."

Wim Bosman specializes in providing logistics services for non-European companies looking to tap Europe's consumer market. The company provides ocean and air freight forwarding services, operates warehouses and drives a fleet of 700 trucks.

Wim Bosman has been in business since 1963 and had sales of more than $78 million last year. Goes said Wim Bosman and Rutges initially will focus on providing dedicated services for perishables shippers in Europe, particularly Dutch flower exporters.

Rutges operates a fleet of about 100 trucks that have been designed especially with roller beds to handle air freight containers. The company's main competition in the air freight trucking arena is fellow Dutch firm Jan de Rijk. ■

EC narrows air transport immunity

BRUSSELS

The European Commission has adopted a regulation which extends antitrust immunity for Europe's air transport industry, but narrows the scope of the exemption.

The commission extended portions of the former Regulation (EEC) 1617/93, which gave immunity to airlines' passenger tariff consultations; slot allocation at airports; joint planning and coordination of airline schedules; and joint operations.

Under the revised regulation, certain categories of agreements and concerted practices regarding passenger tariff consultations and slot allocation at airports will continue to be exempt until June 30, 2001.

However, the European Commission has not renewed Regulation (EEC) 1617/93 for joint planning and coordination of airline schedules and joint operations.

The Brussels-based regulator said that "there are hardly any such agreements currently in force" on joint planning and scheduling and on joint operations. ■

EC: European airlines 'still fragile'

BRUSSELS

European airlines have significantly improved their economic and financial performance following market liberalization in Europe, but they are "still commercially fragile" when compared to their North American competitors, the European Commission said.

In a report published in May, the EC expressed broad satisfaction about the restructuring of the European airline industry and the European single market liberalization. However, the EC said that further restructuring is made difficult by the bilateral agreements between individual EU governments and third countries.

"In this framework, air transport in the EU cannot pursue the strategies most other industries use to be competitive in a global market," the EC said. Some EU airlines have received one-off subsidies to support restructuring, but further state aids are no longer justified, the commission said. ■

KLM shelves bid for Nedlloyd's stake in Martinair

AMSTERDAM

KLM Royal Dutch Airlines has withdrawn its plans to take over Nedlloyd's 50 percent stake in Martinair.

KLM said it withdrew its bid after the European Commission "expressed serious doubts whether the transaction met the requirements of European Union rules on competition." KLM already owns 50 percent of Martinair.

KLM said it offered to modify its proposal to insure competition on the Dutch domestic market, but the airline and the EC could not agree on details. ■

CSXT, Norfolk Southern find bugs

JACKSONVILLE

CSX Transportation and Norfolk Southern have been working out the bugs since their June 1 takeover of Conrail.

And as these two railroads try to pull off one of the most complicated mergers ever, Illinois Central and Canadian National have been cleared to begin joining their lines into a truly North American railroad.

Conrail's split between CSX and NS brought competitive rail service to the Northwest for the first time in more than 20 years, and created rail systems that blanketed the U.S. east of the Mississippi.

Observers said that two weeks after startup, CSX's and NS's grip on their new tracks and equipment is firm, and will abide. But service has suffered because of many more glitches than had been anticipated.

There's also a perception that CSXT was better prepared in its data systems than NS, a subject that neither railroad will comment on. Both have endured communications disruptions, but those at CSXT appear to have ended faster.

On June 14, Dan Yoest, president of CrossRoad Carriers Intermodal Co., in Tucker, Ga., said that "it's worrisome to me that we're seeing the CSXT network slow down between Atlanta and Chicago."

Yoest's shipper contacts have begun to report train and cargo tracing delays on CSXT's long-established run between those cities.

"We are seeing errors in trailers moving the wrong way. It seems to be a problem on the western lines so that a container going to Harrisburg will wind up in New Jersey," Yoest said. "There seems to be a disconnect between the west and the east."

Conrail traffic, traditionally, "was junctured at Chicago and St. Louis," Yoest said. CSXT's shift toward Chicago as a gateway meant that there would be further delays in Chicago. "We were expecting that."

NS struggled out of the gate, reporting problems in transferring data from its own computers to Conrail's, leaving yard workers to track and direct rail cars manually.

Another problem for NS occurred when three former Conrail supervisors quit suddenly at NS's large freight yard in Elkhart, Ind.

"I would expect this kind of glitch on day one," said Bob Sieffert, manager of transportation for Cerestar USA, which temporarily lost track of some rail cars on NS's portion of Conrail. "It's way too early to panic."

CSXT's trains began running on the new system following a scheduled eight-hour shutdown, during which data was reloaded on its computers. The company reported no shortages of crews or locomotives.

However, on the third day of the Conrail takeover, a bolt of lightning struck CSXT's operations center in Jacksonville, disabling vital signaling and communication systems, including a backup network. The full system was down only four hours.

The lightning did not affect operations in Conrail territory, because trains are controlled out of Indianapolis and Albany, N.Y.

In Indiana and especially in Ohio, shippers have reported train delays and congestion at rail yards. Initial reports of "lost" cargo, meaning containers that had been momentarily waylaid because of tracking mishaps, have tapered off.

"We admit that our service to shippers is not at the level it should be," said a CSXT spokesperson in Jacksonville, Fla. "We anticipate that we can solve that problem sooner rather than later."

"Is service going to get as bad as it was the West, during the Union Pacific-Southern Pacific merger? I wouldn't think so," said Yoest. "But the next few weeks will tell us much more."

UP struggled with congestion that followed the railroad's 1996 acquisition of SP. The proglems betwen in the summer of 1997 in Texas and spread throughout the UP system. Traffic finally returned to normal by the end of last year.

CN/IC. The merger of Canadian National Railway Co. and Illinois Central Corp. received final written approval from the U.S. Surface Transportation Board in May.

Integration of the two railroads, which will take from one to three years, will begin July 1.

Coordination of network operations, power distribution and car fleet allocation will begin in July.

The railroads' information technology systems will operate separately until July 2000. Systems integration will be tested and implemented by that time.

Once complete, the railroad will have a combined 16,700 route-miles of track stretching from Canada to the Gulf of Mexico, 23,500 employees and annual revenue of $3.5 billion. ■

BNSF cuts spending, reorganizes staff

FORT WORTH, Texas

Burlington Northern Santa Fe Corp. is reorganizing its management and cutting 400 — about 7 percent of its workforce — during the second quarter to reduce costs and improve competition.

The U.S.'s second-largest railroad plans to cut another 1,000 jobs later.

Matthew K. Rose, senior vice president and chief operations officer has been named president and chief operating officer. He will report to Robert D. Krebs will will retain the positions of chairman and chief executive officer.

Charles L. Schultz, senior vice president of the intermodal and automotive business unit, has been named executive vice president and chief marketing officer.

Schultz reorganized marketing into four groups — agricultural products, coal, consumer products and industrial products — and made other changes designed to integrate operations and marketing functions. The groups report to Schultz.

The groups and their leaders are:

- Steve Bobb, group vice president, agricultural products, covering all grain and bulk food commodities. He has been vice president, agricultural commodities since January 1998.
- Tom Kraemer, group vice president, coal business unit. He has been vice president, coal and grain operations since May 1996.
- Steve Branscum, group vice president, consumer products business unit, which includes intermodal, automotive, perishable food and other food and beverage products. He has been vice president of intermodal marketing since July 1996.
- Dave Garin, group vice president, industrial products unit. He has been vice president, commercial products since December.

Carl Ice, vice president, operations — North, has been promoted to senior vice president, operations. He will oversee the reduction of BNSF's workforce.

The railroad plans to reduce its 1999 cash capital expenditures by an additional $100 million, to $1.85 billion. Total capital expenditures will be reduced to $2.275 billion. In 2000, BNSF plans to reduce cash capital expenditures to the $1.5-to-$1.6-billion range, and total capital expenditures to the $1.8-to-$1.9-billion range.

BNSF has created a new unit to expand its door-to-door transportation service to include logistics and information products. Gregory T. Swienton, senior vice president, coal and agricultural commodities unit, has been named senior vice president, growth initiatives, to head up the new unit.

The railroad also set up a business unit to integrate between operations and marketing. The unit will be led by Fritz Draper, vice president, business unit operations and customer service. Draper has been vice president, intermodal operations. ■

Intermodal 'founders' to gather in Denver

DENVER

Intermodal transportation managers will be able to tap into the industry's "institutional memory," when the industry's founders gather July 27-29 in Denver.

The seminar will be sponsored by the University of Denver's Intermodal Transportation Institute.

"Most of today's executives were not there at the beginning," said Gilbert E. Carmichael, a former federal railroad administrator and vice chairman of Motive Power Industries. "There is little 'institutional memory' as to how this system developed. Without that memory, today's intermodal managers will repeat the same mistakes their predecessors made 10 years ago."

The roster of speakers for the seminar is a veritable who's who of the intermodal industry, including: Michael R. Haverty, the Kansas City Southern Railway Co.; J.B. Hunt; Don Orris, Pacer International, who created APL's inland network; Phillip C. Yeager, the Hub Group; R.C. Matney, Mark VII Transportation Co.; Theodore Prince, Kleinschmidt Inc.; Thomas Finkbiner, Norfolk Southern Corp.; and Joanne F. Casey, Intermodal Association of America.

For information on the seminar or to register, phone (303) 744-7787. ■

Industry unites against harbor fee plan

Coalition supports House bill that would use general revenues to pay for maintaining ports and harbors.

WASHINGTON

Despite overwhelming political and maritime industry opposition, the Clinton Administration continues to push Congress to enact a harbor fee proposal that would levy fees on vessels to pay for the nation's harbor dredging.

The proposal would replace the harbor maintenance tax on exports, which was declared unconstiutional by the U.S. Supreme Court in March 1998. The plan, which would assess a fee on vessel operators, based on size and type of vessel operated, would raise $951 million per year to construct and maintain port projects.

The plan was denounced by the shipping industry as a $1-billion a year tax on shipping. More than 40 shipping lines, along with the Council of European & Japanese National Shipowners' Associations, the Chamber of Shipping of America and the International Chamber of Shipping, predicted the Administration's plan would cause vessel operators to divert large blocks of cargo from U.S. ports to ports in Canada, Mexico and the Bahamas.

Cargo diversions under the Clinton Administration's package would "pale in comparison" to those posted in 1991 when the old harbor maintenance tax was tripled, the carriers said.

Shippers complain that the bill would particularly harm bulk commodity exports, such as grain, feed, coal and other bulk products.

House Bill. An even larger industry coalition of shippers' associations and transportation firms argues that funding should come from the U.S. Treasury. The group supports a House bill sponsored by Reps. Robert Borski and Jim Oberstart that would authorize general revenues to pay the federal costs of operating and maintaining the nation's harbors and waterways.

"Customs revenues in fiscal year 1996 totaled $22.3 billion, of which roughly 70 percent ($15.6 billion) is attributable to cargo moving through seaports," said the American Association of Port Authorities, a coalition member. "These funds are more than 31 times greater than the annual cost of maintenance dredging."

The AAPA also said the plan "does not provide equity or ensure that there is a reasonable return to ports in relation to the amount collected."

The coalition also pointed out at a House Water Resources and Environment subcommittee hearing that there is a $1.4 billion surplus in the Harbor Maintenance Trust Fund that should be used for port projects.

Other members of the coalition include the U.S. Chamber of Commerce, the National Industrial Transportation League, the American Farm Bureau Federation, the National Grain and Feed Associatoin, the National Mining Association, the American Forest and Paper Association, the Association of American Railroads, the International Longshore and Warehouse' Union, the American Waterways Operators, the National Waterways Conference, the Baltic and International Maritime Council , the Transportation Institute, the Pacific Merchant Shipping Association, and the Agriculture Ocean Transportation Coalition.

The ports of Los Angeles and Long Beach estimate that the fees would cost containership and general cargo shipping companies calling at those ports at least $300 million a year. In April, the taxes would have totaled about $25.5 million, the ports said.

"This is an incredible incentive for more rapid port development for nearby foreign ports to the south," said the Steamship Association of Southern California.

The vessel fee plan was not without supporters at the Water Resources and Environment subcommittee hearing. Assistant Secretary of Civil Works for the Army Joseph W. Westphal said the fees raised from the Clinton Administration's plan would be lower than the harbor maintenance taxes on exports previously imposed.

Westphal offered an example, using a hypothetical containership on a round-trip voyage from Northern Europe calling at Boston, New York and Norfolk before sailing back to Northern Europe. The vessel, carrying $140 million worth of cargo in 6,000 TEUs would pay a one-time fee of $156,180 or $26 per TEU when entering Boston, he said.

Under the harbor maintenance tax system, exporters would have had to pay $175,000 or $29 per TEU for the same voyage, he said. ■

Lunetta, 2 others cleared of charges

MIAMI

A Miami federal judge cleared former Miami port director Carmen Lunetta and two others of diverting up to $1.5 million in public money and using it for campaign donations and personal uses.

Though U.S. District Judge Donald Middlebrooks said there was "substantial evidence of greed and public corruption," he ended the case before it went to jury, ruling that no theft took place.

Middlebrooks said the money did not belong to Dade County but to a private company Lunetta and two contractors set up to run the port's cranes.

Lunetta; Neal Harrington, former co-owner of Continental Stevedoring & Terminals; and West Coast bond underwriter Calvin Grigsby were accused of diverting money from Fiscal Operations, a company formed in 1982 to build and operate the Port of Miami's container cranes. Fiscal Operations collected rental fees from companies that used the cranes and were to transfer most of the funds over to the Miami-Dade County port.

Prosecutors said funds were instead used to finance an Italian restaurant in Coconut Grove, to pay "ghost" employees, lavish personal expenses and for local, county and national political contributions. ■

In brief . . .

TWO-WAY CANAL TRAFFIC. The Panama Canal handled two-way traffic of Panamax vessels — the largest able to pass through the canal locks — for the first time ever in May. The two vessels met at Gaillard Cut, in the Bas Obispo reach, which is undergoing a major widening project to boost the canal's capacity. The project, which will be completed by 2002, will widen the canal channel to 630 feet from 500 feet in straight sections and up to 730 feet at curves. The Panama Canal Pilots Association has been running tests to determine safe points along the canal where vessels may pass.

HANJIN PLANS TERMINALS. Hanjin Shipping, Korea's largest shipping line, plans to have its own dedicated container terminals in the ports of New York and Oakland. The shipping line has been negotiating with the port of Oakland and will soon start talks with the Port Authority of New York/New Jersey, a spokesman for Hanjin said. Hanjin already has dedicated container terminals in Seattle and Long Beach, as well as in several Asian and European ports.

SSA TERMINALS. Matson Navigation Co. Inc. has appointed SSA Terminals, a subsidiary of Stevedoring Services of America , to manage the terminal and stevedoring operations of Matson Terminals Inc. (MTI) on the West Coast. SSA and Matson plan to consolidate SSA's terminal facilities at Terminal 18 in Seattle, Howard Terminal in Oakland and Terminal C-60 in Long Beach, with Matson's facilities at Terminal 25 in Seattle, Berth 32-24 in Oakland and Berths 206-209 in Los Angeles. MTI will continue to operate Matson's container stevedoring and terminal operations in Honolulu.

HVIDE MARINE CHAIRMAN. Hvide Marine Inc. has named Jean Fitzgerald to succeed J. Erik Hvide as the company's chairman, president, and CEO. Fitzgerald, 73, has been a Hvide director since 1994. Hvide, 50, resigned for personal reasons. He will remain a director of the Fort Lauderdale, Fla.-based company, founded by his father, Hans, in 1958.

O'BRIEN TO STEP DOWN. Port Everglades port director James J. O'Brien will retire July 30. During his tenure, the port's operating revenue rose from $34.6 million fiscal 1991 to $66.5 million in fiscal 1998, while gross margin (operating revenue minus expenses) has nearly doubled to $33.5 million. O'Brien came to Port Everglades from the Port of Oakland, where he was executive director from 1988 to 1991.

PSA PROFIT. PSA Group, the Singapore terminal operator, reported net group profits of S$931 million ($564 million) for its first 15 months of operation as a corporation. PSA, the state-controlled operator of the port of Singapore, reported a 7-percent rise in its Singapore port container throughput to 15.1 million for calendar 1998. Singapore overtook Hong Kong as the world's largest container port last year. Container volume at the PSA Group's overseas terminals was 1.5 million TEUs in 1998. In 1998, PSA started or bought into six overseas joint ventures with equity participation in Tuticorin and Pipavav, India; Fuzhou and Dalian, China; and Genoa and Venice, Italy.

WILMINGTON'S TOP BANANA. Dole Fresh Fruit Co. has reached a new 10-year lease agreement with the Port of Wilmington, Del. Dole, the world's largest banana shipper, has been a port customer since 1982. As part of the deal, the Port of Wilmington and Diamond State Port Corp. will spend $10 million to expand its container terminal space and purchase a $6-million shoreside container crane from Shanghai ZPMC. Dole plans later this year to replace its fleet of 500-FEU container vessels with two new 1,000-FEU refrigerated ships, under construction in Germany. Once the ships are acquired, Dole will reduce its Wilmington calls from twice-weekly to weekly.

LITTON BUYS AVONDALE. Shipbuilder Avondale Industries accepted a $529 million bid from Litton Industries Inc. to take over the New Orleans-based shipyard. Litton was successful after Newport News Shipbuilding dropped out of the bidding. Newport News had announced in January that it planned to acquire Avondale through a stock transaction of about $470 million, though the agreement allowed both companies to explore options with other companies. Litton offered to buy both Avondale and Newport News in May for about $1.7 billion in cash and stock, but the Pentagon opposed Litton's acquisition of Newport News, because it would eliminate competition for military contracts.

APPOINTMENT SYSTEM. Atlantic Container Line has implemented new cargo delivery procedures at the New York Maher Terminals for roll-on/roll-off cargo moving through the Fleet Street Terminal. Maher is working with truckers on a new receiving and delivery appointment system that will help determine cargo volumes and resulting labor requirements, ACL said. Truck delivery appointments will be taken provided the freight release, customs clearance and terminal charge payment have been completed.

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Sea-Land, Maersk add Far East/ Europe loop

Sea-Land Service and Maersk Line have added a third weekly Far East/North Europe service as part of restructuring their Pacific and Far East/Europe operations.

Eastbound, the vessels of the new AE5 loop call Gothenburg, Bremerhaven, Felixstowe, Rotterdam, Algeciras, Salalah, Singapore, Yantian and Hong Kong before proceeding across the Pacific.

Westbound, the ship calls are Yokohama, Kobe, Kaohsiung, Hong Kong, Yantian, Singapore, Algeciras, Felixstowe, Rotterdam and Gothenburg.

Sea-Land and Maersk have also revised their AE2 Far East/ North Europe service by adding weekly calls at Kwangyang and Yantian and removing Felixstowe from the rotation.

TACA to raise westbound rates

The Trans-Atlantic Conference Agreement has implemented westbound rate increases of $120 per 20-foot container and $150 per 40-footer.

The increases apply to tariff rates and service contracts due for renegotiation on or after June 15.

A spokesman for the transatlantic conference said that westbound traffic volumes are increasing, but revenue levels are failing to provide an acceptable return for ocean carriers.

TACA has also introduced a simplified tariff.

No rate increase has been announced in the eastbound trade, where trade volumes are said to be flat or decreasing.

TACA members are Atlantic Container Line, Hapag-Lloyd, Mediterranean Shipping, Maersk Line, OOCL, NYK, P&O Nedlloyd and Sea-Land Service.

Maersk revises Europe/Med/Brazil link

Maersk Line has revised its weekly container service between North Europe to the East Coast of South America.

Maersk is adding weekly calls at Bremerhaven to the existing European port rotation of Antwerp, Rotterdam, Le Havre and Algeciras.

Having recently started calls at the Brazilian port of Vitoria, Brazil, Maersk is also adding fortnightly calls at Itajai, Brazil.

Safmarine Container Lines, the new subsidiary company of the Maersk group, has space on the Maersk service.

P&O Nedlloyd, Maersk revise Canada link

P&O Nedlloyd and Maersk Line have revised their joint Montreal/ northern Europe service.

The weekly eastbound departure from Montreal is now on Saturdays, instead of Fridays. This will allow the cutoff time from Chicago to be set on Wednesday evening instead of Monday, said Pieter-Bas Bredius, senior vice president, Atlantic trades, at P&O Nedlloyd.

The sequence of the European ports of call has also been changed to Felixstowe, Rotterdam and Bremerhaven instead of Felixstowe, Bremerhaven and Rotterdam.

NYK Line announced recently that it will have space on this service by taking part of the vessel allocation of Maersk.

FEFC to end inland rate-making

Carriers of the Far Eastern Freight Conference agreed to end its long-established practice of setting common inland rates. The FEFC lines also decided to remove the tariff provisions concerning freight forwarding commission.

The carriers of the Asia/Europe conference had said they would give up inland pricing if the European Shippers' Council accepted a compromise announced last October in Barcelona. Under the compromise, shipping lines hoped to obtain more legal clarity and an antitrust exemption for their joint port-to-port service contracts. However, the ESC has not accepted the Barcelona compromise.

The EC continues to oppose inland pricing by conferences.

FEFC raises eastbound, westbound rates

The Far Eastern Freight Conference said that it will increase rates in July and in October for shipments from North Europe to Asia.

The conference is also considering a temporary peak season surcharge, in addition to an increase in westbound rates.

Eastbound rates will go up by $150 per container, irrespective of container size, effective July 1. This will be followed by a rate increase of $300 per container on Oct. 1.

A spokesman for the Asia/Europe conference said that the trade to Asia has continued to recover, with volumes increasing by about 20 percent at the end of the first quarter.

The conference carriers said they don't expect to increase rates again before April 2000.

The conference reaffirmed its plan to increase westbound rates from the Far East to northern Europe by $300 per TEU on July 1.

The FEFC expects a traditional surge in westbound liftings during the second half of the year, but this will be magnified this year by "an uplift of millennium related imports," the conference said in a statement.

The Asia-Europe conference did say when the peak season surcharge would apply.

A peak season surcharge has been in place in the transpacific trade for two years.

New world revises PS3 service

The New World Alliance of APL, Mitsui O.S.K. Lines and Hyundai Merchant Marine has revised the itinerary of its "PS3" Pacific Southwest service.

The weekly transpacific service no longer calls at the Chinese port of Qingdao, which is now served by the Guam China Express service, the alliance's additional transpacific loop.

The revised itinerary of the PS3 loop is Los Angeles, Oakland, Tokyo, Nagoya, Shanghai, Kobe, Tokyo and Los Angeles.

The new Guam China Express service calls at Los Angeles, Oakland, Guam, Naha, Qingdao, Busan, Hakata, Nagoya, Yokohama and Los Angeles.

Alliance carriers said that they will allocate more space to Chinese shipments following the changes.

The alliance operates eight weekly sailings between Asia and the U.S. West Coast, plus an all-water weekly service between Asia and the U.S. East Coast through the Panama Canal.

Med Shipping drops out of TSA

Mediterranean Shipping Co. has left the Transpacific Stabilization Agreement less than two months after joining it, a spokesman for the agreement confirmed.

The Swiss carrier joined the discussion agreement March 19, shortly before entering the transpacific trade.

Evergreen, COSCO merge links

Evergreen and China Ocean Shipping Co. have merged their Asia/South Africa/East Coast of South America container services. Yangming Marine Transport is buying space on the merged service.

The new 10-ship joint service, named "ESA," uses eight 2,720-TEU ships operated by Evergreen and two vessels provided by COSCO.

The port rotation is Hong Kong, Kaohsiung, Singapore, Port Louis (Mauritius Island), Durban, Cape Town, Buenos Aires, Montevideo and Santos.

COSCO and Evergreen said that the joint service's aim is to improve vessel utilization and reduce operating costs.

Yangming, which had space on the Asia/South Africa/East Coast of South America service operated by COSCO, will now have 150 TEUs on each ship of the merged COSCO/Evergreen service.

A spokesman for Yangming in Taipei said that carriers were losing money on this overtonnaged route, but the restructuring of the services has reduced capacity.

Hanjin, RCL, Evergreen add ports

Hanjin Shipping, Regional Container Lines, Evergreen and its new subsidiary Lloyd Triestino are extending their two joint weekly Asia/Australia services to cover additional ports.

In early July, a fifth ship will be added to their "AFS" service, previously the "ASP" service. The former Southeast Asia link will be extended to include North Asian ports. It will start from Tokyo instead of Singapore and will make additional calls at Osaka, Busan, Hong Kong and Kaohsiung.

The rotation of the AFS weekly service will be Tokyo, Osaka, Busan, Hong Kong, Kaohsiung, Sydney, Melbourne, Brisbane, Tokyo.

The four-ship "AUS" joint loop is also being revised to add an extra port call at Sydney, in addition to Brisbane, Melbourne and Singapore.

P&O Nedlloyd expands Asia/New Zealand link

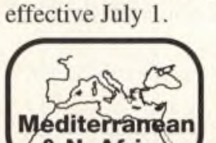
P&O Nedlloyd has expanded its weekly Southeast Asia/New Zealand container service to call at Port Kelang, in addition to Singapore.

Now using five ships on this route, the carrier calls weekly at the New Zealand ports of Auckland, Lyttelton, Napier and Tauranga, with fortnightly calls to be made at New Plymouth. A weekly northbound call at the Australian port of Brisbane has also been introduced.

P&O Nedlloyd said that the changes follow a pickup in traffic volumes in the previously depressed New Zealand/Southeast Asia trade.

Asia/Med conference raises rates

The Mediterranean Far East Conference has announced rate increases of $300 per TEU from Asia to the Mediterranean, effective July 1.



The planned rate increase applies to shipments from Asia outside Japan.

The lines of the Mediterranean Far East Conference are CMA-CGM, DSR-Senator, "K" Line, Malaysia International Shipping Corp., Mitsui O.S.K. Lines, NYK, P&O Nedlloyd, Sea-Land Service and Yangming.

P&O Nedlloyd, Contship cut capacity

P&O Nedlloyd and Contship Containerlines have reduced the capacity they deploy in one of their two joint container services between the Mediterranean, Australia and New Zealand.

Smaller, chartered 2,200-TEU vessels will replace the service's 2,900-TEU ships, a spokesman for P&O Nedlloyd said.

The fortnightly service now calls at Damietta, Egypt, and will no longer make direct calls at Wellington and Lyttelton, New Zealand.

The revised rotation is Salerno, La Spezia, Marseilles-Fos, Barcelona, Damietta, Fremantle, Melbourne, Sydney, Auckland, Port Chalmers, Melbourne, Fremantle, Singapore, Jeddah, Port Said, Piraeus and Salerno.

The service dovetails with another fortnightly service of Contship and P&O Nedlloyd to provide a combined weekly frequency in this trade.

SCL switches hub to Algeciras

Safmarine Container Lines, recently acquired by Maersk Line, has switch its southern Europe container hub from Las Palmas to Algeciras.

Mediterranean cargo carried by SCL to and from southern Africa will be transshipped via Algeciras, where Maersk runs a box terminal, using Maersk's Mediterranean feeder services.

SCL will also move Mediterranean cargoes on Maersk's Algeciras/southern Africa container service. This replaces a previous arrangement under which SCL carried Mediterranean containers on the Las Palmas/southern Africa leg of the SAECS northern Europe/southern Africa joint service.

The SAECS service, of which SCL is a major participant, will stop calling at the Las Palmas hub.

Contship adds Indian subcontinent link

Contship Containerlines has started a fixed-day weekly service between the Indian subcontinent and the U.S. East Coast.

The service connects Contship's weekly Euroasia service to Europe, the Mideast and the Indian subcontinent, with Lykes Lines weekly North Atlantic Sprint Service. The services connect at Thamesport, in the U.K.

Contship's service has priority berthing rights and a private container yard at Nhava Sheva, Mumbai.

Contship and Lykes are sister companies, owned by CP Ships.

SCL improves Europe/South America link

Safmarine Container Lines plans to expand its Europe/East Coast of South America service to include calls at Itajal, Brazil, and Bremerhaven.

SCL added regular calls to the port of Vitoria, Brazil, in April. Fortnightly calls at Itajal will be added later this month.

In Europe, weekly calls at Bremerhaven will be added to existing weekly calls of Antwerp, Rotterdam, Le Havre and Algeciras.

Crowley enhances U.S./Mexico service

Crowley American Transport has enhanced its U.S. East Coast/ Mexico service by serving Mexico southbound nonstop from Jacksonville and will make Port Everglades the first port of call northbound from Progreso in mid-June.

Jacksonville has been Crowley's first northbound and southbound call of the service. The service uses two geared 519-TEU containerships.

The new rotation will be Jacksonville, Progreso, Tampico, Veracruz, Progreso, Port Everglades, Jacksonville.

The change provides faster transit times for refrigerated cargo, wearing apparel and other dry cargoes into South Florida, while improving transit of southbound goods from Jacksonville to Mexico.

COSCO, Norasia to use CP rail service

China Ocean Shipping Co. and Norasia have signed contracts with Canadian Pacific Railway to move Asia/U.S. Midwest cargo via Vancouver, British Columbia.

The "China Northeast" weekly transpacific service, launched by COSCO May, calls Vancouver as its first eastbound port in North America. From Vancouver, containers will be transferred to a dedicated CP stacktrain that will rail the boxes to Chicago on the fourth day following departure from the port.

A spokesman for CP said that the contract "firmly establishes the railway's Vancouver-Chicago corridor" as a competitive corridor for the transpacific trade into the U.S.

Norasia launched its first transpacific service in late May. The ocean line's 1,400-TEU vessels call Vancouver weekly.

ZIM picks CN for transpacific link

Zim Israel Navigation Co. has chosen Canadian National as its inland rail carrier for its new containership service between Asia and North America.

CN will provide two weekly dedicated stacktrains between the Port of Vancouver and Toronto, Montreal and the U.S. Midwest for the Zim service. CN also provides daily stacktrain service between Vancouver and Chicago and Vancouver and Central Canada.

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What If. . . . . .?

What if an eager young entrepreneur (call him Joe) scrapes up enough money to charter a 30-year-old, 700-TEU containership and decides to operate on the busy New York/Rotterdam trade lane. His charter rate is low because the ship is old, slow, and not very desirable. With a single vessel, Joe can offer service every three weeks, more or less. But his ship is cheap and his rates low. He figures he'll have no trouble finding customers who really don't need more frequent service.

But, alas, no one is interested. Not even the rags and waste paper dealers. They get such good rates and almost daily service from the established alliance operators they are happy. They talk about rates, but it's not important.

Joe is trapped. His money is running out. He faces bankruptcy, and no one cares.

In desperation, he turns to a lawyer who asks questions and identifies a problem.

"You're fighting a group of international cartels," the lawyer says. "The alliances have wrapped up all the business and are doing you irreparable harm with their service. That's your problem. They all provide almost daily service and the best you can do is three weeks. We'll break it up. We'll let those big boys continue running their ships, but they cannot talk to each other, cannot share vessels, cannot share equipment and cannot use the same terminals. They can't do any of those things which reduce costs. I'll ask for an immediate injunction."

"But what about the rates?" Joe asks. "Cartels agree on rates. That's the way to get an injunction."

"Forget the rates," the lawyer said. " If we can disrupt the service and make each of the lines operate entirely on its own, you'll have a chance. We'll emphasize it's an antitrust case and the shippers will support us!"

The judge was impressed and granted the immediate injunction, which was hailed throughout the press as the final victory over those hated cartels.

What if that really happened?

David A. Howard


NORTH PACIFIC OCEAN
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SOUTH PACIFIC OCEAN
EVERGREEN
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