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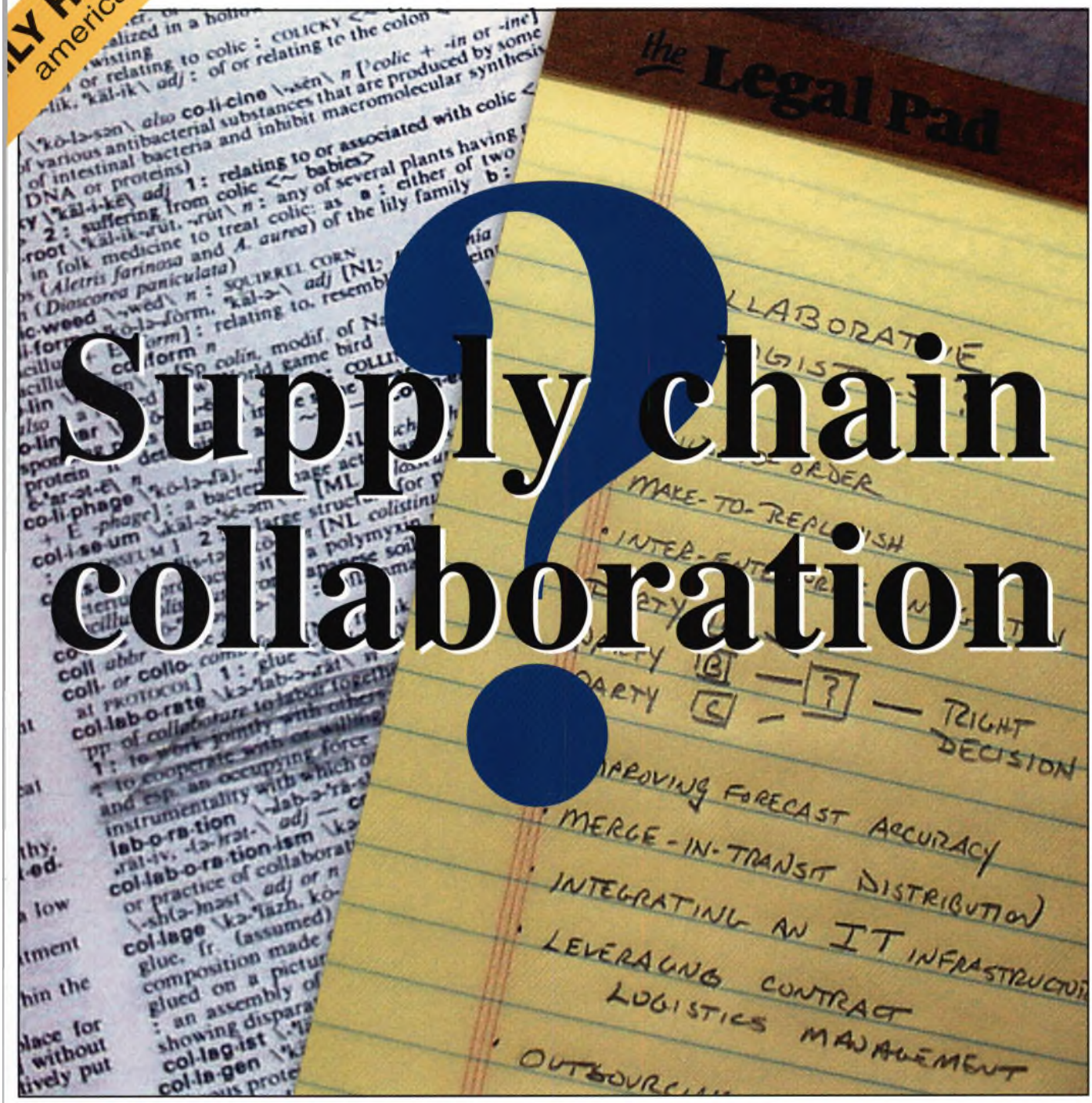
American Shipper

The Monthly Journal of INTERNATIONAL LOGISTICS



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Comments & Letters

Ace development 'long overdue'

I'd like to comment on the article "ACE in the near future" (November *American Shipper*, page 12).

The development of a system like ACE is long overdue.

However your article brings to light an important concern that needs to be addressed in order for ACE to be successful.

The three primary perspective respondents to the RFP listed in the article, have little understanding of industry dynamics which is a key element of ACE development.

ACE development must take into account that the cargo community has collectively invested billions of dollars over the years into their ACS interface. Therefore ACE development has to include ACS fundamentals to allow the cargo community to continue to use their existing system without another large financial investment. This is the most important issue that can easily be overlooked.

Other questions that will be asked are:

1) Will ACE be developed using international trade technology protocols?

2) a) Many of Customs operational procedures and regulations are outdated. Will there be a regulatory review of existing handling activity before introducing a technology process to an activity that is obsolete?

b) Will ACE development prevent "Technology Stacking" (the placement of a technology solution on-top of an existing process yet the paper handling remains the same)?

Example: AMS (Air Manifest System) has been around for at least 12 years and although AMS carriers file manifests electronically, Customs regulations still requires all carriers to file a manual manifest.

Example: Carriers have the ability to get inbond movement authorization (1D) in AMS yet they are still required to prepare inbond documents when transferring cargo to another U.S. Customs port, where that same AMS carrier will be receiving the freight.

3) Will any of the RFP candidates analyze other industry technology activity to determine if there are newer resources for data gathering, that may minimize the cost of ACE development?

Example: Some carriers and forwarders have been participating in Cargo Community Systems such as Syntegra and Traxon. A good portion of the information needed by Customs for import clearance exists with the CCS's.

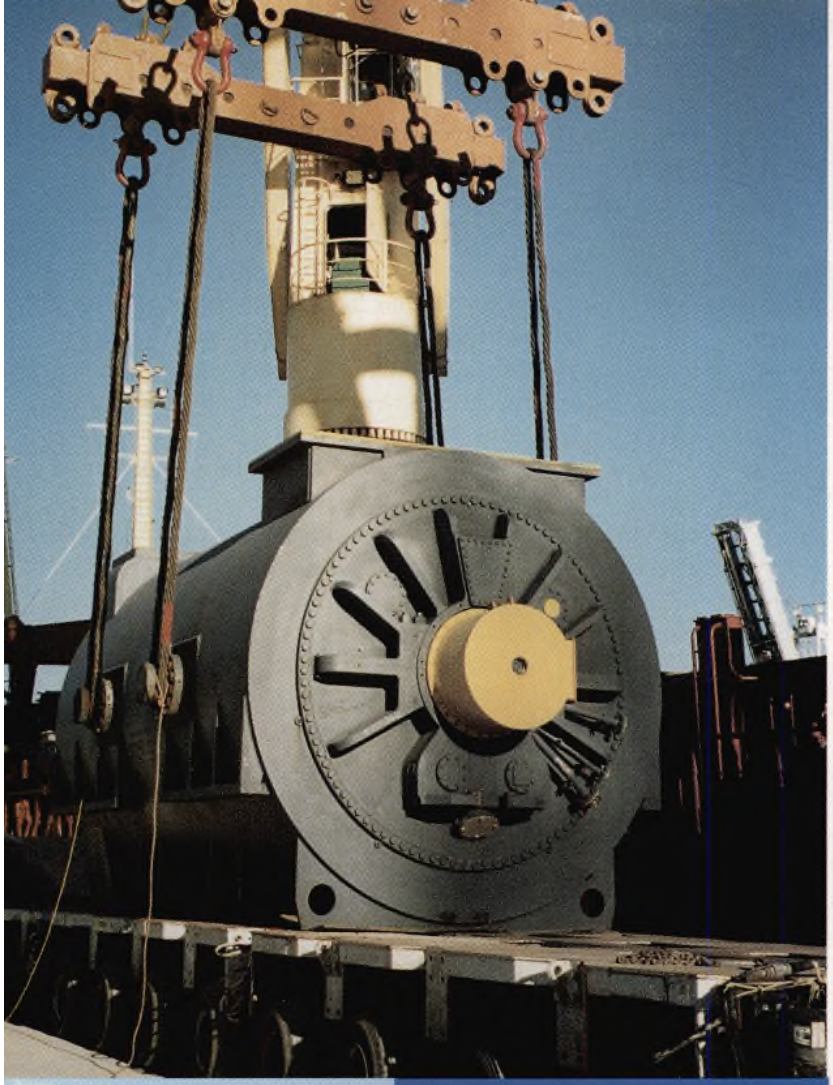
4) I see that Customs is including International Trade Data System integration into AES. Will Customs consider integrating AES into ACE?

Example: AES is the outbound filing of shipment data. Shipper, consignee, pieces, weight, commodity description, harmonized tariff code, value and carrier are all common elements required by Customs for inbound and outbound electronic data capture. Doesn't it seem logical that since one entity — Customs — is acquiring similar data for imports and exports, that a common link already exists?

These represent some of the issues that IBM, EDS or Northrup Grumman along with Customs themselves will have difficulty comprehending.

I would hate to see a well-intentioned initiative like ACE fail because the finer points are not addressed.

Robert F. Caton
president,
Cargo Shipping Transportation Analysts
St. James, N.Y.



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Jamaica's ship registry

A soft sell, remarkable in these aggressive days, launched Jamaica's new ship registry last month in the course of a very laid-back reception at the Consulate of Jamaica in New York.

Dr. Peter D. Phillips, minister of transport and works in the government of prime minister P.J. Patterson, cited his home island's "advantageous position" in the Caribbean, Kingston's roomy harbor (seventh-largest in the world), and Jamaica's long-time embrace of English common law and IMO conventions.

One had to listen very closely for all-but-murmured nuances of competitive advantage: "we are not Charles Taylor's Liberia — we are not underwriting a guerrilla war with our neighbors," and "our bureaucrats lack attitude — you don't need to know Spanish to fill out our papers" — quiet barbs aimed at alleged practices in Liberia and Panama.

Rear Adm. Peter Brady, director general of the Maritime Authority of Jamaica, as the new register is officially called, would be happy to have "200 to 500" vessels signed in five years, "so long as they are the right kind of ships," he said. *(Robert Mottley)*

Denmark takes measures against 'flag-outs'

Joergen Hammer Hansen, director general of the Danish Maritime Authority, urged the international shipping community to take steps to stop the flow of their shipping to flags of convenience registries and to hold traditional maritime nations (the flag states) to their responsibilities.

"It is decisive that all players operate by the same set of rules" set by the International Maritime Organization, he said. Enforcing IMO rules are not only important for safety reasons but also to eliminate competitive advantages that flow from substandard shipping, Hansen said.

The Danish International Register, established in 1988, is the cornerstone of Denmark's maritime framework.

The registry was established to foster Denmark's three major shipping goals: the promotion of open and unrestricted market access; the assurance of global competitiveness of the Danish merchant fleet; and to promote ship safety and to prevent pollution.

The registry, which was established to regain Denmark's competitive position in the global market, "has been a success," Hansen said. "The merchant fleet is maintained under Danish flag and flagging-out has stopped."

The registry also has a high percentage of Danish seafarers, accounting for 80 percent of the officers and 40 percent of the lower ranking seafarers, Hansen said. Maritime transportation is now Denmark's second most important export industry in terms of foreign exchange earnings, Hansen said.

The registry reduces manning costs to an internationally competitive level through a tax deduction system under which seafarers are exempt from paying income tax, he said. "We have a tax reducing system that offers no possibility for direct subsidy."

Denmark supports working for an international maritime agreement in the current negotiation round of the World Trade Organization. *(Tony Beargie)*

Global alliances "critical"

Global shipping alliances are benefiting global trade, said U.S. Transportation Secretary Rodney E. Slater and Hal Creel, chairman of the Federal Maritime Commission, during recent transportation symposium in Washington, sponsored by the U.S. Department of Transportation.

Global alliances now dominate international container shipping, and vessel sharing agreements offer shippers integrated services, single rates and fix schedules, Slater said.

Such efficiencies stemming from global alliances "are critical to the future of globalization," Slater said. On the other hand, they must be monitored for possible restraints on trade and to ensure consumers reap the rewards of improved efficiency, he added.

Creel said global alliances are a must for companies who want to seek or maintain a competitive edge or to plan long-term growth and development. Companies must establish effective global relationships and global operations, he said. "Those that do not will have to be satisfied with being niche players, or in the worst case, not being players at all."

Countries or groups of countries may have to set port development policies and regulations to guide the development of expanded port facilities and deeper channels that will be required to handle larger ships, Slater said. *(Tony Beargie)*

Trade demands integrated transport system

Integrated transportation systems operating under international shipping standards will be required if the world's trading nations are to benefit from a huge trade growth projected over the next two decades.

That was the consensus of shipping industry officials at a the U.S. Department of Transportation-sponsored transportation symposium in Washington.

Globalization has altered the volume and pattern of commerce to such a degree that it has increased demands on both international and local transportation systems throughout the world, said Secretary of Transportation Rodney E. Slater.

"Every piece of a nation's transportation system has to fit together in an absolutely perfect fashion" to benefit from the projected trade boom over the next 20 years, said John Graykowski, former acting Maritime Administrator.

"Where we are today ... is not where we can afford to be in five, 10 or 20 years from now," Graykowski said. And if the rest of the world wants to benefit from a projected U.S. foreign trade surge of 200 to 300 percent over the next two decades, U.S. trading partners will have to upgrade their transportation infrastructures.

The trade boom has already begun, for in 1999, the United States witnessed a 10 percent growth in international container traffic, Graykowski said.

He noted that the Port of Long Beach has enjoyed tremendous growth, handling some nine million containers per year. Assuming a 300-percent growth over 20 years, he asked: "Where will they put 27 million containers?"

By establishing a national task force representing private sector stakeholders and government officials, Slater has made the revitalization of the U.S. marine transportation system a national priority, Graykowski said.

The task force has already pinpointed a number of problems associated with safely and efficiently moving cargo in and out of U.S. ports:

- At least half of all ports and almost two-thirds of the U.S. container ports are burdened with growing traffic congestion

on truck routes leading in and out of the ports.

- At-grade rail crossings on local streets serving older port facilities pose safety hazards, impeded efficient access of trains to port terminals and tie up traffic on local streets.
- The need for a systematic approach to maritime transportation system safety and environmental protection, involving managers, operators and users of waterways, port facilities, the landside transportation system, environmental interests and the public.
- Lack of a national coordinated approach to ports and waterways security, cargo theft, smuggling and terrorism. Increased demands for efficient and uninterrupted commercial operations must be balanced with the need to invoke safeguards and inspections to protect against security threats in or near U.S. ports.
- The need for improved efficiencies in the movement of passengers and cargo, including one-stop shopping for federal inspection and reporting.
- The need for better coordination and development of adequate funding mechanisms to ensure the growth of ports, waterways and their intermodal links.
- The need to develop reliable national trade and fleet forecasts to incorporate alternative scenarios of U.S. and world market trends, energy sources, and internal U.S. demographic and economic regional shifts.
- The need to establish information management systems to support a maritime transportation system. Such systems would include improved hydrographic and weather information; improved vessel, cargo and passenger tracking methods; and, better waterway traffic management information for seafarers and ports. *(Tony Beargie)*

Victory, forwarder and NVO, dies

Paul E. Victory, Sr., who in 1954 co-founded Dieterle & Victory International Transport Co., Inc., based in New York, a well-known freight forwarder and one of the longest-running U.S. non-vessel operating common carriers, died Oct. 11.

Victory, 71, was one of the first forwarders to obtain a license from the Federal Maritime Commission. His company, active globally, has had particular success with importers and exporters in the Australian trade.

American Shipper mourns the loss of a friend and neighbor in the World Trade Center whose counsel was always astute and appreciated. *(Robert Mottley)*

The long and short of it

Marya Mannes, a pioneering talk-show host, once wrote that "newspapers have two great advantages over television. They can be used by men as barriers against their wives. A newspaper is still the only effective screen against the morning features of the loved one, and as such, performs a uniquely human service. The second advantage is that you can't line a garbage pail with a television set. It's usually the other way around."

It's a pity Mannes isn't around to comment on the Internet, which is said to be having a greater effect on our culture than television when the latter medium came into its own 45 years ago.

One of the current "hot button" topics is what sort of articles magazines should publish in their online editions, and what sort should appear in printed issues. At *American Shipper,* this has become an internal debate of some magnitude.

While serving on a "point of view" media panel at a recent Council of Logistics Management conference, I asked members of the audience to express their views about what kind of text — and how much of it — they wanted to read on their computer screens. For that relatively small sampling, the answers were clear enough.

"Almost half my business day is spent online as it is," said one logistics manager. "For me, short e-mail is better than long e-mail. Give me the gist in 20 words instead of 100, and you're ahead of the game with me."

As for online magazines, he continued, "I scan news wires, the logistics-related ones out there, just the headlines, and the first sentence of the story. I want short and fast input. Would I scroll slowly through a 3,000-word article onscreen? No way. I wouldn't even start to read it online if it was a long piece, even if I were interested. There's just isn't time enough. I might print it out to read on the train home, but I'd really have to care about the topic. That probably means the article would have to be about me or my company."

A woman who runs a marketing department for a major manufacturer concurred. "I will download and print longer articles that interest me, but it's a pain to do so when you have only so much online time."

What pieces would the CLM audience take their online time to read? Daily, preferably hourly news from the industry "you don't see anywhere else." Corporate appointments, "because of the dot-com musical chairs going on, and all of the new outsourcing." Anything about lucrative contracts taken on by existing firms, "so you know who's likely to be hiring."

What sort of articles did the audience prefer to absorb in printed form? News analysis, or explanation of trends, "I like reading 'how and why', but that takes time." Longer logistics features, "when you can show how a specific problem was solved."

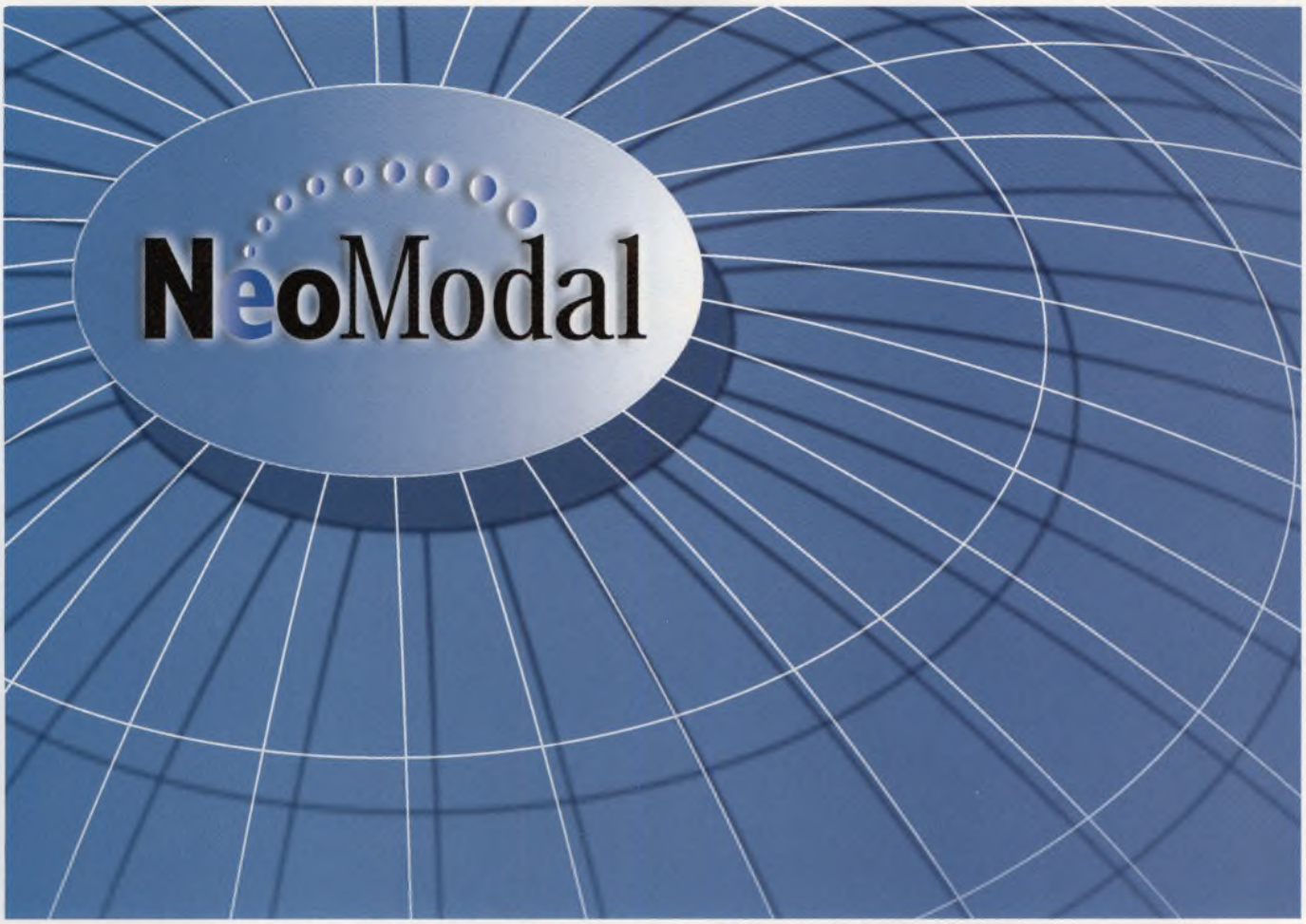
"If something could save me sweat and trouble, I'd read *War and Peace,"* one transport provider vowed — before recanting.

Particularly interesting in the audience's response was the strict bifurcation almost everyone made between online scanning time and offline rumination. Skinned further, it showed a sharp split between news and features, a burst of data one must know immediately vs. a more leisurely "read."

Where are people when they find time for longer articles? According to responses from CLM attendees, such pieces are read during office lunch breaks, on commuter runs, and while flying on business trips. ("You're better, usually, than the in-flight magazines," said one respondent.)

One CLM delegate said she would take an issue "full of 'think' pieces" home in her briefcase. "There's not that much paper in our house anymore, and when I'm done reading, I can use it to line the litter box" — a fair added value, as Mannes would have pointed out.

The thinking in our shop is that, without shortchanging either medium, the immediate and reflective needs of our readers can be met in both online and printed editions of the magazine. Your thoughts are welcome, via e-mail at hhoward@shippers.com. What are your preferences in your business reading? *(Robert Mottley)*



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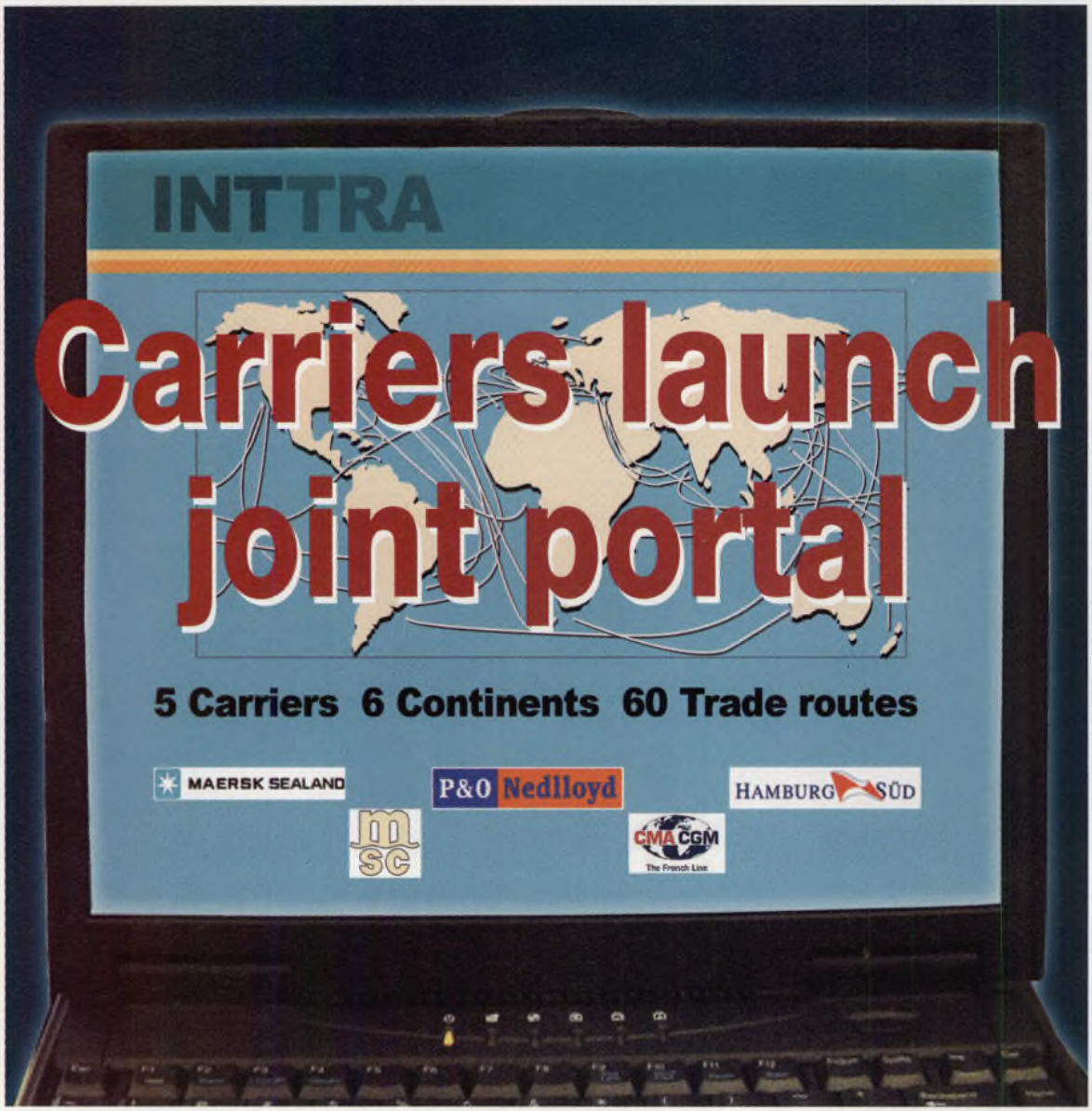


Carriers launch joint portal

Internet gateway would enable customers to do business online under standard procedures with all participating carriers.

By Philip Damas

Maersk Sealand, P&O Nedlloyd, Hamburg-Sud, Mediterranean Shipping Co. and CMA CGM have signed an agreement to launch a joint container shipping portal — or common gateway — on the Internet.

The carriers' alliance could move container shipping into an era of competition among e-commerce portals.

The common Internet platform, named INTTRA (www.inttra.com), will enable transportation users, including third-party logistics companies and forwarders, to track and trace cargo, access scheduling information, book services and manage shipping transactions on the Internet. The services will include container booking requests and confirmation, proactive event notifications and exception reports, bill of lading information, and various reports and statistics.

The carriers described the Internet system as "the first open containerized transportation portal backed by ocean carriers."

One-Stop Shopping. INTTRA aims to offer "one-stop shopping" capabilities for customers of the global container transport industry. The portal comprises only five shipowning groups, all of which are European, but it is talking to Asian carriers about joining.

The founding, participating carriers of INTTRA are CMA CGM, of France; Hamburg-Sud, of Germany, and its subsidiaries Alianca Navegacao E Logistica, Columbus Line and Crowley American Transport; Maersk Sealand, of Denmark, and its sister company Safmarine; Mediterranean Shipping Co., of Switzerland; and the Anglo-Dutch carrier P&O Nedlloyd.

Ownership of INTTRA is currently in the hands of its founding partners. Maersk Sealand has a 35-percent stake in the company, P&O Nedlloyd owns 25 percent, Mediterranean Shipping 10 percent, Hamburg-Sud 7 percent and CMA CGM 5 percent. The company has no venture capital backup.

Temporarily based near Copenhagen, INTTRA will have headquarters in the New York metropolitan area. It will be incorporated in the United States. The company has yet to appoint a chief executive officer.

INTTRA, which stands for International

Transport and Trade, plans to bring together customers and carriers and will allow them to communicate and interact through one common platform.

The first version of the shipping portal, due to be launched early next year, will provide transportation users with a single point of entry for tracking cargo movements and booking with multiple carriers.

"The idea is to use the booking as the initial relationship with customers," said Andre Simha, head of information technologies at Mediterranean Shipping.

Simha said that INTTRA is somewhat similar to the Sabre booking system widely used in the passenger airline industry.

"Of course, in the airline industry, they were clever enough to do it 20 years ago," he said. "The shipping industry is more old-fashioned."

The group of carriers said they have initiated the project because "customers are looking for more visibility, greater standardization and improved data quality along the supply chain."

"The individual ocean carriers are traditionally working with proprietary IT systems and processes for the same services," a spokesman for INTTRA said. "INTTRA aims at standardizing the processes and offer one window for services across all participating ocean carriers."

"Competition remains an essential feature of INTTRA, but the investing carriers recognize that there are significant customers and carrier benefits in standardizing front-end applications."

For ocean carriers, though, one of the benefits of the joint company is that they will now share information technology development costs. The joint investment through the company will run into tens of millions of dollars.

INTTRA is also expected to upgrade the e-commerce capability of carriers that were not able to do electronic bookings on the Internet, such as Mediterranean Shipping, CMA CGM and P&O Nedlloyd.

INTTRA plans to introduce Internet bills of lading and standardized documentation.

The carriers participating in INTTRA will continue to run their own company Web sites alongside the group platform.

"It's going to be an additional platform," said Caroline Havard, spokesman for P&O Nedlloyd.

Competition. INTTRA described itself as a neutral platform. All service contracts and agreements will remain between customers and carriers and will not be part of INTTRA.

The new company will not post freight rates on its site and has no plan to run freight auctions, Simha said.

"INTTRA is not a means for carriers to share commercial information," a spokesman for the new company said.

"Competition remains an essential feature of INTTRA, but the investing carriers recognize that there are significant customer and carrier benefits in standardizing front-end applications," a spokesman said.

INTTRA added that "carriers will still compete on individual service performance, data quality, customer service and sales and

Direct liner services of INTTRA carriers and subsidiaries

	CMA CGM	Hamburg-Sud	Maersk Sealand	Med Shipping	P&O Nedlloyd
East/West trades					
Transatlantic	Yes		Yes	Yes	Yes
Transpacific	Yes	Yes*	Yes	Yes	Yes
Asia/Europe	Yes		Yes	Yes	Yes
North/South trades					
North America/Africa			Yes	Yes	
North America/Australia/New Zealand/South Pacific	Yes	Yes			Yes
North America/Caribbean/Central America	Yes	Yes	Yes		Yes
North America/South America		Yes	Yes	Yes	Yes
North America/Hawaii/Guam/mid-Pacific islands					
North America/Indian Subcontinent/Mideast/Red Sea	Yes		Yes		Yes
Intra-Europe	Yes	Yes	Yes	Yes	Yes
Europe/Mediterranean/Africa	Yes		Yes	Yes	Yes
Europe/Mediterranean/Australia/New Zealand/South Pacific	Yes			Yes	Yes
Europe/Mediterranean/Caribbean/Central America	Yes	Yes	Yes		Yes
Europe/Mediterranean/Indian Subcontinent/Mideast/Red Sea	Yes		Yes	Yes	Yes
Europe/Mediterranean/South America	Yes	Yes	Yes	Yes	Yes
Intra-Asia	Yes		Yes	Yes	Yes
Asia/Africa			Yes		Yes
Asia/Australia/New Zealand/South Pacific	Yes		Yes	Yes	Yes
Asia/Caribbean/Central America	Yes		Yes		Yes
Asia/Indian Subcontinent/Mideast/Red Sea	Yes		Yes	Yes	Yes
Asia/South America		Yes			Yes

* Hamburg-Sud subsidiary Columbus Line, serves the transpacific market only in a small capacity.

Notes: CMA CGM owns ANL Container Line and Cagema.
Hamburg-Sud owns Alianca, Columbus Line, Crowley American Transport, South Pacific Container Line and South Seas.
Maersk Sealand is a sister company of Safmarine.
P&O Nedlloyd owns Blue Star Line, Farrell Lines and the P&O group jointly owns P&O Swire.

Source: ComPairData (www.compairdata.com), the global liner shipping database on the Internet.

marketing capabilities."

Through INTTRA, "operational excellence will be more transparent," the carrier group added.

Implementation of the portal is subject to regulatory approval. The new company said it believes that approval will be granted because "the neutrality and the benefits of this product to all parties will be widely recognized."

Core Carriers. The heralded launch of INTTRA as a common e-portal Internet facility confirms that Maersk Sealand (which already has an online booking facility) and P&O Nedlloyd (which does not) have decided to pool their future e-commerce efforts.

Hamburg-Sud, one of the three lines who are joining them in this venture, is also already taking bookings online, while Mediterranean Shipping Co. and CMA CGM are not.

The composition of this particular group of five is remarkable in one respect. The spread of their collective services would be impossible to rival by any other similar grouping. Maersk Sealand and P&O Nedlloyd are the only two lines in the world with anything approaching full global coverage. A brief analysis using global trade coverage information from the ComPairData.com liner shipping database confirms that only three more key lines' services are needed in order to make their joint coverage comprehensive in terms of deep-sea trades. These happen to be Hamburg-Sud, Mediterranean Shipping Co., and CMA CGM.

Together, these five combine massive penetration of east/west deep-sea services with a strong grip on those which run north and south — namely the 15 trades which connect Asia, North America, and Europe, with Australasia, South America, Africa, the Caribbean and India/Mideast (see table).

In certain north/south trades, the INTTRA carriers control very high shares of the markets.

INTTRA will be able to offer space on as many liner services as its members can touch, whether as sole operators, partners, or by chartering slots. Recent reshuffles in the transatlantic trade have resulted in almost blanket coverage there for INTTRA and, leaving aside Hamburg-Sud, the other four each bring a major service option in the Europe/Asia trade as well as the Pacific.

The only trades not covered by INTTRA are the U.S. mainland/Hawaii, U.S. mainland/Puerto Rico and various short-sea trades.

Open To Others? It is arguable that INTTRA, with its joint marketing approach on the Internet, will permit a form of marketing alliance between its member carriers. As an entity, it will concentrate on widening the range of service types available as a way of maximizing the attractiveness of its portal. The question, however, is whether non-member lines with whom INTTRA members have established joint services will be allowed to join the portal.

INTTRA might offer all the Grand Alliance sailings, for instance, but only accept bookings via P&O Nedlloyd, as long as P&O Nedlloyd is the only member of the alliance within the portal. The same would apply to all P&O Nedlloyd's joint sailings with Contship Containerlines to Australia from Europe and CMA CGM's with the same CP Ships-group carrier via East Coast North America.

"Multiple portals will be established. To be successful they will have to be neutral with an open business model and technology and must afford customers the ability to manage their shipments with multiple carriers."

However, P&O Nedlloyd said that INTTRA is open to every carrier and it would have no problem if a second carrier of its global alliance joined.

Eva Graumann, spokesman for the Hamburg-Sud group, said the fact that INTTRA's founding carriers have complementary networks and alliances "was not important."

"There's no cooperation between services — only cooperation concerning Internet systems," Graumann added.

Hapag-Lloyd, another carrier of the Grand Alliance, said it is looking at the INTTRA platform before deciding whether to join.

Rob Warren, marketing manager of INTTRA, said that the platform is "open to everybody."

"We are actively seeking as many carriers as possible," he added. The Internet company is talking to additional carriers, including carriers from Asia.

Concerning INTTRA's global trade coverage, the North America/Australia trade is a weak spot in the Maersk Sealand portfolio, but there is virtually full cover for INTTRA from the remaining four lines. The Caribbean could have been a problem too, without the recent intervention by P&O Nedlloyd/CMA CGM (from Asia) and by several new Maersk Sealand/CMA CGM initiatives strengthening links to Europe and the Mediterranean (the latter now includes Nordana).

INTTRA may be neutral between its members, but its composition of founding carriers and their unique global trade coverage suggest that it will raise competition issues in the industry.

INTTRA can be expected to inject a whole new form of global competition into the industry. This will be seen as good for shippers. On the other hand, would competition not increase if Maersk Sealand and P&O Nedlloyd were told to break apart and each formed a portal grouping on its own?

Competing Portals? APL and Orient Overseas Container Line, two ocean carriers that are among the most advanced in terms of e-commerce, have not joined INTTRA as founding carriers.

Hans Hickler, senior vice president of customer support and information strategy at APL in Singapore, said his company "is evaluating alternatives," some of which may involve other carriers.

Hickler said APL also favors an industry approach to e-commerce, but decided not to back INTTRA "for a variety of reasons." He offered no specific reasons for this decision.

Working independently, APL continues to expand its range of e-commerce services and is close to introducing a global payments functionality, Hickler said.

"Global e-payment capability is far from mature," he said.

OOCL has introduced an e-commerce platform, called SmartCard, which it regards as an alternative to INTTRA. It "has the ability to be made available to other partner carriers and their business associates," a spokesman for OOCL said.

"In common with others within the industry, OOCL believes that multiple portals will be established," the Hong Kong-based shipping company said. "To be successful they will have to be neutral with an open business model and technology and must afford customers the ability to manage their shipments with multiple carriers."

INTTRA and similar carrier-backed shipping portals also compete against the portsnportals.com e-commerce venture of the Hong Kong-based Hutchison group, which has signed various cooperation agreements with COSCO Network Ltd., an affiliate of the Chinese group COSCO and Yes Logistics Corp., a subsidiary of Taiwanese shipping group Yangming.

Unconfirmed reports from Asia suggest that Japanese and Korean carriers are planning to cooperate within another e-commerce portal. ■

TSA lines agree on chassis fee

Are carriers moving away from providing chassis for container moves?

WASHINGTON

The 14 carriers of the Transpacific Stabilization Agreement have agreed to set voluntary guidelines for a $60 chassis fee, effective Jan. 1.

For decades ocean carriers — and not truckers — have been saddled with providing chassis to move containers from U.S. ports to inland destinations. The United States is one of the few markets in the world where ocean carriers provide and pay for chassis — and provide them at no cost to shippers. In most other markets, the trucking lines provide the chassis services.

Under the U.S. Ocean Shipping Reform Act, the TSA cannot mandate the $60 fee, but can only suggest that its members abide by the rate. The question is whether the lines will stick to the fees in the Asia/U.S. West Coast trade.

"It's their decision," said Al Pierce, TSA chairman.


Pierce

The TSA said the $60 fee is well below the $100-per-chassis cost incurred by the average carrier. This amounts to $30 million to $45 million annually, covering elements such as leasing, purchase, capital depreciation, insurance, positioning, maintenance and repair, the conference said.

Pierce said costs have risen to such a degree that "it's just become too expensive" for the carriers to keep the process going on their own.

Because the fee will be a separate, flat charge, shippers will easily be able to pinpoint the cost, the TSA said. Shippers would then have the choice of providing their own chassis, and therefore avoiding the charge.

TACA. Shortly after the TSA's announcement, member lines of theTrans-Atlantic Conference Agreement said they will impose on Jan. 1 a chassis usage charge in the United States for transatlantic shipments.

The charge for providing a chassis will be $40 per chassis for the eastbound trade and $60 for the westbound trade. As with the TSA, TACA will not charge if the shipper provides a chassis.

The conference said that the costs of supplying a chassis to customers to deliver cargo to the port "represent a significant component of fixed costs which have been sustained for a considerable length of time by the ocean carriers."

The practice of charging user fees will soon spread to other major trade routes in the U.S. foreign trades, predicted Jeremy Nixon, P&O Nedlloyd's senior vice president, pacific services.

"You have to have a consistent across-the-board policy to serve your customers," Nixon said.

Getting out of the business altogether will be up to each carrier, Nixon said. Each carrier is different, he noted. "Some have invested heavily and some have not."

P&O is looking at possibly getting out of the business down the road, he said. "Carriers are not involved in providing chassis in other trades."

By definition, ocean carriers are not set up to manage the physical haulage dray move on an efficient day-to-day basis, Nixon said. The inland trucking companies are better geared to this function.

Keeping On. Maersk Sealand will continue the practice of supplying chassis, said Anne Kapelle, strategic marketing director. The sheer size of the U.S. market makes it almost impossible for shipping lines such as Maersk Sealand to get out of the chassis business, she said.

A transcontinental move could require as many as five chassis, Kapelle said. Not only are distances long in the United States, but shippers expect door-to-door transportation, she said.

Kappelle questions whether this will happen, despite the chassis fee. "Managing a chassis pool is not an easy thing to do."

She agreed the $60 chassis fee will likely spread to all major U.S. trades. "I think there is value in having consistency in the charges."

Uniform fees are the norm in other trading nations, she added.

Because of the huge expense involved, Kappelle said she is surprised that the fees were not brought about a long time ago. The cost of a new chassis is much higher than the cost of a container, and the maintenance costs are higher because of the tires, Kappelle said.

"I think people will understand this logic" of the fees, she said.

NIT League Reaction. Carriers in the U.S. foreign trades have a long tradition of providing chassis, agreed Peter Gatti, the National Industrial Transportation League's vice president of international relations.

Will carriers eventually get out of the chassis business? "The carriers are the only ones who have control over a decision to provide or not provide," Gatti said. "If competition drives some carriers to continue the practice, fine. If others do not, that means shippers would have another choice."


Gatti

For example, shippers could go to a trucking company and get a better price. The TSA's action could open up the chassis business to other providers, Gatti said.

Shippers will be concerned if the level of charges becomes too high and goes beyond the cost-recovery point of the carriers, and become a "disguised means of raising rates,"

"Ultimately, the buck stops with the shipper, no matter who provides the service," Gatti said. "No matter how you dress it up, the shippers will ultimately be responsible for the price of transportation."

Gatti said carriers "are going to have to look within their own internal cost structures and in the final analysis, they will have to provide a competitive price, or their customers will seek services elsewhere."

'Roadability' Issue. Bob Voltmann, executive director of the Transportation Intermediaries Association, said that since carriers now want to charge for the use of chassis, they should be willing to guarantee that the equipment is ready for the road.

For years, the burden of guaranteeing the roadability of the chassis has fallen on the drayage carriers, and the ocean carriers have been resisting pressures to step in and take over this duty, Voltmann said.

If something goes wrong in transit, the drayage companies have to pay the price, Voltmann said. "The drayage driver does not own the equipment, yet the ocean carriers do not have to guarantee the readiness of the chassis to go on the road."

Voltmann does not see shippers supplying their own chassis in the short term. Noting the Jan. 1 implementation date, he said "it's not likely shippers will be able to supply their own equipment on such short notice."

Will carriers ultimately get out of the business of supplying the equipment? It will take a long time, Voltmann predicted.

"It will take a great deal of time to change the mind set in the transportation industry," Voltmann said. He cited the railroad industry as an example. The railroads eventually moved grain to private cars, but it took years for the rail carriers to get to that point. ■

European shippers develop standards

Standardized service performance indicators would help shippers compare transport modes.

ROTTERDAM

Organizations representing European shippers are starting work on the development of service measurements for ocean transport that could also be adopted in the rail and road transport modes.

Mick Jackson, head of logistics at the U.K.-based Freight Transport Association, said that his and other organizations representing European shippers and transport providers will define and measure "service performance indicators." He was speaking at the European Shippers' Council conference on Oct. 26.

This follows a model of key performance indicators developed by the British Shippers Council and the European Air Shippers' Council for air cargo.

The aim of the service performance indicators is to define, in cooperation with transport providers, a certain number of steps in the supply chain, and then measure how services perform at each step of the chain whenever responsibility is transferred to a different entity.

Jackson said that transport providers have traditionally used key performance indicators as a management tool to measure asset performance.

"They are not what a supply chain manager is looking for," he said. "He is looking for service measurements."

Xander van Holk, senior policy advisor to the Dutch Ministry of Transport said the Dutch and Swedish governments have agreed to co-finance a pilot project of key service indicators for the shortsea route between Rotterdam and Gothenburg.

The project will be managed by the European Shippers' Council and the Freight Transport Association. Jackson, at the Freight Transport Association, said the study would encompass not only port-to-port performance, but also the performance of the inland transport links before and after the ports.

"Supply chain managers tend to think 'corridors,' " he said.

The project is part of the Northern Quality Shipping initiative developed by the Swedish and Dutch governments to promote shortsea shipping and maritime safety.

European policymakers are concerned about increasing road congestion and the negative environmental side-effects of road transport in Europe. The European Commission and national governments in the European Union hope that intermodal transport and shortsea could reduce the pressure.

"We think shortsea should be, and can be, at a European level, an alternative to road transport," said van Holk, from the Dutch Ministry of Transport.

Kerstin Sterner, adviser to Transport and Energy Directorate of the European Commission, told delegates at the conference in Rotterdam that she backed the service performance indicators project, as it would include a common methodology and enable shippers to make better decisions when selecting transport modes in Europe. She said that EC funding may be available to help the project.

Other Modes, Beyond Europe. The European initiative on service standards has wider ramifications that go beyond European shortsea shipping.

"Deepsea is very much in our sight, as well," said Chris Welsh, secretary general of the European Shippers' Council.

Welsh

He also referred to recent discussions with the U.S. National Industrial Transportation League, the Japan Shippers' Council and other participants of the Tripartite Shippers meetings about setting up transport service performance indicators.

Welsh commented that performance indicators for European shortsea shipping "can make a significant contribution to enhanced service performance," judging from the ESC's experience of air-cargo performance indicators.

At its last meeting, held in Haifa, Israel, in September, the Tripartite shipper group said it had agreed to cooperate in the development of service performance indicators for shippers' supply chains. The global shipper group would "explore the possibility of developing these standards during the next 12 months."

"It's part of a broader picture," Welsh said.

In the air freight sector, the U.K. Freight Transport Association started working on the development of key performance indicators and best practices in the air cargo chain in 1995. This work was endorsed and widened, from 1997, by the Forum for Air Cargo in Europe industry body, which includes airlines and forwarders, and by the ESC.

Welsh said the performance indicators have been accepted by many major airlines, including Lufthansa, Air Canada, KLM, Air France and Swissair, and by major shippers such as IBM Europe, Nokia and Schneider.

For example, Air France has implemented some of the ESC performance indicators and MSAS is putting into action indicators based on the ESC guidelines, he said.

"We are setting up communities of shippers, carriers and forwarding agents, and are moving on to implement these performance indicators," Welsh said. He added that the air cargo industry should, as far as possible, stick to harmonized, generic service indicators.

When they were published, the European air-cargo performance indicators met some criticism in the industry because their targets appeared to be idealistic.

Jackson said the Freight Transport Association is considering whether there are generic service performance indicators for all transport modes. He cited common areas such as time, consignment care, compliance and "corporate efficiency". The British association aims to be able to measure service performance for different transport modes on the same transport corridor, allowing comparisons between modes.

But this involves a long methodology to develop the service standards, as shown with the air-cargo standards, and "the biggest challenge is implementation," Jackson said.

The ESC has succeeded in attracting airlines and shortsea shipping operators to the table to discuss service standards for these two sectors. However, it remains to be seen whether transport providers in the traditional, individualistic deepsea shipping industry would be as willing to cooperate on such a project.

Infrastructures. "A supply chain is also about the performance of the infrastructure, whether it is a sea port, an airport or a road," Jackson said.

Therefore, the performance indicators developed by the Freight Transport Association and the ESC incorporate the use of the infrastructures and how they impact the total supply chain.

Jackson quipped that this would highlight whether investments in infrastructures are driven by logistics considerations or by political considerations.

He said that key performance indicators would benefit all those involved in transport — operators, shippers and governments. They will identify bottlenecks and allow shippers to make "well informed modal decisions," Jackson added. ■

Valuing Deutsche Post

Company's worth as hard to gauge as how it will integrate following its multibillion-dollar acquisition binge.

BONN, Germany

As Deutsche Post AG prepared in November to start its new life as partially privatized Deutsche Post World Net, investors across Europe and the globe were struggling to learn exactly what this post office-turned-parcel-carrier-turned-logistics-company-turned-financial services firm was and — more importantly — what it will be.

Few would have thought just three years ago that Deutsche Post would bring itself to an initial public offering with such a diversified portfolio of businesses spanning the world. The company has transformed itself seemingly overnight with a swift, multibillion-dollar acquisition binge. But the pace of its growth has left Deutsche Post, and the logistics industry as a whole, little time to digest the ramifications.

It's hard to gauge the market value of a company the likes no one has ever seen. That uneasiness, made worse by several ongoing European Commission investigations into Deutsche Post business practices, is likely what led the German government to issue the low-end of shares available — about 29 percent of the company — at 18 euro to 23 euro a share.

Many observers wonder if the company will be able to integrate the businesses it has already acquired, let alone make its global logistics vision a reality. In many ways, Deutsche Post is blazing its own path. It is at the forefront of change in the European postal market, which will slowly become deregulated over the next five years. It is leading a trend toward full-service logistics outsourcing and fueling a global consolidation craze in transportation. It will be on the cutting edge in a budding industry for developing financial services tied to logistics and electronic commerce.

Deutsche Post's closest competitor, United Parcel Service Inc., built a $27-billion powerhouse in 100 years. Deutsche Post has assembled its 30-billion euro World Net of parcel, logistics and finance businesses in less than five years. UPS and Deutsche Post have become near mirror images, looking over the Atlantic. But appearances shouldn't fool. There are major differences beneath the surface at Big Brown and the Yellow Giant. For example, Deutsche Post will not keep its IPO proceeds. The state-owned German bank Kreditanstalt fur Wiederaufbau, or KfW, is selling the Deutsche Post shares and will keep the cash generated, which could be more than $6 billion.

Publicly traded stock conceivably will give Deutsche Post another form of currency to make acquisitions in international markets. But the question is: How long will state ownership hang over Deutsche Post's share price? And will that, along with the threat of future EC proceedings, affect Deutsche Post's ability to grow?

Deutsche Post should spend the coming months integrating its network — a huge feat. Last year, Deutsche Post employed 257,836 people. The group moved 1.7 million metric tons of air freight. Management must insure that Deutsche Post does not

Net expansion

Deutsche Post World Net subsidiaries, recent acquisitions and alliance partners (home country)

Mail
- Deutsche Post (German national post office)
- Global Mail Ltd. (U.S.)
- Yellowstone International Mail (U.S.)
- International Postal Consultants (U.S.)
- Herald International Mailings (U.K.)

Parcels
- DHL International (worldwide, based in Belgium)
- Deutsche Post Express (Germany)
- Deutsche Post S.A. (Switzerland)
- Trans-o-flex (Germany, Austria, Hungary, Netherlands, Belgium, Denmark)
- Ducros Services Rapid (France)
- Securicor Omega (U.K.)
- Van Gend & Loos (Netherlands)
- Selektvracht (Netherlands)
- M.I.T. (Italy)
- Guipuzcoana (Spain, Portugal)
- Narrondo Desarrollo (Spain)
- Servisco (Poland)

Logistics
- Danzas (Switzerland)
- Air Express International (U.S.)
- Nedlloyd European Transport Division (Netherlands)
- ASG Group (Sweden)
- ITG Internationale Spedition (Germany)
- Deutsche Post Kontrakt Logistik (Germany)
- Deutsche Post Transport (Germany)
- Lufthansa Cargo, Aerologic (Germany)

Finance
- Deutsche Postbank (Germany)
- DSL Bank (Germany)
- Deutsche Post Ventures (Germany)

E-commerce
- Deutsche Post eBusiness (Germany)
- Lufthansa Cargo, eLogic (Germany)
- Global Freight Exchange (U.K.)
- GFT Technologies (Germany)
- Zouk Holding (U.K.)
- eVita (Germany)
- Viewlocity (U.S.)

Source: Company reports.

"We intend to use our group ties with Postbank to draw Postbank's products increasingly into divisional cross-selling efforts and to offer customers one-stop shopping by integrating Postbank's financial services into the service offerings of other divisions."

Deutsche Post prospectus

crumble under its own weight.

Under it new World Net banner, Deutsche Post has separated the company into four business segments — mail, express, logistics and finance. In 1999, mail accounted for 34.3 percent of Deutsche Post group revenue. Express, logistics and finance made up 17.8 percent, 23.7 percent and 24.2 percent of the company's sales, respectively.

More disconcerting for potential Deutsche Post investors, especially considering that the German post will lose its monopoly on letters in 2002, is the fact that mail income made up more than 76 percent of Deutsche Post's pre-tax profit. Express logistics and finance made up 6.3 percent, 6.7 percent and 10.9 percent, respectively.

To temper its reliance on mail income, Deutsche Post will have to be exceptionally successful at integrating its different units. Deutsche Post will use its newly acquired controlling stake in DHL International to tie together its European parcel network, even giving DHL an option to purchase 20 percent of its non-German European ground parcel business. Danzas and AEI have dispelled rumors all year that they are struggling to integrate the two large forwarding operations. Danzas AEI will have to move past integration quickly to focus on winning global contracts in the face of tougher competition.

The wild cards will be finance and e-commerce. It is within these areas that Deutsche Post — like UPS — will most differentiate itself from the pack.

UPS has an impeccable credit rating that allows it to provide independent logistics and e-commerce financing services. Deutsche Post owns two banks. UPS has built up a strong e-commerce business unit and logistics operation. Deutsche Post has set up an e-commerce division and venture capital arm and plans to leverage a partnership with Lufthansa Cargo to develop e-commerce logistics solutions. In their approaches to these segments of the market, UPS and Deutsche Post are almost identical.

UPS speaks of the three flows of commerce — goods, information and funds. Deutsche Post talks of the one-stop shop.

"We intend to use our group ties with Postbank to draw Postbank's products increasingly into divisional cross-selling efforts and to offer customers one-stop shopping by integrating Postbank's financial services into the service offerings of other divisions," Deutsche Post said in its prospectus.

"Our goal is to become the world leader in integrated logistics and distribution services for all customer needs ranging from standard products to customized logistics solutions, including project-based financial services," the company said. "Because of the steps we have taken in the past and our development of a new corporate platform, we believe we are well-positioned to benefit from the increasing globalization of world trade and from projected growth in the logistics markets and the eBusiness sector." ■

Nudges toward trade With Cuba?

Industry groups, U.S. Gulf ports lobby to lift embargo on agricultural products, medicine and medical equipment.

BY TONY BEARGIE

Will 2001 be the year U.S. Congress finally resumes trade relations with Cuba?

Certainly, the United States won't leap from the longest trade embargo in U.S. history to accept full trade relations

However, several large shippers groups and U.S. ports are lobbying for Congress to at least approve a partial lift of the trade embargo against Cuba, to allow exports of agricultural bulk shipments, medicine and medical equipment

Supporters say they've gained ground in both political and private sectors over the past two years, and are optimistic the partial lift will pass when a new Congress comes to Washington next year.

The American Farm Bureau Federation, the American Association of Exporters and Importers, the National Association of Manufacturers are among the shipper groups leading the effort.

They came close to their goal during the waning days of the last Congress. As it turned out, though, the House passed legislation opening the way for the sale of foods and medicines to Iran, North Korea, the Sudan and Libya. But Cuba was treated differently. Unlike the other four nations, food and medical exports could go to Cuba, but they would have to be paid for in cash or through foreign financing. U.S. government agencies would continue to be barred from making loans or guarantees.

The Cuban government has rejected such conditions, and observers who have studied the issue say the bill was gutted to such an extent as to render the trade initiative almost meaningless.

Wayne Smith, director of the Cuba project with the Center for International Policy, a Washington think-tank, accused House Republican leaders of turning their backs on businesses in their own states and caving into the demands of a handful of Republican Cuban-American congressmen from the Miami area.

"The leadership in Congress is not only out of step with the American people, but with the majority of both parties in Congress," Smith said. He maintains that trade with Cuba has strong bipartisan support in both houses of congress.

A Gallup poll in May found that 57 percent of U.S. residents support resuming trade with Cuba.

Normal Trade Relations. A partial lifting of the embargo would be a welcomed "first step," but Cuba's chief aim is to resume normal trade relations with the United States that existed before the embargo was imposed in 1962, said Gustavo Machin Gomez, first secretary of the Cuban Interests Section in Washington, D.C.

For years following the embargo, Russian and the Eastern Bloc accounted for 85 percent of the trade with Cuba. But this changed dramatically in 1991. Now Europe accounts for about 48 percent of the trade, followed by the Americas (Canada, the Caribbean nations and Latin America) with 36 percent, and Asia, with 13 percent of the market, Gomez said.

Lifting the embargo and reestablishing two-way trade would benefit both countries, Gomez said.

For example, Cuba will buy $1 billion worth of foodstuffs this year, and "it's no secret that it is in Cuba's interests to gain access to U.S. markets," he said.

One of Cuba's chief staples, rice, is now purchased from China, Thailand and Vietnam. It takes between 20 to 30 days to ship rice from Asia to Cuba, and the transportation costs add almost 30 percent to the total purchase cost, Gomez said. In contrast, it would only take three to four days to move rice from U.S. Gulf ports to Cuba.

Two-way trade is essential to draw shipping lines into the U.S./Cuba market, he added. It would not be profitable for the ocean carriers unless they are permitted to carry Cuban products back to the United States.

Market Potential. According to a study prepared by former International Trade Commission chairman Paula Stern, who now operates an international consulting firm in Washington, U.S. food and medical products trade to Cuba could come to $1.6 billion per year under unrestricted trade conditions.

Under partial liberalization with adequate U.S. export financing, the agriculture-medical products trade would amount to $111 million during the first year of trade liberalization, and $444 million after five years of partial liberalization.

The U.S. Grains Council estimates that Cuba would import about 500,000 tons of feed annually if sanctions were lifted The U.S. Rice Growers Association says Cuba needs 350,000 metric tons of rice a year, reflecting a market of $300 million, the report said.

U.S. rice growers are also prepared to provide Cuba technical assistance in production, milling and storage, Stern said.

The U.S. transportation infrastructure, including shipping lines, railroads, barges, tug boats, trucking companies and ports would benefit from trade liberalization, Stern said.

Increased agricultural exports would significantly increase the number of tons passing through a number of U.S. gulf ports, including New Orleans, Lake Charles and Baton Rouge in Louisiana; Corpus Christi, Houston and Galveston in Texas; Gulfport and Pascagoula in Mississippi; and, Birmingham and Mobile in Alabama, Stern said.

For example, the Port of New Orleans estimates that for every 1,000 tons of cargo moving through the port, 11 jobs are supported. And the Port of Lake Charles would expect an increase of 177,000 man-hours of direct waterfront jobs and $15 million

States would reap harvest

The U.S. Department of Agriculture's Foreign Agricultural Service said 13 states would benefit the most if the Cuban embargo was partially lifted to allow agriculture exports.

- Alabama: Poultry meat, soybeans, solid wood products.
- Arkansas: Rice, poultry meat, soybeans, soybean products.
- California: Vegetables.
- Georgia: Poultry meat, beef, pork.
- Illinois: Soybeans, soybean products, pork, beef, corn.
- Iowa: Soybeans, pork, beef, corn.
- Kansas: Wheat, beef, pork, feed grains.
- Louisiana: Rice, soybeans, solid wood products.
- Ohio: Soybeans, soybean products, feed grains, wheat.
- Mississippi: Soybeans, wheat, poultry meat, rice.
- Texas: Beef, feed grains, cotton.
- Washington: Wheat, vegetables.

in an annual economic impact, Stern said.

But for all of the expected benefits to occur, Cuba would need access to U.S. export credits and financing, Stern said. Otherwise, the projections would drop by 80 percent, Stern said. But since Cuba has stated that it would not trade without adequate financing provisions, the projections would disappear altogether.

The embargo is not supported by most of the world's trading nations, said Paul Drazek, a partner in the international consulting firm of DTB Associates.

From personal experience Drazek said Cuba's Fidel Castro has been greeted with above-average enthusiasm when he attends international trade conferences in Europe. Before forming DTB, Drazek was special assistant to the Secretary of Agriculture for international affairs.

"The embargo is not seen as the U.S. standing up to Castro ... it is seen as Castro standing up to the U.S.," Drazek said.

For rice alone, a lifting of the embargo would spark an annual trade of up to 600,000 tons per year, placing Cuba, along with Mexico as the nation's top rice customer, Drazek said.

This represents a huge market, said Dennis DeLaughter, chairman of the U.S. Rice Producers Association. "This is the size of the entire Texas rice crop," he said.

If the embargo is lifted for trading in both directions, the result "would not be free trade, but freer trade," Drazek said. Free trade comes only with a Free Trade Agreement, and that does not appear to be in the cards in the short term, he added.

Ports. A number of ports have joined the shipper groups in lobbying for the partial lift of the embargo. Ports and port groups supporting the effort include Baton Rouge and Lake Charles, La.; Beaumont, Texas; Gulfport, Miss.; Oakland, Calif; and the South Carolina State Ports Authority, as well as the Texas Ports Association.

Because of their geographic location, U.S. Gulf ports in particular stand to benefit from lifting the embargo.

Before the embargo was imposed in 1962, Cuba was one of the Port of New Orleans' largest trading partners.

The port's strategic location near Cuba and near the huge U.S. Midwest market is a big plus for making it a natural focal point if trade relations are restored, said Paul Dauphin, communications manager for the Port of New Orleans.

Although New Orleans has not taken an official position on the embargo, the port is getting ready for the day when normal trade relations become a reality, Dauphin said. The port has refrained from joining up with other Gulf ports on the political front, "because we don't want to become involved in the politics of the issue at this point.

> ***"Opening the door for trade relations with our neighbor is not just good business, it is morally and ethically right."***
>
> **Jack Laurie**
> *vice president, American Farm Bureau Federation*

"We're keeping an eye on what our needs will be to accommodate the market." But at this point in time, port officials are not embarking on any trade missions to Cuba, he said.

Aside from foodstuffs and other bulk commodities, New Orleans expects to move container cargo in a two-way trade with Cuba. "We are expanding our container facilities with an eye toward an increase in total container trade," Dauphin said. "And once Cuba opens up, that trade will be part of this increase in the container market."

It will be a slower process for Cuba to get in on two-way trade, because of the need to upgrade Cuban ports, Dauphin said.

Farmer's Experience. Michigan dairy farmer Jack Laurie, who is also president of the Michigan Farm Bureau and vice president of the American Farm Bureau Federation in Washington, made an agricultural fact-finding trip to Cuba last year.

Laurie said he saw "a nation of people and an agricultural system in need of a science-fiction-like teleport into the future," but at the same time also saw "a nation with great potential as a market for American farm products."

Total sanctions reform will remain a target of the American Farm Bureau, Laurie said. But first Congress needs to provide for U.S. government export assistance, he said.

Changing the 40-year isolation policy toward Cuba will take some time, Laurie said. "It won't happen overnight."

Aside from the economic benefits, Laurie cited moral and ethical reasons to lift the embargo.

"Opening the door for trade relations with our neighbor is not just good business, it is morally and ethically right," Laurie said. "Trade involves far more than moving goods and services. The flow of ideas and values also occurs. Cooperation and respect will dictate our actions, not misguided governmental decrees." ■

FMC takes on service contract dispute

Ruling is major victory for Cargo One and the NVO's complaint against COSCO Container Lines.

WASHINGTON

The U.S. Federal Maritime Commission has decided to take on a service contract dispute between Cargo One Inc., a small non-vessel-operating common carrier and COSCO Container Lines, an arm of China Ocean Shipping Co.

In so doing, the FMC decided to revisit a test case handed down in the early 1990s in which it ruled that all service contract disputes, even though they may contain allegations of shipping act violations, are to be decided in a federal court.

Under that policy, the court would decide standard breach of contract cases, and alleged violations of the shipping act would go by the wayside.

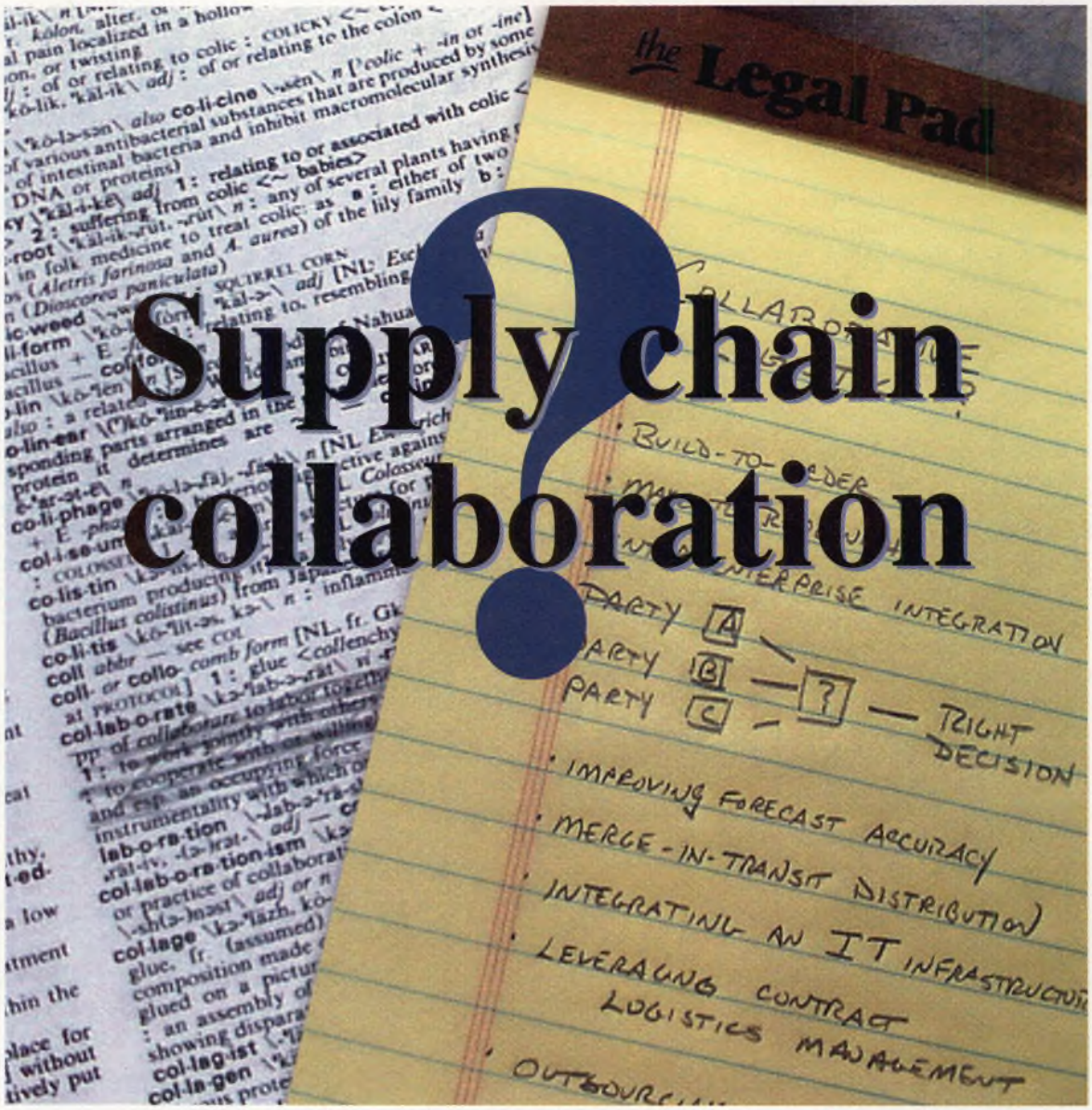
The ruling represents a major victory for Cargo One, whose chief objective in filing the complaint in November, 1999, was to convince the FMC to accept jurisdiction and thereby avoid arbitration in Beijing, as specified in the contract (February *American Shipper,* page 8).

The FMC ruling means that the courts will continue to review strictly breach of contract cases, but that the agency will assume jurisdiction over alleged shipping act violations such as discriminatory treatment arising out of service contract disputes.

Cargo One is seeking $121,750 in liquidated damages from COSCO Container Lines. The NVO alleges the shipping line refused to book an agreed volume of cargo under a contract covering freight moving from Hong Kong to U.S. West Coast ports. The NVO was able to ship only 6.5 TEUs out of 250 TEUs specified in the contract.

The FMC rejected COSCO Container Line's argument that the only forum for contract dispute cases is in a federal court.

The case will be reviewed by FMC administrative law judge Frederick M. Dolan. His initial decision will be due June 20, and a final FMC decision will be handed down by Oct. 18. ■



Supply chain collaboration

Behind the buzzword, Micron Electronics and Modus Media find real bottom-line benefits.

By Gordon Forsyth

What does supply chain collaboration mean? Look in a dictionary and you won't find it. Ask the experts and you may get a different answer each time.

To Micron Electronics Inc., a $1.6-billion-a-year computer manufacturer based in Nampa, Idaho, defining collaboration is pretty simple. Just look at the numbers.

In Micron's fourth fiscal quarter ending Aug. 31, the company recorded a net income jump of 64 percent to $23 million on a 50-percent rise in revenue of $500 million.

Two years ago, Micron was stuck in the mud, spinning its wheels in a highly competitive personal computer manufacturing industry. Inventory levels were high. Production was down. The supply chain was out of control. Micron executives say something had to be done.

New management took over and completely remade the company in less than a year. Now with the most efficient supply chain in the computer industry — even beating icon Dell Computer Inc. in most recent measurements — Micron is growing at double-digit rates. The company, which sells PCs mostly to the federal government and small businesses, has opened a new retail sales channel that will further stimulate sales growth through partner stores Best Buy, Staples and Radio Shack.

In August, for example, Micron was first-to-market with Microsoft's new Windows ME operating system, capitalizing in a retail PC market that has forced other computer makers, such as IBM and Packard-Bell, to turn tail and run. Things are looking up in Nampa.

Unabashedly, Micron attributes all of its recent success to new supply chain and logistics management strategies. And they all hinge on collaboration.

"We went through a complete change in

our business model," said John Jansen, Micron's director of corporate distribution.

"We moved away from what, at the time, was a very cost-driven model. At the start of every week, we called the suppliers up and beat the suppliers up for lower costs," Jansen said. "Instead, we came up with a model that said, 'We understand you are going to have competitive pricing and we understand that you are going to have competitive technology. But what can we do around that to try to drive value?'

"It was a complete cultural change in the company, and it was painful at times," he said. "But at the same time, our suppliers started to see the overall benefits of the model, because they had such a clearer window into what was happening here. Sharing a forecast with them was one thing, but being able to share a roadmap of our direction at a product level, that is a significantly different attitude."

Selling a Supply Chain. Micron has the supply chain metrics to back up its bottom-line growth.

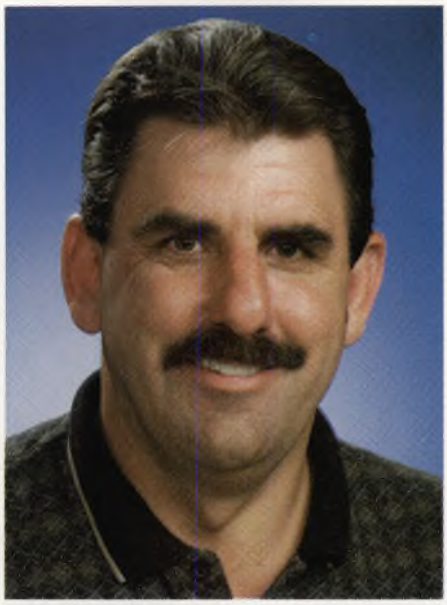
In January 1998, Micron was turning out 2,100 computers a day. This year, the company is shipping 10,000 to 12,000 machines a day.

Product lead times for personal computers and notebooks have dropped from as high as 21 days to below five days. Server lead times that ran as high as a month are now below nine days. Available-to-promise reliability has increased from 73 percent to above 85 percent. Total order cycle times have fallen from two days to less than 12 hours.

In 1998, Micron carried $130.7 million of inventory. Today, it carries a fraction of that — $17 million.

That extraordinary improvement has given Micron the supply chain management bragging rights over competitors praised for their logistics acumen. Dell is often held up, and rightly so, as the first to perfect the build-to-order manufacturing model and a leader in advancing new logistics strategies. Micron claims it has topped Dell's supply chain acumen. The company says it has driven down its days of sale in inventory to 6 days. Dell has 6.6 days, Micron says. By comparison, Compaq carries 22 days, and Gateway has 11.6 days. DSI — a key metric in today's PC industry — measures how many days of inventory a company maintains to support its current sales rate.

Compaq and Dell are much larger than Micron. But the computer maker from Idaho believes its supply chain infrastructure can handle very rapid growth and is betting on steep sales increases from expansion of the retail business it started just this year. With a little more brand awareness (the company sponsors its own college football bowl game on New Year's Day), who knows what can happen?



"Our suppliers started to see the overall benefits of the model, because they had such a clearer window into what was happening here. Sharing a forecast with them was one thing, but being able to share a roadmap of our direction at a product level, that is a significantly different attitude."

John Jansen
director of corporate distribution, Micron Electronics Inc.

Micron says its retail program stems directly from logistics. It approached Best Buy and others only after gaining total confidence in the ability of its suppliers and logistics providers.

"Last November, there was a group of us sitting around trying to decide how to market the velocity supply chain," Jansen said. "We know it adds value to the company, and we know that we are able to control our assets better than anyone else. But how do you market that? What came out of that was a working relationship with three or four top companies in the retail channel.

"It was more of an asset/technology sell than it was a PC box sell," he said. "We were able to go to the retailers and say, 'We can reduce the amount of inventory that you carry. We can come to market faster with you. And we can solve some of the age-old problems of retail, like inventory obsolescence and fresh product.' We got a lot of attention real quick."

Micron branded the retail program VelocityNet Direct. Under the program, consumers can go to Best Buy and Staples stores to select, personalize and order computers direct from the micronpc.com Web site via in-store Internet kiosks. It's a pure configure-to-order and replenish-to-order model. Before the consumer steps into a car in the Best Buy parking lot, Micron has received the order and begun configuration in Nampa.

Retailers use the same ordering system to replenish their in-store Micron stock, which they say is increasing inventory turns and reducing shelf inventory. Total production time for VelocityNet orders is 13 hours. Delivery is made in between one to six days depending on the order and destination.

In Micron's fourth quarter, VelocityNet sales rose 83 percent over the third quarter. The program contributed significantly to a PC unit shipment record at Micron, with shipments rising 29 percent year-over year.

Good Partners. Micron is quick to point out that it couldn't have launched VelocityNet without the help of key suppliers like Modus Media International.

Micron has 79 suppliers, down from 158 two years ago. They make everything that goes into and around the computer, from the semiconductors to the mice and keyboards. Though Micron works closely with all of its suppliers to make sure all are on the same page, Modus Media is different.

Modus has built its entire business model around collaboration. That's all the company does. And it does it all, literally. Modus Media lists some 19 distinct services on its brochure, covering everything involved in supply chain management. The company offers contact management; marketing and promotion support; customer service; call centers; product support; procurement and materials management; CD-ROM replication; on-demand printing; kitting and assembly; distribution management; transportation management; electronic software distribution; and returns management.

The company, which plans to launch an

initial public offering of stock in New York next year, calls itself a supply chain infrastructure for the high-tech industry.

The evolution of Modus shows how quickly the high-tech industry has changed in the last decade. In 1990, Modus Media was a division of printer R.R. Donnelley & Sons Co. making software CDs and installation packets. In 2000, Modus is positioned to play a lead role in an accelerating high-tech supply chain outsourcing trend. It is also regarded as a strong player in the e-commerce fulfillment area.

Modus can offer its services in pieces or simply take over a company's entire supply chain operation. For instance, Modus makes Microsoft software. It gets the specifications from Microsoft; then does everything else, returning to Microsoft a report and its cut of the sales after delivery is complete. Modus does the same for handheld computer maker Handspring Inc., managing the company's entire supply chain from sourcing to delivery and customer support. It has a similar agreement with financial software maker Intuit Inc.

"We want to take the company from a push-based strategy, where a customer gives us an order and we just build whatever they want and push it out to the channel, to a pull-based approach, where we are using our infrastructure and our systems to streamline the supply chain and pull manufacturing via demand," said Kate Vitasek, vice president of operations services for Modus Media.

With Micron, Modus has become so integrated into the computer maker's business, it can be difficult to tell where one company begins and the other ends.

"We actually had a phased approach when we came in and started working with Micron," Vitasek said. "That is when you begin to build trust. We began sitting in on some of their teams. We began working with them on procurement. You look to continually re-evaluate your business to find what is the core competency. Day-to-day buying of accessories is something we are pretty good at, and that is something they have let us take over for them."

Modus and Micron broke the mold of a traditional supplier-manufacturer relationship. A lot of what the two companies have accomplished together was unthinkable at Micron just a two years ago. Many companies still struggle with their suppliers and providers and vice versa. Most of the problems revolve around the free exchange of information, which is still viewed with a certain degree of paranoia and skepticism by many companies. Technology is another hurdle for manufacturers and suppliers, especially smaller ones, which have

"We want to take the company from a push-based strategy, where a customer gives us an order and we just build whatever they want and push it out to the channel, to a pull-based approach, where we are using our infrastructure and our systems to streamline the supply chain and pull manufacturing via demand."

Kate Vitasek
VP of operations services, Modus Media

struggled to share information over expensive fixed lines of communication.

Modus and Micron have taken communication and collaboration to another level. Modus employees work in Micron's plant. They attend meetings with Micron's sourcing, manufacturing and marketing teams. When Micron considers a new product launch, Modus employees are there to discuss the affects on the supply chain. When keyboards on Micron's assembly line run low, a Modus employee refills the basket. When it comes time to replenish the slim stock Modus manages for Micron out of a logistics center across the street from Micron's plant, a Modus employee buys the goods. Micron handles strategic sourcing decisions, but Modus handles the day-to-day buying of accessories — modems, mice, speakers and keyboards.

"We went out and worked with the core providers who were willing to go into this investment with us," Jansen said of the Modus Media relationship. "If we truly are going to have a collaborative effort, we have to be able to share information, resources and try to drive as much cost for us out, as well as driving costs out for them.

"We move very quickly," he said. "The market changes very quickly, and our suppliers have to be as in tune with us as we are."

Micron has formed close relationships throughout its supply chain. The company works with North American Logistics, a division of North American Van Lines, to support its chassis and peripherals suppliers. It works with UPS Worldwide Logistics to support outbound merge-in-transit distribution of finished product.

"We try and drill down into our supply chain a couple of levels deep," Jansen explained. "If I am buying air freight from Fritz (Cos.), for example, they know our relationship with the key air players they use. They know exactly who that space is being sold to."

Modus Media, though, is at the top of the food chain in terms of proximity to Micron and the degree of integration between the companies. Modus manages Micron suppliers on Micron's behalf, and is responsible for keeping inventory levels down throughout the chain.

"Our buyers that sit on site at Micron are not only watching how many days' supply of inventory Micron has on hand at their facility, but they are also watching that at our site as well," said Keri Hine, business manager at Modus' Nampa facility. "Then we are relaying that information on to suppliers.

"Micron had to educate four main suppliers on the Micron model and, in turn, we have had to take that and educate the suppliers that we deal with," Hine said. "All of the suppliers that I deal with have to know that I could call them in the morning, and that night or the next day things could change. They have to be flexible."

The end result is that Modus is replenishing Micron's stock as the parts are used. Micron and Modus say that is the key to keeping inventories tight and directly aligned with production. It also lessens the suppliers' reliance on forecasts, giving the company a direct view into what Micron products are moving when and how fast.

"The forecast is actively being managed," Vitasek said. "With other customers, a forecast mysteriously appears somewhere and then things are bought off

of it and it is not actively managed on a day-to-day, hour-by-hour basis."

Hine agreed. She had worked with Micron's previous supplier of accessory materials before joining Modus last year. "I think the one major change that I have seen is in the communications and us being up-stream now," Hine said. "People have asked me this before, and I think the biggest thing that actually makes this work is us having buyers on site at Micron."

Empowering Productivity. For Micron, getting comfortable enough to let Modus employees walk freely around its plant and participate in product design meetings didn't happen overnight. Jansen said he would have liked to say that Micron one day just decided collaborative supply chain management was a good idea and then implemented it. But that's not the case. Micron had to do it. Changing the company's culture was a matter of survival. Once the company realized it had to change its approach, everything else began to fall into place.

"Our suppliers benefit when we grow," Jansen said. "Being inside that core group, they are allowed to grow with us. At the same time, we do share in some risks. We are not kidding ourselves. There is risk involved in some of these things. But if it is a shared risk, then everybody is much more comfortable."

Of course, elaborate strategies, buzzwords and all of the meetings in the world will take a company only so far. It comes down to the employees. They have to believe, as well.

"It is totally night and day. It is a totally different feeling today," Hine said. "We feel like we are part of the Micron team, and everybody over here feels that if Micron succeeds, we succeed. If they don't, we don't.

"The big thing is we take it personally now," she said. "We see the whole picture and we see how it impacts Micron when we go short on a product. I think that when you see how you impact somebody else's business, it makes a big impact on you."

When it comes to supply chain collaboration, empowerment and productivity growth may be the two most important benefits most people never mention. Workers that have a sense of mission, that understand how the job they do fits into the bigger picture and take pride in that are less likely to make the mistakes that lead to inefficiency.

That may be the only definition of collaboration that really matters. "We are knowledge employees; not just bodies," Vitasek said.

New best friends

What rules will guide the sharing of data under collaborative logistics? Two executives offer their views.

By Robert Mottley

Theodore Roosevelt, it was once said, had to be "the bride at every wedding and the corpse at every funeral."

There's a moral in that for collaborative logistics. When the connectivity is done and the sharing of data starts, what etiquette governs the flow of information?

"Dictionaries define 'collaboration' as 'to work with others on a joint project.' I'm entertained by a second definition: 'to cooperate as a traitor with an enemy occupying one's own territory,'" Fred W. Baumann, director of collaborative programs at E3 Corp, told a recent seminar sponsored by the Council of Logistics Management.

"In that sense, being called a collaborator could mean a firing squad. Should we still be shooting collaborators in the marketplace?" he teased his audience.

"Give us another year," joked one logistician.

There is no book of etiquette for the third-party providers now offering quite specific online collaborative services for clients. While comfort levels vary, the lure of the Internet has proven stronger than qualms about exposing proprietary data.

Two-Edged Sword. *American Shipper* asked the heads of two such providers to discuss collaborative logistics as practiced by their individual companies.

"There's no question that collaboration is the hot buzzword," said Evan Schumacher, chief executive officer of Celarix, based in Cambridge, Mass. "I think that's ironic, because shippers and carriers have been collaborating for years. EDI is collaboration. The reality is that most people don't understand beyond the hype."

Schumacher said that Celarix was founded to deliver "logistics execution enterprise software over the Web," he said.

"We then marched into a marketplace where we always knew there was peripheral value. I used to be a logistics manager. I knew what we were taking on for ourselves.

"About 95 percent of logistics at the time was making sure the right product got to the right place at the right time — as the mantra went. Only 5 to 10 percent was spent negotiating transportation contracts, usually annually," he said.

"It's real hard to build logistics execution software, which takes years of research, investigation dollars and knowledge," Schumacher said. "It's easy to build a marketplace. If there are packages you can buy off a shelf, you can get a market up in two weeks."

What companies are finding out "really quickly in trying to set up such creative marketplaces is that value is a two-edged sword," he explained. Providers who can't provide it are either going out of business, or not being able to raise more money, or not getting any of the revenue they hoped."

At Celarix, "we listened to our customers, took out marketplace technology, and enabled it for them to better procure transportation with their own private trading communities.

"That's called 'Web-centric collaborative technology.' You either have it, or you don't," Schumacher said.

"At the end of the day, what our solution does is to provide a single vendor-neutral centralized logistics solution. That means one place for our customers to buy their transportation, negotiate their short-term and long-term contracts, and to manage their logistics activities," he said.

Making Connections. Analyzing logistics network performance with online reporting tools "allows customers to ask all of the necessary questions: 'what is my average transit time for a shipment?' 'Where are the breakdowns at each step of my logistics pipeline?' 'What is the relationship between each handoff?'

"And not least, 'what are my landed costs calculations?', not so much in the sense of 'what is the one-off cost for ship-

ping that sweater to Japan from Wisconsin?' but more along the line of 'what's my true cost per unit to move cargo throughout the world?' " Schumacher explained.

"Collaboration is all about connectivity — connecting trading partners together."

For example, Celarix is connected, on behalf of its customers, including Warner Bros, Abercrombie & Fitch, L.L. Bean, and Sharp, to more than 150 transportation service providers, ocean carriers, air forwarders, trucking companies, custom brokers, and air carriers.

"Connecting is putting people together so they can talk, but linking isn't enough. You have to share data over those links," Schumacher said.

Legacy Millstones. A lingering problem is that "the transportation industry is still rooted in EDI. Anyone who tells you it's not is lying. Carriers have made a huge investment in EDI, and they are not backing off from it," he explained.

"So, we work with them — providing EDI over the Web, a flat file, XML, or a smart form for remote data entry in weird places. It comes down to the global standard of what we call JAAE — 'Just About Anything Else.'

"Connectivity is hard work. We take all of the manufacturing and purchase orders from our customers' ERP systems. We send that data not only to factories, but also to transportation service providers. For the first time in a lot of cases, these ocean carriers and freight forwarders, etc., know what's going to be coming at them two or three months ahead of time," Schumacher said.

"The Internet is getting us ready to do some great cross-company, collaborative initiatives. If you are not connected and you're not collaborating, you can't see great optimization systems.

"The best thing that we at Celarix see coming out of these brick-and-mortar marketplaces is that there's at least a chance of standardization for transportation communications.

Certain carriers, he noted, are "getting murdered because they have 5,000 customers asking for data in 5,000 different ways."

Has Celarix encountered degrees of resistance to collaboration? "Value propositions are easy sells to shippers," Schumacher said. "It is interesting to ask, how far can you push someone who isn't quite there?

"We're not this open transportation marketplace — yet. Every Web solution involves enterprise software. The only difference is that in 2000, we don't ship

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Evan Schumacher
chief executive officer, Celarix

CDs a client has to install. The software is entirely hosted by Celarix's hosting partner. Or as one CIO told me, 'you're the first company to come in here and take a monkey off my back.'

"So, we've never really received resistance for connecting or hosting, or had push-back on the shippers' side. What has made it harder for us is that some of the service providers who have made the technology investment" have balked, he said.

"They would say at first, 'why should I sent this information to you when I already have a system?'

"At the end of the day, our customers want a vendor-neutral solution. I'm not trying to get into the shipping business. I pointed out that we lower a carrier's cost by electronically sending purchase order information, which has 70 percent of the information needed, to all parties. Each downstream vendor, trucker, customs broker, is working off the same information that's being constantly updated. And, getting it electronically doesn't mean it has to be rekeyed."

Pain Before Gain. No logistics vendor yet can service the world from one stop. "Nor do companies want to tie their technology investments to their service providers," Schumacher explained.

"It's ironic that some service providers have made the biggest investments in information. They have the ability to provide such a higher level of quality data, of timeliness, accuracy and integrity of data, that they shine stars ahead of other competitors who haven't made that investment.

What are people not understanding about the concept of trading partner collaboration? "I'm going to point my finger at the dot-com software companies," Schumacher said. "It was pretty easy to get capital 18 months ago. Of course, half of the people who got it then didn't deserve it. They didn't grasp that 'talking the talk' doesn't cut it. You need to work with clients to determine the services you can provide, and build trust — which comes slowly if it's the kind that sticks.

"I've felt the pain of my customers for 14 years of my professional life. This business isn't about getting fancy toys so you can cut corners."

Finally, Schumacher has detected gradations in pressure applied for collaborative logistics to occur. "In some industries where there is a higher, enlightened view of logistics — and high inventory obsolescence costs — companies bring more pressure to collaborate," he said.

In slower industries, where substantial inventory can still be tolerated, there is less enthusiasm.

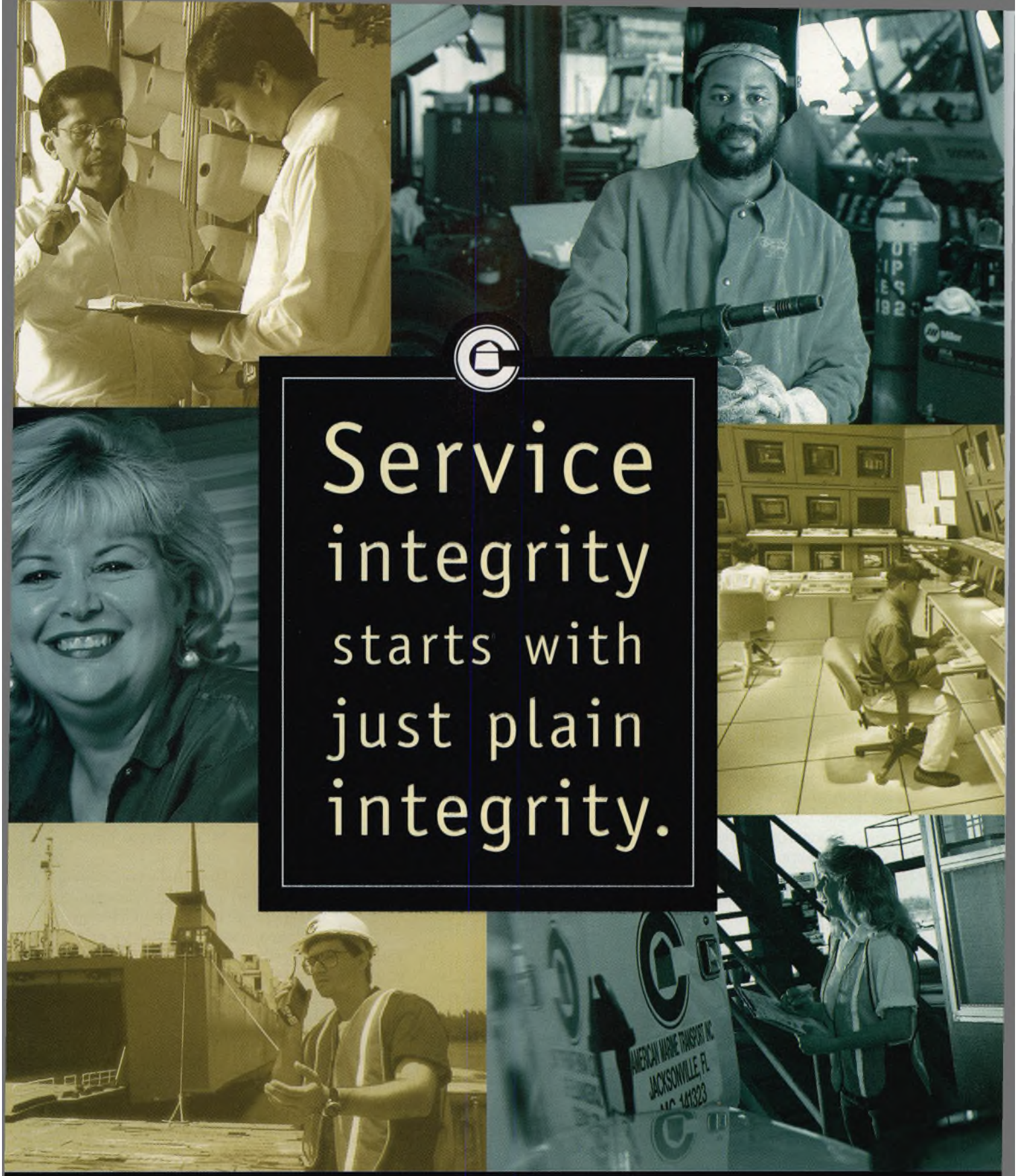
"The key issue here is understanding the value of information, once the connecting links between collaborators are in place," Schumacher said.

"Sharing information should be free, in fact, it should be so ordinary a part of e-business life that it's a non-event."

Dark Side. Supplier enablement has become "one of the hot buttons in today's collaborative e-business," said Neil Barran, president of ProCure (Procure.com), an online supply chain management service based in Oakville, Ontario.

"This market is on the verge of erupting as the evolution of e-procurement has clarified a number of potentially fatal integration barriers for suppliers," Barran said.

"Most of the manufacturing companies



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that bought large client server applications several years ago for tens of millions of dollars aren't seeing the returns they desired. They don't have their suppliers integrated with them."

From the suppliers' perspective, "the companies they service may have had some success with EDI. That's been around for 20-25 years, and penetrated maybe 2 percent of all businesses in the U.S. Even for those companies that have successfully implemented EDI, 70 to 80 percent of the documents sent and received are processed through manual channels, such as phone or fax.

"Now, the suppliers are faced with XML. But there are at least 200 different variations of XML in existence," Barran said.

For suppliers, "there is rampant confusion. There seem to be no systems to deal with the proliferation of order receiving methods for the auction sites, and so many suppliers are paralyzed," he said.

"That's the dark side of collaboration. It's become a Wild West free-for-all."

Tight Integration. Suppliers are saying that they want to be able, at the warehousing or distribution level, to have a single order receiving process, irrespective of the channel in which that order was received. They want that process tightly integrated into their warehouses systems that are typically EDI-based. And they want to protect their existing systems and legacy applications, without paying huge sums for ERP links, Barran said.

"So there's a certain desperation behind the fact that 'collaboration' has become a hot-button word," he explained. "Up until now, most logistical surveys have focused on needs of buyers, and not suppliers. That's about to change"

For example, "if a buyer is running a SAP purchasing module and a supplier's warehouse is running on an EDI system, we'll connect you into both of those computer systems, and offer a translation service," he said.

"That means that if you're a buyer, and you want to send your purchase order out as a SAP document, in I-doc format, and your supplier wants to receive it as a 850 purchase order, we'll offer that translation."

ProCure offers a hosted service with applications and software that can map one format into another, as well as a suite of applications for order management, catalogue management, track and trace, and returns.

"The last-named can be very difficult," Barran said. "If you think it's hard to sell a product by electronic means, wait until you try to return it."

Overall, "people are realizing that they have not paid enough attention to back-end integration."

Automatic Flow. To understand how ProCure functions collaboratively, here's a look at solutions that Barran's company provided for two U.S. clients.

The Great Earth Vitamin Co., based in Hicksville, N.Y., produces vitamins, herbal products and body-building supplements, stocking more than 1,100 brands. A network of 136 franchise stores distributes Great Earth's products throughout North America. The company also sells directly to consumers through a mail order and call center operation.

Neil Barran
president, ProCure

"Even for those companies that have successfully implemented EDI, 70 to 80 percent of the documents sent and received are processed through manual channels, such as phone and fax."

The company had problems because orders were sent in weekly, via fax, to its logistics provider, and then re-keyed into the provider's warehouse management system. Often, orders received in this way contained errors, requests for stock items that were no longer available, and outdated prices.

In addition, orders from the mail order and call center operations had to be rekeyed.

ProCure introduced a registered online solution called Net*Order to Great Earth's franchise stores, to provide them with product availability and up-to-date pricing data. The use of required input fields on customers' order screens has meant that the stores receive less incomplete or erroneous information.

Orders flow automatically from the points where they are created to Great Earth's fulfillment operations.

Kathy Woodward, Great Earth's director of distribution services, told *American Shipper* that "we could not be more pleased with the results. We are starting four other projects with ProCure."

Using Net*Order, the franchised stores can see product availability, which improves their relationships with Great Earth. Cycle times have been reduced due to instantaneous credit card checks.

"We never did this previously because the Internet and the requisite software wasn't available before," Woodward said.

"Great Earth has all the advantages of a client-server system at a fraction of the cost, plus backup at the distribution end," Barran said.

Rear Fulfillment. TheraSense Inc., based in Alameda, Calif., a manufacturer of medical devices, develops glucose monitoring systems for people with diabetes. In marketing its first product, a monitor called FreeStyle, the company faced a stringent timetable in furnishing tracking information for its sales representatives and retailers. TheraSense asked ProCure to develop a B2C solution that would enable customers to order the company's products online.

"Almost immediately, TheraSense recognized the market potential of our providing online order access capabilities to retailers such as Walgreen, Walmart and Eckerd," Barran said. "We were asked to build a B2B solution, and also tracking solutions for all of the stores and representatives, and customers ordering directly."

"This was our first foray using the Internet," said Norma Zippern, director of marketing for TheraSense. "ProCure enabled us to sell our product online within very tight time and budget constraints. We are very pleased to have their ongoing collaboration in monitoring the backend mechanics for our Web site."

ProCure was formed late in 1998 as part of a third-party provider called The Livingston Group, recently bought by SPS Logistics. In March, 2000, ProCure became a wholly owned subsidiary of Cyberplex Interactive Media.

Trust, Or Nothing. Finally, who nips whom in a collaborative harness if burdens become unequal?

"The set-ups for solution systems often require frank discussions, even when they are up and running," Schumacher said. "I find that candor works best whenever problems come up."

"Partnerships differ," said Greg Leonard, director of inventory control at Ace Hardware Corp. "At Ace, collaboration is built on a foundation of trust. "If there's no trust, there's no collaboration," he said. ■

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Where traders and consumers see red tape and headaches, new software start-ups and investors see green.

BY GORDON FORSYTH

Even as the Nasdaq stock market skids to low after low, even as Wall Street washes its hands of the dot-com craze, new and old companies in the e-logistics space continue to find money.

Venture capitalists and other investors still want the home run. They're just watching the pitches with a more careful eye.

Investors have been particularly active of late in the international e-commerce facilitation area. Vastera, an established developer of trade facilitation software, for instance, recently launched a relatively successful initial public offering of stock that raised $75 million. Vastera's stock price rose about 30 percent from its asking price of $14 during the first month of trading.

Meanwhile, several new start-ups have entered the trade facilitation market with software that automates landed cost calculation, customs compliance and documentation. These new entrants — Tariffic.com, Xporta Inc., mycustoms.com and Borderfree.com — join established players like ClearCross Inc., Nextlinx Inc. and From2.com.

All of the above are selling the same basic service. They want to make it easier for companies and consumers to buy and sell goods overseas. They are using a mixture of Web-based software and database applications to track the ever-changing regulatory environment and to improve communications between shippers and carriers.

However, each seems to be taking a slightly different approach to the market: some concentrating on business-to-consumer business; some concentrating on data collection; still others trying to offer the complete package. Nextlinx and ClearCross, for example, seem to be following an application service provider (ASP) software model. Vastera and From2.com are moving more into full third-party logistics management services, covering software implementation, freight management and even forwarding.

Likewise, the new entrants are picking specific differentiation points to gain traction in the marketplace. Shippers, carriers, brokers and forwarders will have to figure out which models fits their business best.

As each new software company develops its niche, it will become increasingly difficult for shippers to find one company to offer the entire international trade facilitation package. Watch for the larger software providers to partner with or acquire specialists in the various areas: tariff and tax data collection and management; landed cost calculation; import/export compliance; and documentation.

"The key differentiator when you talk about Tariffic.com is that, first and foremost, we are a data broker."

Guy Lefebvre
founder, president & CEO, Tariffic.com

Vastera and ClearCross (formerly Syntra Technologies), two leaders in the industry, have been building experience in compliance and data management for years. They have established accounts with many of the world's largest shippers.

New innovation is coming mostly in the areas of landed cost calculation and in serving the trade needs of smaller shippers and the emerging online business-to-business marketplaces.

Landed cost is not a new concept. Traders have long referred to landed cost as the total cost of buying, selling and distributing goods from one nation to another. It includes everything from the price of the product, transportation and insurance to the payment of country-specific duties, taxes and regulatory fees.

The new dot-coms are automating landed cost calculation, which in the past took hours of leafing through regulatory data and never really knowing exactly what the total cost was until paying the final shipping bill. Using the Internet and Web-based software applications, the dot-coms want to give importers and exports the ability to figure their landed costs in seconds before even buying or selling a product.

Some experts believe that the adoption of automated landed cost applications and other online trade facilitation programs will become essential to companies, particularly smaller enterprises, as dynamic sourcing strategies begin to take off on the emerging B2B marketplaces. In fact, many of the leading marketplace developers — including CommerceOne, i2 Technologies, Oracle Corp. and SAP AG — are forming partnerships or developing applications in-house to tackle the regulatory and paper-intensive burdens of international trade. Those companies say that supply chain and logistics software are essential for providing value to online marketplace users.

Data Accuracy, MFN. Basically, a landed cost engine is a calculator. Users input numbers to get a desired result. Thus, the engine is only as reliable as the data that is used.

Tariffic.com, a recent start-up launched out of Montreal, has built its business on that principle. The company claims to have the world's most complete and accurate database of customs duty and tax information.

"The key differentiator when you talk about Tariffic.com is that, first and foremost, we are a data broker," said Guy Lefebvre, founder, president and

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chief executive officer of the company.

"We are not trying to sell anything else," Lefebvre said. "We are selling what we believe to be the most accurate, constantly-updated set of data available in the world for 194 countries. And we are going to be up to 225 countries within the next six months."

Lefebvre founded Tariffic.com last year after buying the assets of a predecessor company called Tariffic Computer Products Inc., in which he was an investor. Tariffic Computer Products had for several years provided traders with worldwide customs information via CD-ROM. Lefebvre saw the opportunity of the Internet and enlisted some big names to get Tariffic.com off the ground. The board of directors includes William Foss, co-founder of Netscape Communications Corp., and James W. Shaver, former secretary general of the World Customs Organization.

Tariffic built a team of multilingual customs experts in Montreal and through Shaver's contacts has built direct links to many overseas customs authorities. The company is an official supplier of customs tariffs to the Trade Information Unit of the United Nations Conference on Trade & Development, or UNCTAD.

To follow the rapid change of tax policy around the globe, Tariffic has formed a partnership with the tax consulting unit of Ernst & Young.

Tariffic will provide clients with a landed cost calculator if they ask for one, but the company's core offering is the breadth and depth of its database.

"If you dig a little bit, you will find that when most companies look for the customs tariff rate, they are going to give you the Most Favored Nation rate," Lefebvre said. "This is very critical, and too many customers at the other end do not understand the difference."

He said that companies using the MFN rate in landed cost are using an inaccurate tariff rate up to 90 percent of the time. All companies in the World Trade Organization are required to offer other WTO members MFN status, which promises fair and favorable trade treatment between the two parties. However, Lefebvre said, countries often negotiate bilateral and multilateral agreements that grant exceptions.

"The European Community has 89 different tariff treatments," he said. "Switzerland, when you look at all of the exceptions, has 200 different tariff systems. We have U.S.-patented technology that is basically artificial intelligence that can go into the database, take into account who you are, the origin of the product, the country of destination, and then go through all of the tariff treatments and get the precise accurate rate that applies to your commodity being shipped to that country. It is not a ballpark figure like most of the other guys are getting."

"If you are selling on the phone or on a B2B exchange, you want to enable the buyer to see what the price would be if he bought DDP, CIF or FOB. We enable the customer to do this analysis in seconds."

Antony Awaida
founder & CEO, Xporta

Xporta offers landed cost. But the differentiating characteristics of this company are found in the value-adds it provides to buyers and sellers for online procurement.

Cataloging is a major problem in e-commerce that is rarely talked about. Moving pages upon pages of catalogues for thousands of parts and products is proving to be a difficult stumbling block for B2B developers right out of the gate. Xporta offers services to help companies struggling with this problem create globally compatible catalogs online.

Antony Awaida, Xporta's chief executive officer and founder, called it "harmonizer technology," which gives shippers the ability to classify their products in minutes online simply by typing in English catalog-type definitions. Xporta's software matches the description to a database of HTS codes for the United States and 30 other countries.

"The reason that is critical is that if you have, like most companies, 100,000 SKUs in your catalog and you want to enable your sales people to offer local quotes for all of those SKUs in 30 countries, the process of harmonizing the goods for all of these countries can be just too tedious," said Awaida, a former worldwide distribution manager for Oracle Corp.

Another unique feature is Xporta's Incoterms application, which allows buyers or sellers to compute the difference in price as the terms of shipping change. "If you are selling on the phone or on a B2B exchange, you want to enable the buyer to see what the price would be if he bought DDP (Delivery Duty Paid), CIF (Cost, Insurance and Freight) or FOB (Free On Board)," Awaida said. "We enable the customer to do this analysis in seconds vs. sitting down and writing a spreadsheet."

Xporta wants to focus solely on landed cost, and form partnerships to deliver documentation and other services. The company is considering developing a customs compliance engine.

Guaranteed. Awaida got the idea for Xporta after feeling the hassles of international trade up close when he tried to ship something to Paris last year. Similarly, Jay Shen and his brother launched myCustoms.com in response to a bad international shipping experience.

Jay Shen, his brother Paul and Manoj Karamchandani, a former eBay manager, launched myCustoms to simplify the international buying experience after a conversation in a Silicon Valley café last year. Shen, chief strategy officer at myCustoms, founded an online billing company that was acquired by online auction giant eBay last year.

MyCustoms won initial support from some financial heavyweights on both coasts and completed a first round of funding with venture capitalists in August, gathering $16 million. New Enterprise Associates and Alloy Ventures led the round. Initial investors included Sandy Robertson, founder of Robertson Stephens; Michael Porter, a well-known Harvard Business School professor; Eugene Fife, former chairman of Goldman Sachs International; and Nathan Gantcher, a former chief executive at Oppenheimer.

"We offer an end-to-end service for any organization that wants to do an international transaction," Shen said. "That includes the landed cost calculation. But not only do we do calculation of landed cost, we also have the ability to guarantee the quote to our customer base, as well."

Few companies, if any, in the landed cost area are extending guarantees to customers. By doing so, myCustoms is taking on the

"Not only do we do calculation of landed cost, we also have the ability to guarantee the quote to our customer base."

Jay Shen
chief strategy officer, myCustoms.com

risk that the quote it provides will be 100 percent correct every time. Some other companies admit to building in slight error margins that they hope will even out over a large number of transactions.

"The reason that we can come out and do that is that we are very confident of the source of the data that we have," Shen said. "Not only did we go out and collect the data points, but we also have experts here that really digest and understand those data sets."

MyCustoms hopes to launch its first service offering by year end. In the initial launch, the company plans to offer service to all countries in the European Union, to the United States and Canada. "We will very quickly roll out to Japan, Mexico, Brazil, free trading countries in Asia and to the western European countries that are not part of the EU," Shen said

Shopping Cart. Borderfree.com, a landed cost firm based in Toronto, is focusing its efforts on the business-to-consumer space. The company wants to make it easier for non-U.S. consumers, initially those in Canada, to buy U.S. goods over the Internet.

"Borderfree.com is a new way to shop online in the U.S.," says Pierre Schuurmans, co-founder and president. "By using our service, Canadians are able to access all U.S. e-tailers to find the best selection and price, without the worry of hidden charges and long delivery times."

Borderfree's primary technology is a virtual shopping cart program that consumers can add directly to their Web browser from Borderfree's home page. With this virtual cart, consumers can go to a shopping site, such as Amazon.com or eToys, drag products into the cart and receive landed cost for small package delivery.

Customers give their credit card information to Borderfree and Borderfree buys the goods on the consumer's behalf, ships them, pays customs and arranges delivery to the home.

Borderfree is available on some Canadian Internet portals. The company hopes to expand to other countries next year. Schuurmans said he is looking for forwarding and carrier partners. He wants to build up volume and consolidate the small packages into larger shipments for transport on a regular basis.

Schuurmans hopes to compete against United Parcel Service Inc., FedEx Corp. and other integrated carriers in the cross-border fulfillment market. ■

So close, yet so far

The Internet will change everything, but when? Several logistics experts and a little company in California say they know the answer.

BY GORDON FORSYTH

The physical world of logistics and the virtual world of electronic commerce have become so intertwined that discussing the advance of one without the other is nearly impossible.

And when you get down to it — after you have coaxed the financial angle from the analysts, after you have weaved your way through the rhetoric of the dot-coms, after you have tried to understand how little pulses of data can relate at all to ships and airplanes — the solution seems simple. Computer at company A needs to talk to computer at company B.

What could sound simpler, but be more complicated? In fact, sharing computer data seamlessly in any meaningful way has been nearly impossible without an army of highly paid consultants and software engineers ever since Bill Gates sold his first operating system. The major problems of the heralded New Economy have some very strong Old Economy roots.

The Internet, still in its infancy, and the use of advanced Web-based applications will solve many of these communications problems. But how and when?

First Of Many-to-Many. Finding the answers to those questions has become critical to companies that, in the midst of a consumer demand revolution, need to streamline their supply chains. Manufacturers need to shorten the time it takes between the design of a product and the sale. They also need to operate these compressed supply chains with less inventory to appease investors whose patience for poor returns has dwindled to two quarters, at the most.

This year's business-to-business e-commerce explosion has uncovered just how dependent companies are on sound logistics. In today's context, that means creating the free flow of goods, money and information. It has also become increasingly clear that without better information flow, the goods and money links in the chain quickly disintegrate.

Ironically, the one thing with the greatest potential for improving the flow of goods and money is, at the moment, one of the biggest impediments.

Linda Haskin
chief executive officer, DataRise Inc.

"We are a pure Web model, and that is the only reason it works. Being in a pure Web environment, where you are delivering information off a single Web server, is what makes it work. The minute companies try to send the data between the companies point-to-point, that is where it all falls down."

Progress will not come easily or quickly. Many of the hurdles to freer information flow in the supply chain have little to do with technology. Corporate cultural attitudes about data sharing will have to change company by company.

The technological barriers to seamless data sharing are not small, either. At the end of the day, computer A still can't talk with computer B very easily.

Dr. Bernard J. Hale, former president of the Council of Logistics Management and now an independent consultant living in California, says companies are fighting to break free of yesterday's approach to data transfer, which roots itself in electronic data interchange and other fixed communications platforms that predate the Internet.

Hale — who won the CLM's distinguished service award in 1983 and has worked in executive management at DSC Logistics Inc., Bergen Brunswig Corp., IVAX Corp. and Mattel Inc. — said that many companies fail to understand the possibilities of the Internet and its potential for improving logistics.

"It has not dawned on them to try, because they are basically still trying to use the old means of one-to-one communication, as opposed to many-to-many," Hale said. "They think they have to have a customized interface with all of their partners. That means they have to figure out what the interface is for all of their partners. If you have thousands of partners, you can't do that. So, it is the same telephone and, in some cases, e-mail connectivity — certainly fax.

"To me that is very passive," he said. "And today that just is not going to cut it when you are really trying to save every second."

Hale's interest in supply chain integration is more than casual. He is working with several large organizations, including electronics manufacturer Tyco International and health care company Mallinckrodt Inc., to review and revamp their logistics operations.

He also sits on the board of directors for a technology start-up based in Silicon Valley called DataRise Inc. Hale came across DataRise and the company's chief executive, Linda Haskin, this year and believes the company has developed a data-sharing model that is the wave of the future in supply chain management. He plans to recommend that Tyco and Mallinckrodt consider DataRise for document transfer.

There are many companies active in the supply chain integration space, all claiming to have the best solution for improving the flow of information. DataRise is a very young company, still in the process of securing its first round of venture funding, but that does not discourage Hale from laying a piece of his logistics reputation on the line for the company.

"Right now, DataRise is offering communications connectivity in a way that other companies simply have not been effectively able to do," he said. "What they are working on is trying to interchange communications in a way where it is really a computer-to-computer link. And they have tied it into familiar documents that we use in logistics — the purchase order, the commercial invoices, proforma invoices and advance shipping notices.

"Frankly, I think there are going to be a lot of players moving into this area," Hale said. "There are firms trying to approach this. But

I think DataRise has one of the more clever approaches, because it is broad-brushed and many-to-many. It doesn't prohibit people from linking up, and it is low cost."

Behind Hale, Haskin has lined up an impressive board of directors to speak to the company's concept. In interviews during and after the recent CLM conference in New Orleans, various logistics professionals told *American Shipper* why they think DataRise is on to something big.

"The biggest stumbling block that we have had in making progress in this area has been that everybody wants to have their own little structure and system and protocol, and that seems to have slowed down our ability to transfer information," said Dr. Thomas Speh, a professor of logistics at the University of Miami, Ohio. Speh has authored several textbooks and consulted clients, including Xerox, Sara Lee, Procter & Gamble, Champion International, and The Limited. "DataRise appears to solve those issues by letting people just simply get into a data set and be able to have that information easily."

Speh said other solutions he has seen are either "functionally restricted or restricted in the terms of ease of use."

Larry Clopp, director of supply chain research at consulting firm Gartner Group, also touted DataRise's work. "Inbound inter-enterprise integration represents the highest technology hurdle left for enabling collaborative commerce," Clopp said. "While software vendors attempt to deliver an IT framework to provide these capabilities, their proprietary options don't offer a neutral-party, collaborative — not coercive — intelligent architecture capable of flexibly adapting to partner requirements. DataRise appears to be the first."

Free The Data. Haskin has signed up more than just board members. DataRise has secured a signed agreement from international forwarder BAX Global and 80 of its largest shipping clients stating that they will use the DataRise system to share documents.

DataRise also has formed some tentative partnerships and equity arrangements with a shipping company and major software and database firms. Of course, everything depends on the small companies ability to stand up and begin walking on its own. Haskin said she has secured financing agreements from venture capitalists, including Fenway Partners Inc.

> ***"What they are working on is trying to interchange communications in a way where it is really a computer-to-computer link. And they have tied it into familiar documents that we use in logistics — the purchase order the commercial invoices, proforma invoices and advance shipping notices."***
>
> **Dr. Bernard J. Hale**
> *former president, Council of Logistics Management*

Several assuring articles have recently popped up in Silicon Valley technology magazines espousing the data-sharing model developed by DataRise. Other start-ups are beginning to enter the market in what could be a ground swell of activity.

In basic terms, DataRise is using a mixture of advanced database and Web-based programming tools to separate data from software applications and documents. By doing that, Haskin says the company has eliminated all formatting and standards issues, which are not caused by the data but the software implemented to use the data.

In this model, DataRise captures and houses the data in a very large, very sophisticated database. Users maintain their own applications and systems and tap the database for the data to run the applications when needed. It is this central data warehousing technology that has analysts and Silicon Valley watchers excited.

"The real beauty of this is that you get all of the data into one database," Haskin said. "That is really what it is all about. And that is something that no one can do today."

DataRise has designed applications specifically for the logistics world. Using Java and extensible mark-up language, or XML, the company has developed mapping applications that can move data directly from a purchase order into the DataRise database and back into bills of lading, pick-and-pack slips, advanced shipping notices, etc.

The data transfer is automatic from computer to computer with no intervention. What could sound so simple and be more complicated?

"If we were doing this with software, you can't do it," Haskin said. "We are a pure Web model, and that is the only reason it works. Being in a pure Web environment, where you are delivering information off a single Web server, is what makes it work. The minute companies try to send the data between the companies point-to-point, that is where it all falls down."

Changing the traditional bilateral approach to a more multilateral, DataRise-like model for data sharing will take significant changes within and between companies. It won't happen overnight.

Companies have spent mountains of money on huge proprietary software systems and integration consultants. They won't just throw that away without significant prodding, even though many technology experts say that it can be easier and cheaper in the long run to trash old technology and build new with the Web. Hale and Speh argue that the adoption of pure Web-based systems, like that being developed by DataRise, is only a matter of time because the reward potential is too great.

"If everybody has access to the same information, then we don't have to put in as much guesswork and wondering about forecasts," Speh said. "That is what has held back a lot of our ability to reduce inventories."

> ***"If everybody has access to the same information, then we don't have to put in as much guesswork and wondering about forecasts. That is what has held back a lot of our ability to reduce inventories."***
>
> **Dr. Thomas Speh**
> *professor of logistics, University of Miami, Ohio*

"If I were a wizard of the future," Hale said, "I would say that is the golden nugget here. You are going to be able to really manage much more closely to the forecast.

"Everyone knows there is no perfect forecast. The damn thing changes every day and it is pretty cumbersome to collect the information that you need. If you can simplify the linkage from customers who are moving the products through the barcode scanners, then you can start collecting that data and using it to figure out what it does to your production schedule and certainly what it does to the logistics network. That to me is the most exciting part.

"It is better information, which is what we should be basing our decisions on." ■

Internet attracts more cargo insurers

Cultural acceptance, risks slow development of online cargo underwriting.

BY ROBERT MOTTLEY

The Internet, widely viewed as a communal tool reshaping the business of transportation, has not yet taken hold in some sectors of the industry as much as it has in others.

Cargo insurers especially have resisted the come-hither pitch of this online Circe, preferring the familiar path of a thick paper trail when it comes to policies, premiums and claims.

At the close of 2000, only 1 percent of cargo insurance policies in North America originate on the Web, but the business that is being done online is a harbinger of much more to come.

"Finally, we have in hand what we've dreamed of all along: the transfer of title and content taking place in real time," said Gerald Giroux, president of Eastern Marine Underwriters in Toronto.

"There's also the fact that online cargo underwriting can particularly benefit many medium-sized and smaller shippers by offering them insurance that is quick, easy and affordable — pay as you play," Giroux said.

"The Internet will rule how our business will be conducted in the future," wrote underwriter Dennis Marvin in a mid-September, report prepared for the cargo committee of the American Institute of Marine Underwriters (AIMU) in New York. Marvin is vice president of Fireman's Fund McGee, a major provider of marine insurance.

"We must strike a balance between our online services and the continued need for face-to-face negotiations in our relatively complex line of business," Marvin said in an interview.

"We recognize that there are several Web sites currently available through which a customer can purchase cargo insurance. These models, preliminary in nature, are at best simply transactional," he wrote in the AIMU report.

"This, of course, is contrary to the historical concept of our business. For cargo insurance, we should cover all shipments by our clients under the 'open policy' concept. Selling cargo insurance online fosters adverse selection, lack of customer loyalty, and is strictly price-driven," he said.

"Finally, we have in hand what we've dreamed of all along: the transfer of title and content taking place in real time."

Gerald Giroux
president,
Eastern Marine Underwriters

Troubling Risks. In Marvin's view, "online insurance sales, as they exist today, are better suited to the personal lines insurance market" — meaning, home, life, auto policies — "and some less complex commercial placements."

Another foot-dragging factor has been "the cultural acceptance" by underwriters and their clients "of these online transactions," Marvin said. "There is no doubt that some people prefer to deal with the labor-and-paper-intensive business that we operate in every day. Culturally, many will be slow to accept this coming change, and some may refuse to accept it all together."

The looming online world brings several issues and risks that are troubling the AIMU's cargo committee. The first and thorniest is an inevitable alteration to the relationship between insurance brokers and agents.

"Insurers who opt to sell cargo insurance online will need to wrestle, along with the rest of the insurance industry, with the fact that they are selling direct," thereby competing with brokers and agents, Marvin said.

He conceded that online cargo placements would dramatically improve some nuts-and-bolts aspects of underwriting. Particularly striking was his observation that the reporting and billing of shipments, currently "an administrative nightmare," could be shortened by months.

Well-Known Shortcomings. As for claims reporting, currently "a loss is reported by the claimant to the broker, from the broker to the insurance company, from the insurance company to the settling agent, and from the settling agent to the surveyor. If that doesn't seem like an inefficient system, then I'm not sure what does," he said.

The remedy? "A Web-enabled notice of loss: no fax, no phone, no paper."

In the underwriters' claims settling process, "which is the direct opposite of claims reporting," Marvin explained, "the surveyor sends information to the settling agent, who contacts the insurance company, who in turn contacts the broker," who then contacts the claimant.

That process "creates a paper-intensive trail fraught with numerous processing delays." And to top it off, "we're still cutting paper checks for payment," he said.

There is an upside. "Insurance companies typically have a negative image when it comes to consumer confidence," Marvin noted.

"How many times have we heard that we don't pay claims, that our statistics are horrendous, and that our service is appalling? The Internet offers an opportunity for our market to create systems that our customers want and need — one-stop shopping for insurance administration," he said.

"That would differentiate ourselves from the rest of the insurance industry, and just maybe we could sell something other than price."

Despite such a benefit, the risks of online placements remain daunting for the AIMU's

cargo committee. Software piracy is a major worry. So is unauthorized access. "Even though sites are typically password-protected, can an unauthorized person get access to a client's exposure information?" Marvin asked.

Also, "if transactions are paid through a credit card, what is the possibility of that credit information leaking out?"

Other concerns include hacker attacks, computer viruses, the misuse or theft of intellectual property and fraud.

"There is also a certain liability when your Web site is inaccessible due to technical problems," Marvin said. "Through a loss of power or a server going down, this could generate a business interruption loss on behalf of a third party who is trying to access your system, say to issue a certificate of insurance. If a customer loses a sale through the malfunctions of an insurer's systems, this could expose us to liabilities not previously contemplated."

Whopping Overcharges. Such qualms justifiably haunt the AIMU's cargo committee. Yet while undoubtedly prudent, they pale before the enormity of the role that the Internet is beginning to play.

"There is a huge market for direct placement that will be tapped, whatever the risks," Giroux said.

Only two insurance brokers, Marsh Global, based in New York, and the Aon Group, based in Chicago, handle 60 percent of the cargo underwriting business in North America. "These big guys can't afford to take as a client someone who ships, let's say, only 10 containers intermittently. They'll want a lot of money to place your insurance," he explained.

"The result is that the little guy has to go through a freight forwarder who will — let's say hypothetically — offer a rate of $50 for $4,000 worth of insurance protection. That's a heck of a markup, because the cost of that coverage to the broker is about 50 cents," he said.

Online cargo insurance businesses

For a look at cargo insurance business on the Internet, *American Shipper* turned to a handful of companies that offer online insurance sales.

InsureCargo.com

The Web site of Shorepoint Insurance Services Inc., based in Huntington Beach, Calif., offers primarily "trip transit insurance, the one type of marine insurance that cannot be done at low enough cost" offline, according to Ray Markley, the company's founder and president.

"What we are doing online runs contrary to popular opinion of many in the insurance industry," Markley said.

"One concern is seemingly inadequate underwriting for details of the cargo. We have addressed such critical elements as geography, conveyance, commodity, packing and valuation. Interestingly, underwriting a cargo policy off-line is not without its limitations," he said.

"Open cargo policies start out with some care. They determine geography, conveyances principally used and packing of commodities, but even after the attachment of coverage and subsequent renewals, a shipper may alter the transportation mode, destination or commodity shipped." Thus, in the end, underwriters are often unaware of their specific exposure, he explained.

"Anyone using InsureCargo.com knows precisely, for each shipment, what those trip-transit risks are about," Markley said.

"Online security of private information is always a concern. Significant technological steps are now underway, by astute companies, to deal with this important issue. For example, we use Verisign, one of the leading security-oriented vendors, to administer our payment system.

"Our personal information section has been encrypted to keep prying eyes out of the data. Fraud protection guarantees from American Express Co. permit safe payment by our customers," Markley said.

"We can't predict all elements of what can go wrong, but we can protect our customers. The fact is that we live in an Internet world. We continually learn to adapt to all sorts of e-threats," he said.

"The backbone of our site is our quote engine, an online premium rating and policy issuance system that provides real-time quotation and purchase of cargo insurance on a 24/7 basis," Markley said. "If customers have any questions, our company's line managers are not far away. InsureCargo.com's chat function provides access to a real person with a click of the mouse."

Shorepoint Insurance Services, the parent company of InsureCargo.com, is a multiline agency. "We also write offline policies. We target importers and exporters. Our specialty is marine insurance, because those groups need that. Although we've been in business since 1962, we started offering marine open cargo policies on-line in 1996," he said.

InsureCargo.com, launched in June, closes "at least two trip-transit placements a week online," Markley said.

Avoiding Markups. The company's trip transit policies for containerized cargo are typically used by people who make one shipment at a time. "Freight forwarders usually handle insurance for single-trippers," Markley said. "Giroux is quite correct about the forwarders' rates."

"Transaction costs are exorbitant with all participants generally a value loser in the deal. The shipper overpays for the insurance, buys through a typically inexperienced and sometimes unlicensed marine insurance intermediary, and has inconsistent coverage protection in the insurance policy," Markley said.

For example, an uninformed shipper may have purchased a "port-to-port" policy, not realizing that broader "warehouse-to-warehouse" coverage was available for the same cost.

A freight forwarder "typically has an open cargo policy of his own, segregated by geography, commodity and various rate structures based on air, truck, or ocean modes. When he does offer a quote to a shipper, the freight forwarder adds a surcharge of anywhere from 30 percent to 300 percent. He calls that a service charge," Markley said. "The insurance company really gets little premium relative to the total amount that a shipper paid out."

To be fair to freight forwarders, "it is so costly to administer the phone calls, the quote process, the payment terms, obtaining the moneys, and the actual typing a policy (or certificate) of insurance. It can be more costly for a forwarder to administer that policy than just to quote it," he said.

Shippers who place insurance online avoid the forwarder's markup. "That is not to detract from the forwarder's role as an essential intermediary," Markley said. "It just makes the placement process more efficient."

At this writing, anyone may use InsureCargo.com's Web site to place cargo insurance. However, the cargo must fit in a container

The users of direct online services "will certainly increase as soon as shippers get wind of the costs savings available," Giroux explained.

"Marsh and Aon know that, and they are commencing to offer their own online programs aimed at that part of the market they don't control. They have merged with, or otherwise absorbed, most of their major competitors in recent months, but they can't acquire every online Web site out there," he said.

Old Guard Vs. New. The concern of conservative underwriters that the Internet not offer too much to the masses too quickly — or at least, directly — can be understood most charitably in the context of their reluctance to change old ways of doing business.

For Ray Markley, founder and president of Shorepoint Insurance Services Inc., conservative underwriters would do better to "look about themselves, perhaps in bewilderment, at the industry as it exists on the threshold of the 21st century.


Markley

"We now face a disinterested party, in the guise of an online logistics provider, arranging the movement of goods between a buyer and seller, or multiple interests in between," he said.

"It is impossible to manage these risks in the traditional way. Instead, we must solve our customers' risk management needs in the complex logistical world they must now confront."

In the face of pressure from e-logistics companies, "the insurance industry must automate or perish, which is what will happen if we allow another risk-bearing mechanism to pick up the slack."

For Markley, "there is no going back to the old way of doing things. The cost and time efficiencies we've achieved are too great for shippers to ignore."

and be non-hazardous in nature. Furthermore, Markley's company will write policies only for cargo that originates from or is being sent to the United States.

"We are considering expanding our range to include other countries," Markley said, "but like many other underwriters, we have to proceed cautiously on foreign ground. There is a wide continuum of risk internationally. If one is concerned about fraud, Japan is a very different, and much safer, venue than Nigeria," he explained.

"Our premiums start as low as $10 with no surcharge," Markley said. "Customers may access our quotation system without restrictions or even registering. If they do register and meet our terms for coverage, payment is via check or credit card. All personal and payment information is collected through our encrypted Web site."

Susan Orcullo, of Centra Worldwide, a freight forwarding company in Huntington Beach, said that InsureCargo.com's online services "are working very efficiently for us and our clients, after a somewhat bumpy start. I wouldn't want to go back to being offline for some placements because of all the paperwork I no longer have to handle."

For more information, contact www.insurecargo.com.

CargoCover, Translinx Ltd.

Other available online cargo placement companies are apparently not directly accessible to general users. They are available only through forwarders, brokers and other transportation intermediaries, linking such intermediaries with insurance providers.

CargoCover, the cargo insurance application of Oceanwide.com, a Montreal-based provider of e-commerce business solutions, lists more than 1,000 freight forwarders as registered users.

"The idea behind CargoCover, which was launched officially in 1998, is to bring shippers, forwarders, brokers and underwriters together in a private network hosted by Oceanwide," said Mitchell Wasserman, president of Oceanwide.com.


Wasserman

Registration on CargoCover is free, and there are no minimum volume requirements or subscription fees.

"You choose the basic freight and voyage parameters to obtain your premium indication," Wasserman said. "That's done instantly. Then you fill in the details to complete your certification," or policy.

The application also offers online claims management and automatic accounting and reporting.

"With CargoCover, you no longer have to supply your insurer with tedious monthly statements," Wasserman said. "All private account information is always accessible through the Oceanwide Web site."

Multiple users from one company can operate under one CargoCover corporate account.

In September, Oceanwide.com licensed CargoCover to Translinx Ltd., an Internet facilitator based in the United Kingdom. "Entering the European market was the next natural step," said Barrington P. Halliburton, CargoCover's product manager.

"Our hopes for CargoCover are to get 5 percent of all French, Dutch, German and U.K. freight forwarders to use the CargoCover offering within the next two years," said Mark Roberts, managing director of Translinx.

For more information, contact www.cargocover.com and www.translinx.com.

ThruCargo

On Sept. 27, the Through Transport Club, or Through Transport Mutual Services (UK) Ltd., in conjunction with CNA Maritime unveiled ThruCargo, a new cargo insurance product that's being marketed initially only to TT Club members.

The TT Club insures nearly 6,000 transport operators around the world. "Many of these have indicated to us that they would like to be able to offer cargo insurance," said Andrew Kemp, a director of the TT Club's management company, TTMS (UK).

"Transport operators are always recommending to their customers that they take out cargo insurance, since goods can be easily damaged and, frequently, it is not clear who is to blame," Kemp said.

Along with their customary caveat, ThruCargo lets transport operators "offer a competitive quotation whilst earning additional revenue," Kemp said. "There is an added bonus, too, for our members in that their TT Club premiums will reflect their participation in ThruCargo."

"For example, if cargo insured under the ThruCargo scheme is damaged during transit, there is a limited waiver of subrogation whereby, in most instances, the cargo insurer will not claim against the forwarder, and so the forwarder's TT Club claims record will not be affected," he explained.

The new coverage is available online and offline. Those TT Club members and clients who want to place ThruCargo via the Internet may use the OMMni automated cargo insurance system just begun by CNA Maritime.

For more information, contact www.ttclub.com.

Note: Others in this field may have Web sites that have not come to our attention. Please notify us via rmottley@shippers.com for inclusion in subsequent reports. ■

P&O Nedlloyd brings logistics in-house

Shipping line extends its relationships with shippers by offering logistics add-ons.

BY PHILIP DAMAS

P&O Nedlloyd has concluded that international logistics services should be looked at as optional add-ons that can be offered to its customers, rather than as a separate business.

The Anglo-Dutch shipping company said it has redefined — or refocused — the way it provides these services. A separate division called P&O Nedlloyd Global Logistics had managed international logistics services separately from the shipping services of P&O Nedlloyd.

Since the beginning of the year, the P&O Nedlloyd Global Logistics name has been dropped and the associated activities have been closely integrated into P&O Nedlloyd's range of products, reducing the need for internal handovers.

"We are not just a shipping line," said Johan Nanninga, value added services trade director.


Nanninga

The new organization aims to offer services to customers "as a one-stop shop," Nanninga said.

The logistics services offered include a wide range of activities that go beyond ocean cargo transport, including purchase order management, vendor management, consolidation services, consignment handling tasks such as quality control, warehousing, customs clearance and brokerage, and air forwarding.

"The cargo is not a static thing that sits in a box," said David Charlesworth, value added services sales and marketing director.

P&O Nedlloyd said its global supply chain service offerings are a response to customers' increasing demand for more strategic partnerships and global partners.

Expansion. Excluding ocean freight revenues, value-added services produce sales revenues for P&O Nedlloyd of $200 million a year — or about 5 percent of group revenues.

But Nanninga said the company plans to double revenues from these services over the next three years.

The international logistics market is increasing rapidly and there are opportunities for organic growth, according to the company. Nanninga said that P&O Nedlloyd aims to increase its logistics activities in North America and in the southern hemisphere, where its presence is limited.

P&O Nedlloyd's value-added logistics business competes against companies such as APL and Maersk, the Anglo-Dutch firm said.

The company said it is approaching existing customers to offer the value-added services. It is targeting those customers who are primarily involved in "maritime-intensive supply chains."

P&O Nedlloyd employs about 750 people worldwide to work on its logistics activities.

Trends. Charlesworth said it is difficult to quantify the size of the international logistics market. But there is no doubt that the market is big, and increasing fast, he said.


Charlesworth

The market is also very fragmented, with different types of companies offering such services.

P&O Nedlloyd sees a trend towards increasing specialization in this market. E-commerce is also seen as a critical issue.

Nanninga said that P&O Nedlloyd is talking to several online trade exchanges.

"In value-added services, we are really working at a level that is sub-container — the purchase order level," Charlesworth said.

Certain customers are contracting out their relationships with their vendors to P&O Nedlloyd, he said. When it looks after "vendor management" on behalf of the customer, P&O Nedlloyd will generally chase orders and inquire about vendors' production timetables, Charlesworth said.

"It goes well beyond the sort of things shipping lines traditionally get involved in," he said.

Customers have very different requirements. Services, as well as prices, are generally customized, Charlesworth added.

When required, P&O Nedlloyd will provide air cargo transport, but this is not seen as a core activity.

It is known that international forwarding groups are also targeting the type of activities covered by P&O Nedlloyd's value-added services. However, P&O Nedlloyd sought to play down the risk of adverse reactions from its forwarder customers.

"Relationships are getting more and more mature," Nanninga said. Some customers want to work with forwarders, while others want to extend their relationship with shipping lines, he said.

P&O Nedlloyd said it offers warehousing services as a non-asset-based provider. Although the company owns ships, value-added services are not bound to the use of P&O Nedlloyd ships, Nanninga said. Certain customers of value-added services want to use several ocean carriers, he added.

P&O Nedlloyd targets four industry sectors as the main users of its logistics services: retailers, the automobile sector, chemicals, and the beers, wines and spirits industry.

Nanninga said some of the company's logistics staff work on customer sites — a concept generally known as implants. However, technology is making the question of location less important, he said.

Maritime Supply Chains. One of the characteristics of the ocean transport mode is that "supply chains are relatively long," P&O Nedlloyd said.

To enable shippers to manage their supply chains, P&O Nedlloyd provides them with access to the Log-Net supply chain execution system.

P&O Nedlloyd said the system will be fully Web-enabled next year.

For exports from Asia, Nanninga said there is generally a two-week gap between order placement and arrival at the warehouse in Asia.

Not including this lead-time, the time taken for physical ocean transport from Hong Kong to Rotterdam, for example, is about 20 days.

This means that the total duration of the supply chain is often 20 to 40 days.

If shippers can use the cargoes in transit as a "virtual" warehousing inventory, they can reduce extra inventory or safety inventory, Nanninga said. ■

Shippers' Case Law

Abstracts by Robert Mottley, rmottley@shippers.com

Delay is not unreasonable deviation

Fratelli Ricatto Import & Export Co. operates retail clothing outlets in West Africa that deal primarily in men and women's shoes. In the fall of 1998, Ricatto prepared a shipment of 31,020 pairs of shoes to be transported to Luanda, Angola. The shoes were intended, Ricatto said in court papers, to meet "the regular demand for the pre-Christmas shopping season," defined as a four-week period prior to Christmas Eve.

Ricatto arranged through forwarding agent TSI Transport Services to ship the shoes from New York to Angola using the services of U.S. Africa Navigation. The shoes were delivered to U.S. Africa in three containers, for which the carrier issued three bills of lading, each dated Oct. 9, 1998. Each bill contained identical terms, and included the use of feeder vessels to be selected by U.S. Africa.

On Nov. 10, U.S. Africa delivered two of the three containers in Luanda. On Dec. 17, the carrier informed the shipper, Ricatto, that the third container had allegedly been mislaid and "is idling in Abidjan." U.S. Africa finally delivered the third container in good order and condition on Dec. 23.

Each pair of shoes that arrived by Nov. 10 sold for $17 a pair. Those that arrived on Dec. 23 sold for $6.40 a pair. In a subsequent lawsuit, Ricatto argued that U.S. Africa's delayed delivery entitled Ricatto to a recovery of the difference between the pre-Christmas and post-Christmas price of the shoes.

U.S. District Judge Denise L. Cote, of New York's Southern District, referred in her ruling to the bills of lading for the three containers. Each bill stated that "the Carrier does not undertake that the Goods shall arrive at the Port of Discharge or Place of Delivery at any particular time to meet any particular market or use, and .... the Carrier shall in no circumstances be liable for direct, indirect, or consequential loss or damage caused by any delay."

Fratelli Ricatto argued that the carrier "knew the goods were intended for the Christmas season and that delivery must be completed prior to Dec. 1." Cote noted that "the plaintiff does not indicate that this information was communicated to any individual in particular, nor is a delivery date specified anywhere in writing."

The shipper also argued that the carrier's actions constituted an unreasonable deviation and negated the limitations of liability established by contract, referring particularly to U.S. Africa's failure to notify Ricatto that the shipment had not been delivered in its entirety on Nov. 10.

"The doctrine of unreasonable deviation was developed by courts to rectify the injustice that arose when a carrier deviated to a sufficient degree from a contract that a cargo underwriter could reasonably refuse to cover resulting damage," Cote explained. Under the doctrine, where a carrier deviates unreasonably from a bill of lading, a court will deem the carriage contract to have been breached, and consider the terms of the deal to be nullified.

"A deviation is unreasonable if the carrier increases the exposure of the cargo to foreseeable danger that would have been avoided had no deviation occurred," Cote wrote. However, appeals courts have ruled that the doctrine of deviation "applies only to two situations: geographic deviation and unauthorized on-deck stowage." By that interpretation, delay is not an unreasonable deviation.

In another line of argument, Fratelli Ricatto had also cited a prior case *[Page Communications Eng'rs vs.Hellenic Lines, 356 F.Supp. 456 (1973)]* in which "a carrier knowingly made false misrepresentations to the shipper regarding the shipping times and whereabouts of the cargo," Cote said. In the case at hand, she observed that "there is no allegation that U.S. Africa intentionally misled the plaintiff."

Nor, in the court's view, was there merit to Ricatto's theory of geographic deviation, since it was reasonable for U.S. Africa to stop in Abidjan. Cote ruled that the carrier was not liable to the shipper "because the plaintiff fails to provide any basis for negating the express limitation of liability" stated in the bills of lading.

[Fratelli Ricatto Import & Export Co. Inc., v. Torm Birgitte, *her engines, tackle, boilers, etc., and U.S. Africa Navigation Inc.; U.S. District Court, Southern District, New York; No. 99 Civ. 8721 DLC. Date of ruling: July 19]*

Appeals court calls forwarder 'travel agent' for cargo

The Westinghouse Electric Corp. contracted in writing with Panalpina Inc., a freight forwarder, to ship an electric transformer from Italy to 3M Corp. in Iowa. Panalpina was to oversee all of the transportation for the transformer, and stated as much to Westinghouse: "rest assured your shipment will receive, door to door, our close care and supervision." Westinghouse paid Panalpina $21,785 for its services. As is the industry custom, Panalpina did not issue a bill of lading for the shipment. The freight forwarder undertook to exercise "reasonable care" in the selection of those who would actually carry, store or otherwise handle the goods. The standard terms of contract, used for a decade between Westinghouse and Panalpina and applied to more than 1,000 transactions between them, limited Panalpina's losses to $50 per shipment, and disclaimed liability for all consequential or special damages in excess of that amount.

While being transported on a vessel owned by United Arab Shipping Co., the transformer broke loose from its flat-rack during heavy seas and allegedly wrecked other cargo, notably a $260,000 laser. A U.S. district court subsequently ruled that Panalpina was liable to Westinghouse, in indemnity, for the damaged cargo, because Panalpina had pledged it would give "door to door ... close care and supervision." The forwarder appealed.

The U.S. Court of Appeals for the Second Circuit has now reversed the lower court's decision. "Unlike a carrier, a freight forwarder does not issue a bill of lading, and is therefore not liable to a shipper for anything that occurs to the goods being shipped," the appellate panel wrote in its ruling.

"By analogy, Panalpina was hired to act as a 'travel agent' for the transformer: it set things up and made reservations, but did not engage in any hands-on heavy lifting." As for Panalpina's "door to door" avowal, "that statement — mere puffing — cannot transform Panalpina into a carrier and bestow liability upon it."

In conclusion, "Panalpina is not liable to Westinghouse" because of a stevedore's "negligent actions," the appeals court said. *[Prima U.S. Inc., United Arab Shipping, Westinghouse Electric Corp.; vs. Panalpina, Inc.; U.S. Court of Appeals, Second Circuit; Docket No. 99-9025; case argued: May 25, 2000; date of decision: Aug. 24]*

Brokers, Forwarders & NVOs

By Chris Gillis, cgillis@shippers.com

Think before you act

U.S. Customs learned a valuable lesson recently: Make sure the shipping industry knows what you're doing before you do it.

The agency recently published the names of importers that violated the country's import rules and the amount of penalties assessed and collected from these firms.

The lists immediately drew fire from the industry's leading industry groups. In separate letters to Customs Commissioner Raymond W. Kelly, the American Association of Exporters and Importers and the National Customs Brokers and Forwarders Association of America strongly opposed the new policy of publishing the list.

The list, which was posted on Customs' Web site, provided the violator's name, initial penalty amounts and the amount collected. Customs said it would publish the list semiannually, January-June and July-December. The next list was scheduled for release in early 2001.

Customs said, "the public interest will be better served by affirmatively disclosing most of the information identified in section 103.32 of the Customs Regulations for closed section 1592 cases resulting in collections."

Michael D. Laden, AAEI's chairman, said in his letter that publishing the list "is a direct infringement on Customs' confidentiality obligations," and "is just bad policy."

"It's a list that draws no distinctions — from minor technical violations to instances of outright and egregious fraud," wrote Peter Powell Sr., president of the NCBFAA.

Powell

Laden and Powell both pointed out that the list lumps in minor penalty cases, or those of less than $5,000, and those companies which voluntarily paid through prior disclosure, "a vehicle that has been successful in heightening Customs compliance," Laden said.

Punishing those companies, which have made prior disclosure, "can backfire if others are deterred from doing so in the future," Powell said.

In many cases, companies have reached a settlement with Customs "solely to reduce the expense and risk of formal proceedings," Powell said.

"A great number of penalty settlements more accurately reflect companies' pragmatic cost/benefit analysis than actual wrongdoing," Laden said.

Many of the cases were "actually the result of innocent oversight or even clerical errors that should not have been brought under the penalty provisions at the outset," Laden said.

"We see only a downside to the indiscriminate release of a list of violations that may harm some companies inappropriately," Powell said.

The AAEI and NCBFAA leaders also objected to the implementations of the policy without providing an opportunity for public comment.

"No proposal was put forth," Laden wrote in his letter to Kelly. "No opportunity to comment was provided. The partnership spirit of the Mod Act was completely disregarded."

"This action may have been taken without comprehensive input from within headquarters," Powell said. "Certainly, it occurred without input from your partners in the trade community."

The published list showed that Customs assessed more than $22 million in fines in the first six months of 2000. After mitigation, the agency collected $13.4 million during that period.

The disparity between the fines assessed and what Customs actually collected "reveal tragic flaws in Customs' penalty assessment process," Laden said. "A $6 million assessed penalty that results in a mere $27,000 collection is a blazing red flag that the initial assessments are stratospherically removed from reality."

"The companies on this list imported hundreds of billions of dollars worth of merchandise during the noted time frame," Laden said. "The $22 million in assessed penalties is a paltry sum compared to what these companies paid in duties during the same period ... The message conveyed is that these companies are non-compliant, when, in fact, most are highly compliant."

Customs shortly suspended its "new" policy of publishing these lists. In a statement, Kelly said, "E-policies for Customs and the entire organization are a work in process. We are withdrawing the list of companies penalized by Customs from our Web site, to both remove the names of the companies whose penalties were the result of a prior disclosure and to reevaluate the policy."

No one saw the Byrd coming

The import industry was caught off guard when the Senate overwhelmingly approved the Agriculture Appropriations bill, which contained an unsettling amendment to the U.S. antidumping and countervailing duty rules.

The amendment, called the "Byrd Amendment" because Sen. Robert Byrd, D-W.Va., proposed it, allows for the distribution of antidumping and countervailing duties to firms that are involved in legal cases.

The American Association of Exporters and Importers and others in the industry were immediately opposed to the Byrd Amendment. A last-minute call for letters from industry officials to their representatives on Capitol Hill was too late.

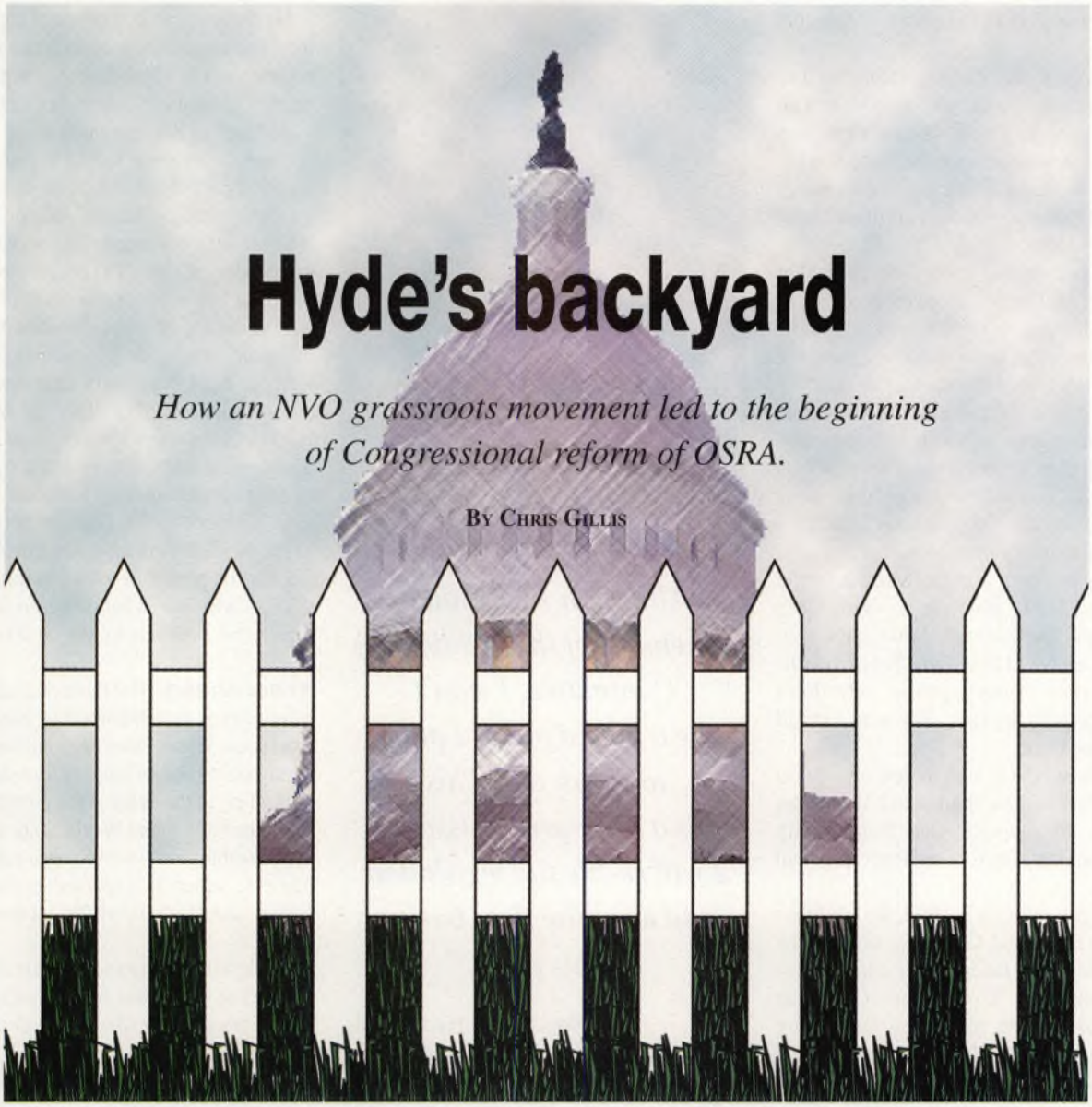
The provision would have serious impacts on U.S. foreign trade relations and "deserves the in-depth examination that the normal legislative process provides," AAEI said. Congress has rejected similar provisions in the past.

"The compensation provision conflicts with the United States' trade obligations under the World Trade Organization agreements, and will lead to counterproductive new trade confrontations with U.S. trading partners," the New York-based association said.

AAEI also argued that the provisions could be considered "an actionable subsidy" under the WTO Agreement on Subsidies and Countervailing Measures. It also violates the WTO Antidumping Agreement.

The association worries that this "provision of monetary rewards to petitioners in a AD/CVD case will lead to the proliferation of trade litigation and will undercut a key restraint on frivolous action."

The provision could also encourage the U.S. government to create a new form of industrial trade policy to counter the measure, AAEI said.



Hyde's backyard

How an NVO grassroots movement led to the beginning of Congressional reform of OSRA.

By Chris Gillis

If there's one thing that the non-vessel-operating common carrier industry in the Chicago O'Hare area learned during the past two years is that its voice does matter on Capitol Hill.

Since the Supreme Court threw out the "50-mile rule" in the late 1980s, the NVOs had steadily lost their influence in Washington politics and were largely ignored by lawmakers. Consequently, NVOs suffered under recent shipping legislation.

The 1998 U.S. Ocean Shipping Reform Act requires NVOs to continue filing tariffs with the Federal Maritime Commission, while mostly excluding vessel operators from the practice via their ability to create confidential service contracts with shippers. The legislation also subjects NVOs to carriers' antitrust immunity.

Meanwhile, NVOs say the carriers have discriminately hit them with rate increases and have watched their cargo being squeezed off vessels to cater to large shipper interests. FMC Commissioner Del Won added fuel to fire when he disclosed that ocean carriers in the eastbound Pacific trade failed to honor rates contained in 221 service contracts.

"It makes me feel violated," said Bill McInerney, chief executive officer for Phoenix International, an NVO based in the Chicago suburb of Wood Dale. "It sends a message to the market that you can't depend on the NVOs. This is enormously damaging to our industry."

But these feelings — so profound throughout the NVO industry — could never be conveyed to Washington without a clear and concise voice. The NVOs needed to reach a power player in Congress that would listen to their problems and concerns with OSRA and develop a movement to change the legislation.

"Trade is politics," said Thomas C. Case, president of The Camelot Co., based at Schiller Park along the perimeter of O'Hare airport. "The only way to make any change was to become political. We needed to get our venue to Congress."

Chicago Roots. At a meeting of the Customs Brokers & Foreign Freight Forwarders Association of Chicago in December 1998, a group of NVOs were made aware of their untapped political energy.

"They asked me what could they do about the legislation," said Carlos Rodriguez, a partner of Washington law firm Rodriguez O'Donnell Fuerst Gonzalez & Williams, who addressed the NVOs at the meeting. "I told them they had the chairman of one of the most powerful congressional committees in their own backyard. They needed to reach out to him."

Rep. Henry Hyde, R-Ill., chairman of the House Judiciary Committee, represents a district that encompasses much of the indus-

trial sector around O'Hare. About 150 freight forwarders and NVOs operate within his district.

A dialogue was quickly launched between the congressman and the NVOs. The industry used Rodriguez's law firm as a platform for what became the Coalition for Fair Play in Ocean Shipping to express its views to Hyde and his chief antitrust counsel Joseph Gibson.

"I must admit that I was a bit cynical at first," said McInerney about the proposal to discuss changes to OSRA with Hyde. "I didn't believe that he would do anything for us. That view would change later, of course."

Besides Hyde's presence in the area, why did the Chicago NVOs step forward? Any major industrial city where NVOs thrive could have led the charge by pressuring their elected officials to attack OSRA's antitrust immunity provision.

"I believe that it was the Midwest ethic that had a lot to do with it," said Greg Wisniewski, president of American Cargo Services, an NVO based in Elk Grove Village. "People in our business here don't want to go with the flow. We aren't afraid to buck the trend."

But many NVOs still feared retaliation from carriers in their attempt to kill antitrust immunity. Few would reveal their identity outside the Coalition for Fair Trade in Ocean Shipping.

At a meeting in early 1999, the coalition met with Hyde and Gibson to discuss the discrimination it faced under carrier antitrust immunity. "I remember Chairman Hyde looking over to Gibson and saying 'let's get rid of it,' " Rodriguez said.

"I was surprised by Hyde's response," said Ron Jacobsen, president of the Chicago association and president of Northstar Drawback Consultants in Arlington Heights. "There are plenty of issues that are more national in scope and he took this one up."

"He's been a champion of the cause," Case added. "He sees a wrong and he tries to right it. It's not a matter of it being a Democrat or Republican issue. Antitrust immunity is flat out wrong."

That's not to say that the National Customs Brokers and Forwarders Association of America, the country's largest and most powerful industry group for forwarders, didn't do its part to make Congress aware of OSRA's discrimination of the NVO industry. At the end of the day, however, local voters often have the influence to make their representatives on Capitol Hill listen.

The NCBFAA, at its annual Government Affairs Conference in Washington, encourages its members and their regional associations, Chicago included, to visit their respective congressmen's offices.

"Although I will still be a member of the (Judiciary) Committee, I won't be a potted plant. I plan to speak out. This is a high-profile issue. I will re-file the legislation and keep the fires buring on this point."

Rep. Henry Hyde, R-Ill.

Hyde's life prior to Congress may have given the Chicago association's members a boost over their counterparts in reaching out to the congressman.

In a recent interview, Hyde said he had always had an interest in shipping. He ties it back to his days in World War II as a 21-year-old skipper aboard an LCT (landing craft tank), which transported cargo from Liberty Ships and other merchant vessels at sea to the shores of the Philippine Islands where U.S. troops were battling Japanese forces.

After the war, Hyde stayed in the Naval Reserve. While stationed for a period in San Francisco, one of his duties was to board cargo ships from Indonesia to gather intelligence on Indonesian President Sukarno's activities. "I would drink coffee with the Dutch skippers," Hyde said. "They made great intelligence officers."

Hyde retired from the Naval Reserve in 1968 at the rank of commander. From there, he spent eight years in the Illinois General Assembly before moving onto an even longer career in the House of Representatives.

He has been an opponent of carrier antitrust immunity since 1996 when efforts to reform the 1984 Shipping Act began. But it wasn't until 1998 when his constituents added fuel to his opposition.

Prior to his open call to repeal antitrust immunity, Hyde admits that he was "unaware of the mechanics" behind how the NVO industry worked. Today, he says his knowledge of the NVOs is "modest, but building." "I'm no expert (in the business), but I understand the consequence of antitrust immunity among the big carriers."

Hyde held "oversight hearings" on the antitrust aspects of OSRA in May 5, 1999. By that time, a wide range of industry groups had started to join the opposition against carrier antitrust immunity.

In October 1999, Hyde introduced the "Free Market Antitrust Reform Act" calling for the repeal of antitrust immunity in OSRA, which was followed up with more legislative hearings in March 2000.

Years Ahead. But the repeal of antitrust immunity is not expected to happen anytime soon. Hyde, himself, predicted that the fight could take as long as five years.

Adding to the delay is the powerful voice of the newly formed World Shipping Council, a Washington-based coalition of 31 ocean carriers, which is expected to defend the carrier industry's need for antitrust immunity.

Hyde will also step down after three terms as head of the House Judiciary Committee. But he has vowed to the NVO industry not to abandon the cause to reform OSRA.

"Although I will still be a member of the (Judiciary) Committee, I won't be a potted plant," he said. "I plan to speak out. This is a high-profile issue. I will refile the legislation and keep the fires burning on this point."

He says his fellow committee members won't be able to ignore the issue when he no longer heads the committee. "They'll have to jump over me," he said, and being a senior member of the committee makes that difficult to do.

But talk is cheap to NVOs that are faced with tighter profit margins and increasing administrative costs to satisfy the law.

"Congress knows nothing about our industry," said Peter K. Shauer, president of Orion Marine Corp., a long-time Chicago-based NVO. "I found the after-the-fact reaction by Congress demeaning personally."

While they would like to have antitrust immunity repealed sooner, the biggest issue for most NVOs is how to keep up with the costs of maintaining a public tariff that they say no one appears to care about these days.

The NCBFAA is expected to soon file a

Timeline on ocean shipping reform

1984 — Shipping Act of 1984 passed by Congress

1992 — Advisory Commission on Ocean Shipping Conferences issues Report to Congress and the president.

1994 — Republican Takeover of Congress — National Industrial Transportation League begins "Reform" efforts.

1995 — HR 2149 introduced in 104th Congress; bill provides for near complete deregulation; proposal would have eliminated FMC; ended an requirement for tariffs; permitted contracts between NVOs and shippers.

1996 — Senate kills action on HR 2149.

1997 — Sen. Kay Bailey Hutchinson, R-Texas introduces S. 414, the "Ocean Shipping Reform Act" (OSRA); hearings held on OSRA.

Mid 1997 — APL sold to Singapore-owned and operated NOL.

1998 — Senate amends OSRA and passes "compromise" version of bill — ocean carrier antitrust immunity remains; "discussion agreements" permitted under new law; NVO prohibited from signing contracts as carriers with shipper-clients; FMC retained as independent agency; confidential contracts permitted between ocean carriers and shippers; tariff required to be "electronically published" by carriers/NVO online.

August 1998 — House considers Senate version of OSRA, House Judiciary Committee Chairman Henry Hyde, R-Ill., opposes the bill primarily due to the retention of antitrust immunity for ocean carriers. House approves S. 414.

December 1998 — Carlos Rodriguez addresses Chicago Freight Forwarders and Brokers Associations on the impact of OSRA on the ocean transportation intermediary industry.

March 1999 — FMC Commissioner Del Won releases Executive Summary on TSA investigation; casts sharp criticism on the role, function and influence of the TSA. Rodriguez addresses conference at the Downtown Athletic Club; focuses attention on the rise of carrier "discussion agreements."

May 1, 1999 — OSRA effective.

May 5, 1999 — Hyde held "oversight hearings" on the Antitrust Aspects of the Ocean Shipping Reform Act of 1998.

Summer 1999 — Sea-Land Service Inc. sold to Danish-owned and operated AP/Moller-Maersk.

August 1999 — Crowley sold international operations to German-owned and operated Hamburg-Sud. This marked the end of the last U.S.-owned and operated international container line.

October 1999 — Hyde introduces "Free Market Antitrust Immunity Reform Act of 1999: (FAIR Act).

February — International Brotherhood of Teamsters joins antitrust debate and endorses the FAIR Act.

March — Legislative hearings on FAIR Act. Shippers, OTIs, Teamsters, Department of Justice, Antitrust Division, and American Bar Association all endorse the legislation.

May — Organization for Economic Cooperation and Development (OECD) holds "workshop" on antitrust issue.

September — Supporters of the Hyde bill expands to include: International Mass Retailers; AgOTC; American Cotton Shippers Association; American Chemistry Association (formerly Chemical Manufacturers Association); National Grain and Feed Association; American Forest and Paper Association; American Farm Bureau; New York-New Jersey Freight Forwarders Association; American Association of Shippers' Association; American Import Shippers' Association; and Transportation Intermediary Association. Hyde addressed the NCBFAA's Government Affairs Conference promising to continue the fight against antitrust immunity.

petition to the FMC to exempt NVOs from filing tariffs. About 90 percent of shippers who participated in a recent survey by the National Industrial Transportation League, also support the ending NVOs' filing of tariffs with the FMC.

"The less regulation the better," Shauer said. "We don't need the government to tell us how to run our business."

O'Hare Expansion. While the Chicago forwarder/NVO industry applauds Hyde's efforts to end antitrust immunity, many of them oppose the congressman's stance on how to improve the air-cargo infrastructure in the region.

For years, the industry's request to build a western access into the forwarder/NVO area to relieve traffic congestion has fallen on deaf ears. "We've been locked out of flights because of it," said Scott Alan Case, import supervisor and certified ocean forwarder at The Camelot Co. The frustration has caused many forwarders to throw their support behind a local activist group, called the Western Access Committee.

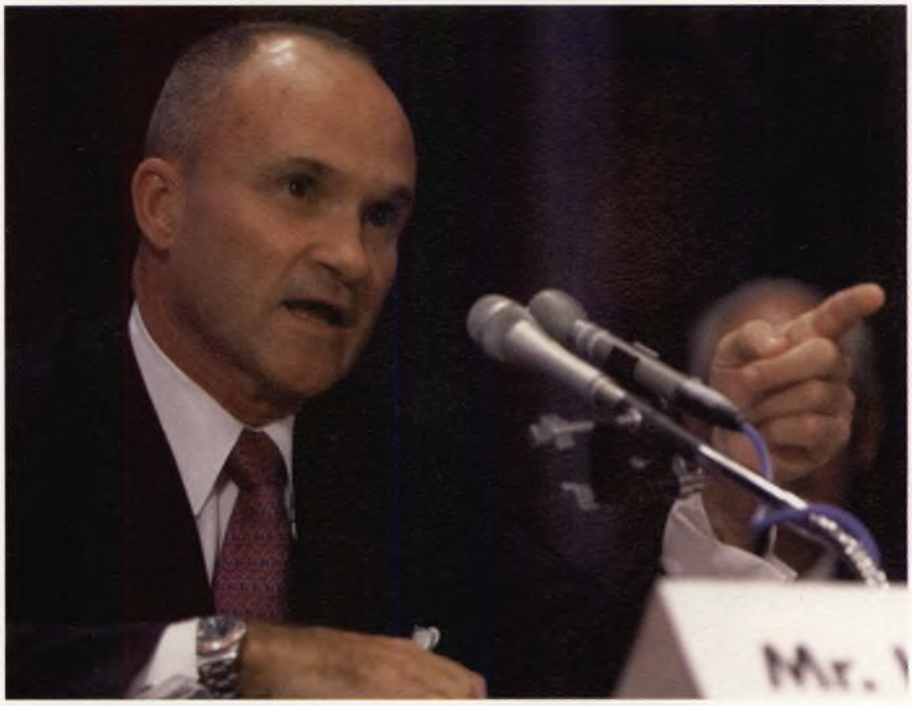
However, more airline flights are expected in the future at the largest airport in the Midwest. To deal with the increased traffic, O'Hare would have to build additional runways, a move that the local public, led by the powerful Suburban O'Hare Commission, vehemently opposes. The group doesn't want any more airplane noise and pollution in the area.

"We all agree that we need more runways but not at O'Hare," Hyde said. "What we need is a new airport."

To prevent airline business from diverting to other major airports such as Dallas/Fort Worth and Denver, local politicians, such as Hyde and Jessie Jackson Jr., D-Ill., have proposed building a new airport in the suburb of Peotone, 50-miles southwest of the city. "The vision would be an airport with an environmental buffer zone and room for expansion," Hyde said.

Midway, Chicago's second airport, doesn't handle international air cargo and has no possibility for expansion since it's tightly surrounded by residential areas already.

The industry wants Hyde and other politicians to continue focusing on improvements to O'Hare. "Building another airport would greatly disrupt O'Hare field," Jacobson said. "The industry at large is against another airport." ■



Kelly's legacy

Customs commissioner reflects on his performance and changes he's wrought in the agency's enforcement efforts, internal management.

By Chris Gillis

Like it or not, Raymond W. Kelly didn't arrive at U.S. Customs to promote the status quo.

Former Treasury Secretary Robert E. Rubin appointed him as commissioner to carry out a specific task — to clean up the agency and save it from the wrath of an increasingly unfriendly Congress. Kelly's quick action did just that.

On May 13, 1999, nine months after taking the job as commissioner, the Senate Finance Committee convened the first of three Customs oversight hearings. This same committee, led by Chairman William V. Roth Jr., R-Del., and former Sen. Daniel Patrick Moynihan, D-N.Y., had hammered the Internal Revenue Service, Customs' sister agency, for its mismanagement of operations.

The room the day of the first hearing was packed with journalists looking for a hot story on similar problems at Customs.

That never happened. What they got was an earful from the committee leaders about how Customs needs funding for its future computer system, the Automated Commercial Environment.

The next two Customs oversight hearings focused on the agency's enforcement efforts and internal management, both of which generated little smoke, much less fire.

Changing the direction of the committee hearings required an enormous amount of energy and the ability to tackle multiple issues throughout the agency at once — a hallmark of Kelly.

"I've been in charge of big organizations," he said. "This organization needed significant change and leadership. We were able to make many changes rapidly."

Kelly has spent more than 30 years in public service, climbing the ranks of the New York Police Department until becoming commissioner in the early 1990s. In 1994, he was appointed director of the International Police Monitors in Haiti and elected vice president of the Americas for Interpol in 1997.

Before joining Customs in August 1998, Kelly served two years as the Treasury's undersecretary of enforcement. In this role, he oversaw the Treasury enforcement bureaus, including Customs, the Secret Service, Bureau of Alcohol, Tobacco and Firearms, the Federal Law Enforcement Training Center, the Financial Crimes Enforcement Network, and the Office of Foreign Assets Control.

Since he came from outside the internal workings of Customs, Kelly was impartial to any cronyism or old habits that had evolved in the agency's operations over the years.

To assist in that impartiality, Kelly hired an outside consulting firm during the first six months on the job to conduct a top-to-bottom review of the agency's operations.

"If you survey people anonymously, they'll tell you that there's strong leadership coming from this position," Kelly said. "I could sit here and look out the window and believe that everyone loves me and not make any changes."

Customs consists of nearly 20,000 employees, which manage a diverse array of activities, such as passengers, carriers, imports and exports, flowing through the nation's 301 ports of entry.

One of the first areas that Kelly tackled was the Internal Affairs Office. At the time, the office was backlogged in cases of alleged criminal activity among Customs officials. There was also no system to track these cases. Kelly appointed William A. Keefer, a former Justice Department attorney, to clean up the problems of Internal Affairs.

Prior to Kelly's administration, many senior appointments were made from inside the agency. Kelly believes that it's necessary to bring new senior managers from the outside if you're going to implement forward-looking change in an organization.

Appointments from outside the agency included Joseph Rees to Trade Ombudsman; S.W. "Woody" Hall Jr, to chief information officer of the Office of Information and Technology (Kelly participated in Hall's appointment during his tenure as Treasury's undersecretary of enforcement); and Marjorie L. Budd to assistant commissioner of the newly formed Office of Training.

"People were coming up through the ranks with no formalized training," Kelly said. "How can you have an organization that's been in existence for 210 years and have no one in charge of training?"

Kelly focused on completing the reorganization of Field Operations, which was started by former Commissioner George J. Weise, by defining the exact role of the Customs Management Centers and their interaction with the agency's port offices. No longer would 301 ports be reporting directly to headquarters, Kelly said.

His appointment of Hall is considered by many analysts to be a major reason why Congress and the General Accounting Office now take Customs seriously on its systems development. The agency's future system, with a rollout cost of $1.5 billion, is needed to replace its 17-year-old system,

the Automated Commercial System. Congress earmarked $130 million in the fiscal 2001 Treasury-Postal Appropriations for ACE development.

"The Customs Modernization Act talked about a new automated system in 1993, and they (Customs) hadn't been able to deliver," Kelly said. "On my watch, we're going to get the money for the first time."

Centralization. Kelly's goal is clear. He wants to develop an efficient top-down management, which includes streamlining the way in which rules and policies are applied throughout the agency.

"We need consistency," he said. "You need rules and regulations that are consistent. We're against local variations and deviations."

That concept is a big break from the way Customs has traditionally been run, which was to put much of the power to interpret and apply rules and policies into the hands of port-level staff.

Kelly said that's a big reason why Customs nearly got itself into serious trouble with Congress over personal search issues. Some of the agency's port operations applied the policy with excessive force and stripped people of their basic rights and dignity.

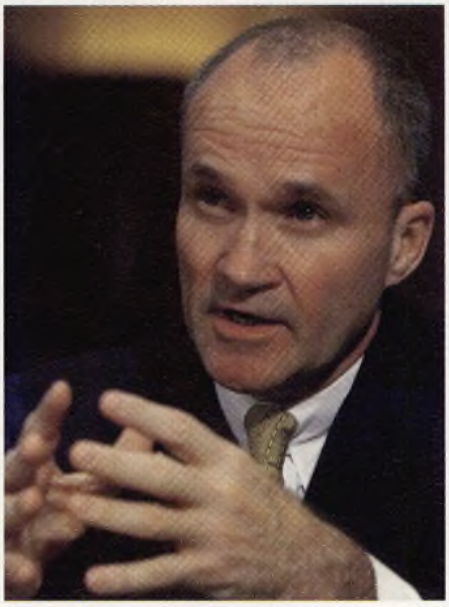
The commissioner keeps an eye on the entire operation through daily meetings with his assistant commissioners. "That's never happened before in this organization," he said. "I don't know how to better communicate when you have 20,000 people in the organization."

By creating a solid chain of command, backed by modern communications, the commissioner said he is able to institute accountability from senior management to the rank and file.

Customs' mission of stopping illegal drugs and contraband at the border is tough enough. Lack of discipline and accountability among the ranks should not further complicate that mission, Kelly said.

Customs has adopted the principles of "risk management" which means that the agency focus its limited enforcement resources on high-risk or suspect shipments instead of trying to track each individual shipment. There's simply no way the agency could physically examine the contents of more than 4.5 million ocean containers, 9.3 million trucks and 320,000 railcars that cross the country's borders annually.

In addition, Kelly has directed the agency to find ways to modernize its import entry process. Import entries are expected to more than double during the next five years, from 21 million in 2000 to 50 million in 2005. The Entry Revision Project promises to shift the process from a transaction-by-transaction operation to an account-based management program.



"If you survey people anonymously, they'll tell you that there's strong leadership coming from this position. I could sit here and look out the window and believe that everyone loves me and not make any changes."

He has repeatedly said throughout his administration that Customs should "conduct business the way business does business."

Differing Opinions. Industry officials admit that Kelly has done a good job cleaning up some of the internal management problems at the agency. However, many of them believe that his management style has hurt the morale of Customs' work force, slowed the reaction time of field inspectors to make trade decisions, and contributed to some "brain drain" by disgusted staff leaving the agency.

On the issue of declining morale, Kelly said he doesn't have that impression. He has held more than 50 "town hall" meetings with field inspectors during the past two years, which allows them to vent their concerns and frustrations, without supervisors present, to the commissioner.

"People generally feel good about this organization," Kelly said. "How do I know? They come up and tell me."

Inspectors now wear standard blue uniforms and have cars that identify them as the Customs Service. Kelly has also addressed housing issues for inspectors in the more remote ports of entry around the country.

Trying to change the way an agency has been managed for many years takes time. But Customs officials believe that information and guidance from headquarters to the field will flow faster as staff becomes used to it, and as the future system moves in place.

Kelly is aware of the problems of trade ruling backlogs in Office of Regulations and Rulings and is studying possible remedies. The GAO recently released a report criticizing the office's inefficiency.

In the future, the agency believes that the best way to get a clear message to the shipping industry on future trade policy is to hold trade symposia every six months. The first of these symposia will be held in Washington on Nov. 30. Internet broadcasts will be made throughout the day.

Industry officials say they will weigh in on the effectiveness of the trade symposium concept after the first one is over.

As far as attrition among the ranks, Kelly said it's no more than any other agency or business faces today with aging baby boomers nearing retirement and a lucrative economy. The agency has made an effort to offer staff better incentive packages to stay.

"Two words govern how we run our organization — fairness and professionalism," he said. "We try to make this organization fair both internally — how we treat each other — and externally — how we treat constituents."

With the change in the Administration, Kelly will not get to oversee many of his newly implemented programs to fruition. The next Customs commissioner may also alter some these programs.

"It's the nature of government," Kelly said. "I am concerned about some things slipping back. But you do what you can do."

"What you try to do is make changes to the extent that they're institutionalized," he added. "I don't think there will be any time soon that this organization doesn't have a director of training and that it doesn't have a professional CIO. It would be tough to slip back on that."

He also believes that he has done what's best for a complex law/trade facilitation agency such as Customs.

"This place is much better managed," Kelly said. "I think people, internally, have a much better sense of the direction and more pride in the agency. We've done lots of things to instill that."

Kelly has no plans to vacate the commissioner's job before the end of the Clinton Administration. "I'm going to stay here until someone asks me to leave." ■

Customs sharpens focus on brokers

Agency develops account management prototype, cleans up testing and licensing system.

By Chris Gillis

The U.S. Customs Service has always seen to it that customs brokers follow the rules. But now the agency wants to sharpen the focus of its management of the business.

The agency has recently rolled out a prototype program that takes a complete compliance picture of a broker operation rather than on a port-by-port, transactional basis, which is the way Customs has traditionally monitored the industry.

"We're trying to make our processes more uniform around the country," said Mike Craig, Customs' chief of broker management. "We've never had that before."

Last year, Customs met with industry representatives from groups, such as the National Customs Brokers and Forwarders Association of America, Pacific Coast Council of Customs Brokers and Freight Forwarders Associations, and the Northern Border Customs Brokers Association, to lay the groundwork.

The program has started out slowly. About a half-dozen brokers are participating in the broker account management program, and about two firms will be added monthly. "We have a list of volunteers that we're working through first," Craig said.

Customs officials say the goal of the broker account management program will be to improve compliance among brokers, not to issue more penalties. "A lot of times they're just not being careful," said Elizabeth Durant, executive director of Customs' Trade Programs. "They have a complex set of regulations to deal with."

Durant

Customs recently revised its rules for brokers, known as Part 111 of the agency's regulations. The rules govern how brokers should conduct their business with importers. Many of the changes were required by the 1993 Customs Modernization Act and have been implemented by the industry.

With better internal controls for broker management, Customs could narrow its sights on non-compliant or illegal operations. "If you have good data, you can find root causes and patterns," said Anne K. Lombardi, director of commercial compliance at Customs.

Lombardi

By next summer the broker account management program should include more than a dozen major brokers. "We're going to keep the test group small," Craig said. "If it becomes too big, the program could become unmanageable."

Data Management. To manage its broker account management program, Customs has implemented a new system, called Port Activity Tracking System or PATS. The system gathers broker compliance data at the port level, such as late or no entries filed, and administrative errors. This information is joined with compliance data drawn from Customs' Automated Broker Interface.

So far, PATS is operational at 11 Customs' ports: New York/New Jersey; Boston; Derby Line and High Gate Springs, Vt.; Buffalo, N.Y.; Seattle and Blaine, Wash.; San Francisco; Houston; Chicago; and Nogales, Ariz. The locations were picked based on volunteer brokers' business concentration, Craig said.

An early concern for brokers was that compliance systems such as PATS would report mistakes to their clients, the importers. Customs has assured the industry that would not happen.

"There's no goals of 90 percent compliance for this or 95 percent compliance for that," Craig said. "It's just about finding problem areas and how to work them out."

"We'll let the broker go back, think on the error and come back to us with an action plan on how to fix it," he added. "This is maximum informed compliance."

The data will also show Customs where problems may lie in its own operations. "We'll find out if it's a training issue, a turnover issue or an error of Customs," Lombardi said. "We're not perfect."

Customs wants to get the agency's field staff on the same page when it comes to regulating the broker industry. The agency recently held a four-day class in Tucson, Ariz., which included staff from Customs Management Centers and port offices, to review the entire broker management process. "Everyone is going to learn it the same way," Craig said.

Customs will use the data to generate reports. "We want to get the data back out (to the industry and agency) in a meaningful, plain-English format," Craig said.

Brokers in the program expect to improve their working relationship with Customs. "Some of the benefits we anticipate receiving as a result of participation are improved access to the various levels of Customs in their chain of command through the assigned account manager who is to act as our internal advocate," said Leman "Chip" Bown Jr., director of regulatory compliance for Tower Group International, based in Buffalo, N.Y.

"We believe that our participation will help to ensure increased compliance through a structured and systematized review process of interaction with Customs. This interaction will help us to look at compliance from the Customs' perspective," he added.

Depending on the outcomes of PATS, the concept would be rolled into the agency's future system, the Automated Commercial Environment.

Customs' ability to manage brokers by

Leman Bown Jr.
director of regulatory compliance, Tower Group International

"We believe that our participation will help to ensure increased compliance through a structured and systematized review process of interaction with Customs. This interaction will help us to look at compliance from the Customs' perspective."

account received a boost earlier this year when the agency began its national permit program.

The national permit, which allows brokers to conduct specific types of customs business nationwide, is part of the revised Part 111 broker rules.

To qualify for a national permit, a broker must hold at least one district permit. The broker must also file an application with Customs headquarters. On the application, brokers must provide their license number and issuance date of their district permit; the office that will oversee the national permit operations; and the name of the person who will supervise national permit operations. The agency requires payment of $100 for the permit application and $135 for annual national permit user fees.

National permits allow brokers to:

- Place employees at clients' facilities in districts where the broker may not hold a district permit.
- File electronic drawback claims at a designated drawback office in a location where the broker does not hold a district permit.
- Participate in any operational aspect of the National Customs Automation Program.
- Perform post-entry summary work for clients in broker districts in which they do not hold a district permit.

A.N. Deringer became the first broker to receive a national permit on April 14. As of October, Customs has issued about 110 national permits to the industry.

Growing Industry. Despite changes in information technology, license terminations, and tougher industry rules, the number of new brokers continues to grow. "The industry is not stagnant," Craig said.

Customs has issued 500 individual broker licenses and 57 new corporate licenses from January to October. The agency estimates that there are about 11,000 licensed brokers operating in the United States today, who file more than 55,000 entries a day.

But Customs has tightened its control over the licensing process. Before 1984, the district offices of the agency issued broker licenses. This led to a chaotic system of license numbers.

"We found one license number that two corporations were using, and three individual brokers that shared the same license number," Craig said. "We're working hard to clean this up. We want to get to a situation in which each license number is unique. That's one of our big projects for the year."

The process also needs to be tightened for security purposes. Customs recently stopped two corporate license applications from going through the approval process, because both applicants used individual licensed brokers who weren't working for the firms. "Customs takes a very dim view of this and will take legal action against it," Craig said.

Brokers are eager for Customs to clean up its license numbering system. "It's very disturbing," said George A. Menendez, president of Sack & Menendez Inc., a Tampa, Fla.-based broker. "It's important for Customs to get the information correctly."

The NCBFAA's Customs Committee has suggested to the agency that it use the triannual reports from the broker industry to straighten out license numbers. These mandatory reports give Customs a broker's operational status.

Customs is also reviewing its broker license exam process. Some of the exam questions and the administration process may need enhancements.

"We're looking at the issue of electronic exams," Lombardi said. "But there are some questions. Does it discriminate against people with limited computer skills as opposed to broker knowledge?"

"Over time, we're going to automate the process. We're already doing it now for testing federal employees," Craig said. "We're just not at the point to put the broker exam on the Web."

Brokers question competition's antics

Accountants, consultants, e-commerce firms blur line of "customs business."

WASHINGTON

During the past several years, accounting firms, consultants and newly emerging electronic commerce firms have been encroaching on what customs brokers say is their business.

Brokers believe that the U.S. Customs Service should hold these firms to the same level of accountability as brokers are.

"I don't know how these unlicensed parties get away with it," said Jack Rafferty, director of trade and regulatory services of PBB Global Logistics, based in Buffalo, N.Y. "I look at the Customs rulings and it's inconsistent."

Jack Rafferty
director of trade & regulatory services, PBB Global Logistics

"I don't know how these unlicensed parties get away with it. I look at the Customs rulings and it's inconsistent."

Brokers have traditionally controlled the import business through their expertise in processing import entries on behalf of importers. However, the business began to change in 1993 after the passage of the Customs Modernization Act.

The Mod Act held importers more accountable to Customs' rules and their import operations, a process known as exercising "reasonable care."

The legislation also opened the door to new business opportunities for brokers. These firms could expand their role beyond entry filing to deeper consultative relationships with their clients to ensure they're complying with import regulations. Brokers could offer advice on import issues such as product classification, valuation, country of origin and interpretation of Customs rulings.

The large accounting and consulting firms saw the same opportunities. These firms have started to carve out sizable businesses with the import industry. Except for filing entries, these firms advertise services that cover the gambit of the import process.

Brokers question the way accounting firms approach the import business. "These firms operate with an accounting philosophy," said Robert A. DeCamp, director of compliance and trade consulting for A.N. Deringer. "But the way you work with the Internal Revenue Service is not the way you work with Customs."

DeCamp

Consultants, whose ranks are filled with former Customs officials and downsized import managers, offer similar services to importers. "They get a copy of the Harmonized Tariff System, and the Customs Audit Kit, and come up with their own interpretations (of the rules)," Rafferty said.

To compound the confusion, a new breed of firms driven by the Internet has aggressively entered the import management business.

Alternatives. The large accounting/consulting and Internet startup firms believe their ways of business should not be a threat to brokers.

"We don't compete with brokers for traditional entry filing business," said William F. Inch, former head of Customs' Regulatory Audit Division and senior manager of New York-based KPMG Trade and Customs Practice. "We use accounting and consulting knowledge to perform compliance assessments for companies."

Some of the other big accounting/consulting firms in this arena are Andersen Consulting, PricewaterhouseCoopers, Deloitte & Touche Consulting Group, and Ernst & Young. These firms say their size, coverage and resources appeals to large importers, which require assistance on compliance with Customs' rules.

Internet firms are offering similar services but with online access to import-related data and assistance. Some of the biggest players to emerge on the scene during the past year are From2 Global Solutions, MyCustoms.com, Nextlinx, Vastera, and Capstan.

"We've become a trade services management service for companies that want

Customs business not 'black and white'

Customs' definition of "customs business" as defined in 19 U.S.C. 1641(a)(2):

"Those activities involving transactions with the Customs Service concerning the entry and admissibility of merchandise, its classification and valuation, the payment of duties, taxes, or other charges assessed or collected by the Customs Service upon merchandise by reason of its importation, or the refund, rebate, or drawback thereof. It also includes the preparation of documents or forms in any format and the electronic transmission of documents, invoices, bills, or parts thereof, intended to be filed with the Customs Service in furtherance of such activities, whether or not signed or filed by the preparer, or activities relating to such preparation, but does not include the mere electronic transmission of data received for transmission to Customs."

Customs' definition of reasonable care and selection of customs "expert" as outlined in a Dec. 4, 1997, Federal Register General Notice:

"There is general consensus that a 'black and white' definition of reasonable care is impossible, inasmuch as the concept of acting with reasonable care depends upon individual circumstances."

"A party's selection of an expert, and the expert's qualifications are part and parcel of the review of all of the facts and circumstances in the agency's determination whether the party has exercised reasonable care. In Customs' view, the importer who retains the services of an 'expert' bears some responsibility in ensuring that the party is qualified to render advice on the Customs matter at issue. In Customs' view, it is not unreasonable to expect that a party selecting an expert will inquire about the Customs experience and credentials of an expert. Customs believes this responsibility to be particularly important in cases involving selection of unlicensed experts such as consultants. The existence of experienced Customs lawyers and licensed brokers makes fulfillment of this responsibility an easier task - but in Customs' view, to limit the selection of an expert to these individuals runs contrary to the language of the congressional reports. In sum, the importer or party selecting an expert must use judgment and reason in making his or her selection."

Northern border guardian

Enforcement expert Heffelfinger looks to getting to know brokers.

WASHINGTON

Bill Heffelfinger may modestly refer to himself as a "career bureaucrat," but his long list of credentials shows that he's held top leadership roles in the government.

U.S. Customs Commissioner Raymond W. Kelly recently appointed Heffelfinger as the agency's northern border coordinator — a big job considering Canada is the country's largest trade partner.

"Bill Heffelfinger brings extensive knowledge of border issues plus a keen, innovative mind from the Office of Strategic Problem Solving," Kelly said. "He has the ideal skills and background necessary to handle the ever changing northern border issues."

As northern border coordinator, he will pursue Customs' two-fold goal of promoting trade and attacking illegal activities, such as drug smuggling and contraband. He replaces Robert S. Trotter.

He will keep track of Customs activities at 83 ports of entry along the 5,525-mile U.S.-Canada border. He will be Customs' representative with other federal agencies and Canadian agencies, such as Canada Customs, Citizenship and Immigration Canada, and Canada's Department of Foreign Affairs and International Trade. Heffelfinger will also be the agency's point of contact for congressional inquiries and other trade issues on the northern border.

He had been assistant to the commissioner at the Office of Strategic Problem Solving since 1987. He also served as director of law enforcement and acting deputy assistant secretary of enforcement at the Treasury Department, and other posts at Treasury's Office of the Assistant Secretary of Enforcement, Office of the Assistant Secretary for Administration, Secret Service and Bureau of International Commerce.

Northern border issues have become a top priority, as Customs has become increasingly concerned that more drug and contraband smugglers are using the northern border as a "backdoor" to the U.S.-Mexico border. The agency has also received complaints from industry about the need to improve Customs' infrastructure at high-traffic ports, such as Buffalo, N.Y., and Michigan's Port Huron and Detroit.

Heffelfinger recently told executives of the Northern Border Customs Brokers Association that he's aware of their concerns and is putting a strategic plan in place to start to deal with them.

He explained Kelly's interest in improving the agency's northern border operations. Heffelfinger's office is located within earshot of the commissioner's office at Customs headquarters.

He also admitted that he needed to learn more about the broker business. "I've never gone into a broker office to see what your side of the counter looks like," he told the association. "That's a serious lack in my Customs education."

He plans to visit some of these operations during next several months.

comprehensive Customs information from around the world," said Lenny Feldman, chief compliance officer and vice president of customs affairs for From2 Global Solutions, based in Washington. "We have Customs in our blood."

The company's staff comprises mostly former Customs officials, which specialize in rule and tariff interpretation. The company also has a licensed customs broker on staff and recently hired Dave Robinson, former comptroller (commissioner) of Customs for Dominica, to be its regional director of Caribbean.

From2 provides tariff data and duty calculations for about 100 countries, and import regulatory data on about 50 countries. The company provides data and consulting services to about 24 clients.

But brokers aren't convinced that these firms can be held to their actions.

"The big difference between us and them is that they don't have accountability under the Customs regulations and we do," said Jacob Holzcheiter, vice president of customs at A.N. Deringer in St. Albans, Vt. "It's pointless for them to have licensed customs brokers on staff unless they are licensed customs brokerage firms themselves."

But accounting/consulting and Internet-based firms disagree.

"We form contracts with our clients," Feldman said. "We guarantee what we do. We're clearly accountable."

Instead of resisting the actions of new competition, the brokers may be better off forming alliances with them. Some brokers are already doing entry work for e-commerce firms.

"I see companies like ourselves raising the level of accuracy and efficiency in the business," Feldman said. "This is where the whole industry is going."

"Customs Business." Brokers want Customs to take another look at its broker rules and what is considered to be "customs business," and decide whether to include these new competitors or lighten the regulatory oversight of licensed brokers for non-entry-filing work.

"This is what we do for a living," Rafferty said. "But we have lots of competition out there that hasn't gone through the same regulatory hurdles as us. We're looking for regulatory equilibrium."

Customs officials say they're aware of the problem and are looking into it. Beyond that, the agency makes no promises to define the line of what customs activities require a broker license.

Customs' inaction on this issue may raise tensions between the agency and licensed brokers. ■

Working together

World Cargo Alliance builds forwarder/customs broker network based on lessons learned.

By Chris Gillis

Small freight forwarders and customs brokers may be able to band together to compete against multinational firms, but it's a fine line between individual and group prosperity.

After 15 years of developing forwarder/broker networks, David Yokeum believes he has a good understanding of how to make that balance work.

Last year, Yokeum, along with partner Dave Lucia, founded World Cargo Alliance, a Sunrise, Fla.-based forwarder network, which he says is largely based on lessons learned over the years.

"It's not difficult to put a network together or have great ideas and expectations," Yokeum said. "What's difficult is the implementation. That's why so many networks either fail or come up short."

Yokeum, former vice president of sales and marketing for a division of Gulf+Western, set out to build his first forwarder network in 1986 when his brother, Dennis, a licensed customs broker, asked for his help to build his business.

"I put together an eight-page business plan," Yokeum said, who was living in Denver at the time. "Then I got into my car and traveled to Chicago where I stayed in a cheap hotel and began calling customs brokers listed in the Yellow Pages about my idea."

"It may sound strange, but I had no problem talking one-on-one with about 20 owners of customs brokerage firms," he said.

By 1987, Yokeum managed to pull together a group of 11 U.S. brokers to form a network, which came under the name United Shipping Associates, based in Denver.

United Shipping is far from the first network in the industry. They've been around for years. Some of the longest running operations include WACO Airfreight Agency and the Far East Transportation Association.

But United Shipping became one of the biggest players to emerge on the industry scene in the United States after the passage of the 1984 Shipping Act. Others that were formed at the time were Hi-Tech Forwarder Network and GLA-Freight Forwarders and Customs Brokers Association.

"It's not difficult to put a network together or have great ideas and expectations. What's difficult is the implementation. That's why so many networks either fail or come up short."

David Yokeum
founder,
World Cargo Alliance

Politics. Yokeum spent the next eight years traveling the world in search of markets and members to add to the group's roster. The original 11 members set on the board of United Shipping. The new members were classified as "associates." By the mid-1990s, United Shipping grew to about 80 member firms that operated in 300 cities worldwide

The management concept used by United Shipping was similar to other forwarder

networks at the time, which was to create an "exclusive" forwarder in a city or market to serve the rest of the network members.

"The number one benefit of the network is to have an agent that you can trust in every market," Yokeum said. "That's accentuated by providing the proper level of communications and the ability to routinely come together in a worldwide forum to get to know each other personally."

United Shipping added other member benefits, such as a non-vessel-operating common carrier operation under the name Medallion Shipping Lines, and group cargo insurance and customs bonds. "We were able to reduce the individual member's costs in these areas," Yokeum said.

But the direction of United Shipping and other forwarder networks began to disturb Yokeum. The exclusivity of the groups began to constrain the potential of these operations. If they have a member in a given port market, all the rest of the companies there are not eligible to join.

"Exclusivity sounded good in the beginning, but it was increasingly difficult to follow," Yokeum said. "What often results is lots of red tape and boards of directors of forwarders that look out for their own interests. Expectations and stress levels become high. In the end, the management of the network becomes frustrated because you can only push the members so hard."

Forwarder and brokers outside the networks' boards often become disgusted by the politics. They either quit or sell the network's abilities short.

"I have belonged to a couple of these networks over the years," said Bill Shaw, president of New York-based World Class Shipping. "The politics gets heavy in these organizations. It left a bad taste in my mouth."

Other forwarders became turned off by networks' exclusivity agreements with overseas agents. "If an agent wasn't performing well, you were stuck with them," said Brad Pinkham, regional manager for Argents Express Group in Detroit. "You could easily lose a customer's business."

New Network. With this knowledge, Yokeum decided to resign from United Shipping in 1995 and start again with a fresh slate. In February 1999, he announced the formation of a new forwarder network, World Cargo Alliance.

Yokeum believed the timing was good for World Cargo Alliance. The Ocean Shipping Reform Act came into effect in May 1999 and the multinational forwarders continued to consolidate their operations into powerful organizations.

Bill Shaw
president,
World Class Shipping

"I have belonged to a couple of these networks over the years. The politics gets heavy in these organizations. It left a bad taste in my mouth."

But the biggest selling point of World Cargo Alliance was its break from a rigid exclusivity among the network's agents. "That requirement to break long-held ties with non-member agents goes against the preference of many good network candidates," said Dave Lucia, vice president of World Cargo Alliance. "WCA makes no such request but instead asks members to do as much of their business within the group as they can. Experience has already proven that virtually everyone still gains new business under this scenario."

Also, Yokeum and Lucia decided to abandon the traditional forwarder network board of director style of management. "We created a privately owned network of neutral partners — Dave and myself," Yokeum said. "This absolutely eliminates red tape and conflicts of interests."

Yokeum and Lucia are paid for their services through membership fees. "Our success is based on the success and growth of the network," Yokeum said.

The World Cargo Alliance screens applicants for quality and integrity, and brings the approved ones into a group of "like-minded" companies that have all signed the network's code of ethics. Besides outlining standard business practices among the membership, the code commits the members to the network's principles to become involved in resolving any disputes that may arise. "We try to identify two members in each market, with a limit of up to five members per market," Yokeum said.

"If an agent wasn't performing well, you were stuck with them. You could easily lose a customer's business."

Brad Pinkham
regional manager,
Argents Express Group

The new network concept settled well with many small forwarders. Within four months, World Cargo Alliance included 45 companies operating 64 offices in 30 countries.

"We were attracted to the non-exclusivity nature of the network," said Robert Tayler, regional manager for Argents Express Group in Elk Grove Village, Ill. "This allows you to lean toward building on those one-on-one relationships that are so crucial to the success of this service business."

Most small forwarders already have some well-established partnerships in place before joining a network. The flexibility of the World Cargo Alliance allows them to maintain these relationships. "Let's face it, some WCA members are obviously going to be better than others," Tayler said.

Yokeum and Lucia keep an eye on the member activities to make sure no firm is violating the rules. "We won't hesitate to discontinue a firm's membership and we have," Yokeum said.

The World Cargo Alliance holds a three-day international meeting each year to introduce the members. The members use this time to meet face to face and discuss business. "Imagine the expense of getting on a plane to visit all these companies," Tayler said. The next meeting is schedule for Feb. 8-10, in Miami Beach, Fla.

So far the members say they're pleased with the operations of World Cargo Alliance. "We're getting freight out of it," Pinkham said. "We're making a hell of a lot of money than we paid in dues to the network."

World Class Shipping, which has only one other office in Dubai, United Arab Emirates, recently worked with another World Cargo Alliance member to move a shipment from the United States to central China. "It's all one-on-one. There's no central billing and the WCA is there for communication purposes," Shaw said. "The network allows you to maintain your own (corporate) identity."

In two years, the ranks of the World Cargo Alliance has swelled to more than 300 member offices, which together move more than 250,000 TEUs worldwide a year.

Neutral NVO. But World Cargo Alliance is not resting on its laurels. Yokeum

"We were attracted to the non-exclusivity nature of the network. This allows you to lean toward building on those one-on-one relationships that are so crucial to the success of this service business."

Robert Tayler
regional manager, Argents Express Group

and Lucia have started to explore new ways to expand the network's services to its members.

Last year, the network set up a neutral NVO operation under an exclusive operating agreement with U.K.-based Atlas Line International.

Yokeum described the membership's response to the NVO service as "very positive." Most of World Cargo Alliance's members operate their own NVOs, but they could use the Atlas Line service as an opportunity to combine cargoes from a single NVO supporting more than 300 offices.

"Besides the common bill of lading, the WCA members were enthusiastic about the possibilities of marketing NVOCC services worldwide under a single name," Yokeum said. "I am confident that Atlas Line will grow to be one of the major NVOCCs in the world in a very short period of time."

About 80 member offices have signed up for the service. "By January, we expect about half the membership or two-thirds of member offices to be involved," Yokeum said.

In the United States, World Cargo Alliance operates the NVO as a group of "common gateways," which includes Atlanta, Chicago, Houston, Los Angeles, Miami and New York. DHX Express, a Long Beach, Calif.-based trucking firm has been contracted to provide pickup and delivery of members' cargo to the gateways for consolidation.

The gateways ship about twenty 40-foot containers of consolidated freight a week, mostly export to Germany and the United Kingdom. Yokeum estimated that Atlas Line's service contracts with the ocean carriers saves World Cargo Alliance members $50 to $300 per container.

The network's management hope to expand the NVO service to other markets in the transatlantic, in addition to new markets in the transpacific and South America.

E-Commerce. Another piece of World Cargo Alliance's future agenda is its role in the emerging world of Internet-driven shipping.

"This is the single most important issue in the near term," Yokeum said. "We're preparing a business plan and budget on our vision of e-commerce."

The Internet has allowed many small forwarders to automate their export documentation, and communications with carriers and customers for the first time. Multimillion-dollar electronic data interchange systems have traditionally been reserved for larger firms.

"We recognize that there's an e-commerce industry out there," Yokeum said. "However, we're all at the starting gate. No one is really ahead of the other."

World Cargo Alliance has launched its own Internet-based tools for its membership under the system eTrackCargo.com. The system provides tracking and tracing capability to network members and their clients. A "translator tool" allows the member forwarder to automatically upload its data into eTrackCargo.com without re-keying data.

This is how the system works: The origin forwarder starts the process as soon as the cargo is picked up from the shipper's location. The customer or destination forwarder can access the shipment status time by a number of search criteria, and the shipment is tracked and updated by the destination forwarder until proof of delivery.

The system also provides automatic e-mail update notifications and can generate post-shipment reports. Yokeum said the network will continue to make improvements to eTrackCargo.com.

In addition, a new breed of Internet-based service providers has penetrated the world of shipping. While these firms may have sophisticated systems in place, they often lack the logistics infrastructures, which are possessed by the forwarders and customs brokers.

"E-commerce firms are looking for the freight," Yokeum said. "We want to be-

Forwarder networks

Associated World Logistics Network — www.awln.com/index1.html
Cargo Partners Network — www.cargopartnersnetwork.com
Certified Transportation Network — www.certransnet.com
European Freight Forwarders Association — www.effa.com
Feta Freight Systems International — www.ffsi.com
The Freight Club — www.thefreightclub.com
GLA - Freight Forwarders and Customs Brokers Association — www.glassociates.com
Global Freight Group — www.gfg2000.com
Hi-Tech Forwarder Network — www.htfn.com
Integrated Logistics Network — www.integratedlogisticsnetwork.com
International Freight & Logistics Network — www.ifln.com
SFNetwork — www.sfnetwork.8m.com
TPF Freight Forwarding Network — www.tpfnetwork.org
United Shipping Associates — www.unitedshipping.com
Universal Freight Organization - www.universalfreightorg.com
WACO Airfreight Agency — www.waco.com.au
WWPC Network — www.wwpcnetwork.com
World Cargo Alliance — www.worldcargoalliance.com
World Freight Group — www.wf-group.com
World Net Associates — www.world-net-associates.com

"Many of our clients want to show their corporate names as well as the network's name on their business cards. They want the best of both worlds."

Dave Lucia
vice president, World Cargo Alliance

come a behind-the-scenes logistics provider and customer service component for these firms."

Nothing Sacred. For World Cargo Alliance, the heat is on to stay ahead of competing networks, and more of these operations are appearing on the scene.

"Is there a gold rush of these networks?" Yokeum said. "I think there is, because they have the Internet and they can create at least the façade of a network with little startup investment."

Lucia said World Cargo Alliance will focus on its brand awareness in the international shipping industry. "Many of our clients want to show their corporate names as well as the network's name on their business cards," he said. "They want the best of both worlds."

Although they're mindful of the competition, Yokeum and Lucia don't let it bother them much. "Most of these new networks will disappear as fast as they started," Yokeum said. "The measurement that I use is that if a network has been around for more than five years, they're likely providing their members with some type of benefits." ■

NAAA's growth spurt

U.S.-based shippers' association builds freight volumes through new members.

WASHINGTON

It's known as one of the most exclusive non-vessel-operating common carrier shippers' associations in the international shipping business.

Over the years, that strategy worked to the benefit of the North Atlantic Alliance Association, which became a major force in the transatlantic trade.

"We've started to open up the membership," said Joseph T. Saggese, executive managing director of the NAAA, based in Washington. "Our growth in the world market is predicated on increased freight volumes."

Saggese

When the NAAA started in 1992, it began with seven NVOs and quickly increased enrollment to about 30 companies. These members were dedicated to a 7,000 TEU service contract with the Trans-Atlantic Conference Association. By the mid-1990s, the association's volume grew to about 40,000 TEUs on the transatlantic.

Shippers' associations have traditionally used their combined freight volumes to secure lower rates and better service from the carriers. "The rate differential was substantial between contract and tariff rates, as much as $300 per TEU," Saggese said.

Compared to NVOs such as the New American Consolidators Association Group, Shipco Transport and Kuehne & Nagel, NAAA's members are mostly small to mid-sized players. Its members include CaroTrans International, C.H. Powell Co., Damco Maritime, EGL, Fritz Cos., GeoLogistics, Schenker International, Wilson UTC and Yellow Freight.

"The NAAA is more than about rates today," Saggese said. "It's a mind set. These companies are fighting against some huge forwarders. It's down to sink or swim for mid-sized operations."

The association has relished a stable membership for years. But after the passage of the U.S. Ocean Shipping Reform Act in May 1999, the NAAA suffered a decline in membership. Firms such as Shipco, Air Express International, Expeditors and Panalpina decided to leave the association.

The NAAA was able to pick up some membership and freight volumes after it absorbed operations of a Dutch NVO shippers' association, United Forwarders of Rotterdam (Unifor) earlier this year.

The association has also decided to allow more U.S.-based firms into the fold, adding a member about every two months. "It's not a lot," Saggese said. "We don't want to become the biggest association. We just want to be the most well balanced."

Since 1998, the NAAA has increased its freight volumes from 60,000 TEUs a year to 80,000 TEUs annually. The association expects to raise that figure to about 100,000 TEUs by the end of the next year.

The additional freight volume has already made a difference in the NAAA's world coverage. The association shipped about 12,000 TEUs to the South American market last year and about 1,500 TEUs to South Africa. The members that came over from Unifor added about 5,000 TEUs in the westbound transatlantic trade. The NAAA plans to increase its business to the Mideast and Asia next year.

"We'll never have the lowest rates in the markets, but we're right there with the competitive rates," Saggese said.

The NAAA has also turned its attention to value-added services, which are made available to the membership over the Internet. The association's Web site (www.naaai.com) will provide tracking and tracing of cargo, sailing schedules, employment opportunities, carrier Web links, daily industry news, and service contract updates.

"The biggest headache is maintaining the service contract data," Saggese said. "The rates change daily if not hourly. I feel like I need a ticker tape in my office. That's why our members outsource this activity to us."

The NAAA hopes that its Web site could be used as a container exchange between import and export locations. "Carriers would then offer repositioning credit, because the service would save them a few hundred dollars in repositioning costs," Saggese said.

Washington law firm Rodriguez O'Donnell Fuerst Gonzalez & Williams provides legal counsel, and liability and licensing oversight to the association. The NAAA also has offices in Chicago, New York and plans to open a European office early next year.

As the NAAA continues to expand, some members have suggested changing the name. "We're going to keep NAAA, because it reminds us of our roots," Saggese said. ■

Integrated NVO

BAX Global to use domestic/air transport concepts for ocean consolidations.

IRVINE, Calif.

BAX Global may know how to handle heavy air freight and domestic shipments, but its ocean freight consolidation business has remained largely on the sidelines.

That's beginning to change at the Irvine, Calif.-based firm. BAX Global wants to empower its non-vessel-operating common carrier service with the tools that has made its traditional lines of business successful.

"The focus in the near term is to treat our ocean services similar to air freight," said Peter Gruettner, vice president of ocean services for BAX Global. "We will start to offer simplified pricing and time-definite transit times."

For many less-than-containerload shippers, NVOs offer them little insight into the world through which their shipments are moving.

"We're studying how the global integrated carriers have simplified their processes," Gruettner said. "I'm of the opinion that these companies have built their phenomenal growth on their ability to deliver value to the customer."

BAX Global has developed similar integrated services for its heavy air freight and domestic transportation business. Under a service called "BAXsaver," the company has linked its fleet of 3,700 trucks to its air freight service.

"Many of our customers place great value in the reliability of measurable departures, transit times and arrivals," Gruettner said. "It is this direction that BAX is moving towards to expand its ocean services."

Cargo that moves in BAX's air freight and domestic network is barcoded for tracking and tracing purposes. The cargo is also priced and routed according to transit and service level requirements. Shippers can monitor the movement of their shipments via the Internet and wireless communications.

"Why not make it simple?" Gruettner said. "We should emulate the practices of air freight and domestic services of integrators. The NVO industry has unnecessarily complicated the process."

Interlined Connections. BAX has embarked on a project, called "BAX SEA," to "interline" its domestic trucking network with the less-than-containerload ocean services product. The company is working with Internet systems developer Descartes to put the BAX SEA service in place.

Peter Gruettner
VP of ocean services, BAX Global

"The focus in the near term is to treat our ocean services similar to air freight. We will start to offer simplified pricing and time-definite transit times."

By January, BAX expects to roll out its wireless communications and barcode technology, and new simplified pricing scheme for LCL shipments.

"If the freight moves on our trucks, it will have access to the technology," Gruettner said. "We want to offer these LCL shippers a time-definite service that interfaces with our vessel cut-offs and departures."

The new service will be first applied to BAX's export LCL shipments. Import LCL shipments will be added to the service later in the year, Gruettner said.

Ultimately, BAX wants to blend its ocean freight service with its air freight and domestic service to offer shippers "mode neutral" transportation logistics. Shippers would only have to know when their freight will arrive at destination and how much it costs to move it.

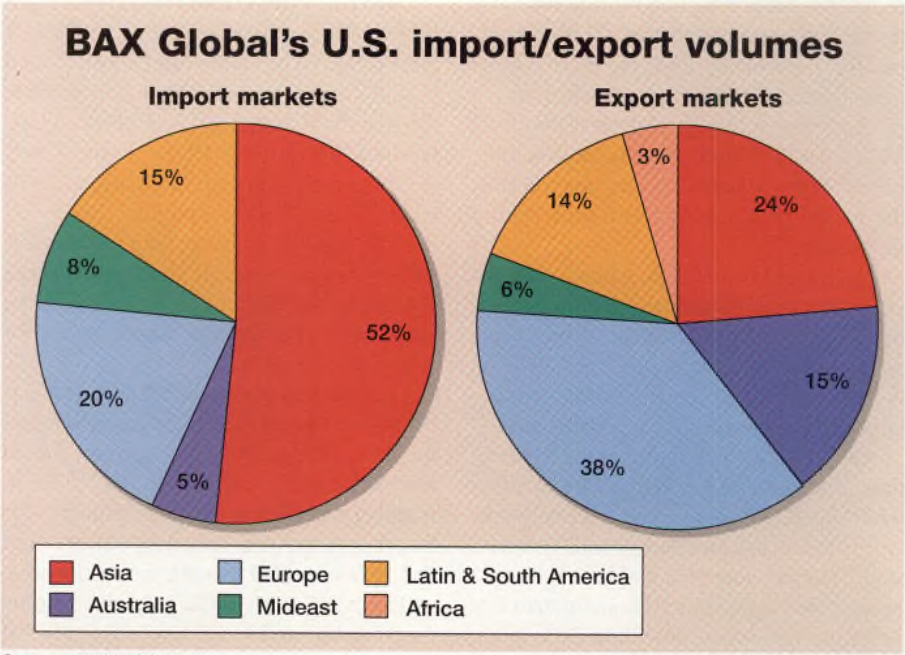
In-House Changes. To obtain this new level of service, however, Gruettner had to change the way in which the ocean freight business at BAX has been managed.

"The corporate office didn't have an administrative staff dedicated to ocean freight," said Gruettner, who was hired by BAX last year. "Ocean operations were out in the field and decentralized."

Under the oversight of headquarters, Gruettner has set up a network of national service centers in key cities around the country. Service center locations include Chicago, New York, Los Angeles, Miami, Houston, Detroit, Cleveland, Philadelphia and San Francisco. The company has 85 employees dedicated to ocean freight services.

"Before that, we had people in virtual offices around the country," Gruettner said. "Customer satisfaction in our ocean services wasn't as high as it should have been."

The service centers have also put BAX in control of its ocean freight shipments. It used to be that the company would handle the booking and paperwork for these shipments, but farm out the loading of containers to other NVOs.



Source: BAX Global.

"We're starting from the ground level in a business that's extremely competitive. Compared to some other large NVOs, we're still a small fish in the international pond. But at least, I think we're heading in the right direction."

"We didn't even manage our own ocean carrier contracts," Gruettner said. "We now have over 25 service contracts with ocean carriers."

In certain trade lanes where it doesn't have enough cargo to fill its own containers, BAX still uses the services of neutral NVO CaroTrans International.

The changes made to its U.S. operations alone have significantly increased the company's ocean freight volumes and revenues.

During the first nine months of 2000, BAX's service centers' net profits have increased significantly, contributing to expected gross sales of its worldwide ocean services of $150 million by end of this year.

By the end of 2000, BAX's U.S. ocean freight volumes are projected to top 25,000 TEUs, compared to 10,000 TEUs in 1999.

"We're starting from the ground level in a business that's extremely competitive," Gruettner said. "Compared to some other large NVOs, we're still a small fish in the international pond. But at least, I think we're headed in the right direction."

BAX has also started to apply some of the principles of its U.S. operations throughout its worldwide network of 510 offices.

BAX recently appointed Steen Marcuslund as Gruettner's counterpart in the Asia-Pacific region. The company plans to develop a similar position to oversee the European market. These executives will work with BAX management in the local markets of these regions.

Marcuslund

"We're already working with our respective country directors to develop uniform processes, especially in the areas of carrier selection and marketing approaches," Gruettner said. ■

Pittston investors losing patience with BAX

IRVINE, Calif.

The Pittston Co. may have to sell BAX Global whether it wants to or not.

Rumors have been circulating all year that Pittston, BAX's Richmond, Va.-based parent, has been looking to unload the integrated air freight company. Pittston, which also owns the Brinks security companies as well as some mining interests, has been trying to sell its coal mining assets since the start of the year. Analysts have expected a BAX sale, as well.

But Pittston executives have vowed to turn around the struggling air freight unit to raise its market value first. They won't get that chance if business doesn't improve soon.

Investors have grown increasingly impatient with poor results. Their unhappiness with management was palpable during Pittston's third-quarter conference call in November. Pittston reported net income of $7.8 million for the quarter compared to $24 million for the year-earlier quarter.

Pittston blamed the disappointing results mainly on a $12.7-million operating loss at BAX, which has been struggling with shrinking domestic air freight demand and rising operating costs associated with the company's U.S. freighter network. BAX, like its main competitor Emery Worldwide, flies planes in the United States, but acts mainly as a third-party forwarder overseas.

Several investors and analysts sharply questioned the resolve of Pittston management to explore strategic or structural alternatives in spite of BAX's continued malaise. Michael T. Dan, Pittston chairman and chief executive, expected to see measured improvement in the third quarter. Instead, BAX seemed to sink further into a hole.

The operating loss year-to-date at BAX grew to $29 million, compared to a $31.4 million profit at the same time last year. Sales actually shrank 2 percent to $521 million. Though international revenue increased 2 percent to $228.9 million, Americas revenue fell 4 percent to $306 million. U.S. domestic volume declined 10 percent during the quarter.

Dan blamed a slowing U.S. economy as one reason for weaker air freight demand. He also warned that even slower economic growth could hurt BAX's recovery next year. Dan has informed BAX management to take into account a lower potential for revenue and to adjust costs accordingly to hit a 3-percent operating margin.

Dan is confident in the new management team at BAX, which he said has identified up to $25 million in additional cost savings. But clearly Pittston's back is against the wall.

"What is in the best interest of shareholders is to fix this business and to hit a run rate of 3 percent by the end of the year," Dan said in response to a pointed question from one investor.

"We are focused on one thing: getting our costs aligned with revenue potential," he said. "If we have to take further steps to reduce costs, we are going to take further steps. Everyone in the organization is aware of that."

Pittston will consider shrinking BAX's freighter operations next year if profitability goals are not met in the first quarter. But shareholders didn't seem willing to accept an extended timeline.

Census issues new SED paper forms

SUITLAND, Md.

The U.S. Census Bureau has issued a new paper shipper's export declaration for exports valued over $2,500.

"We created the new form to delete unused or old data fields, and to make it consistent with the U.S. principal party in interest rules and the Automated Export System," said Charles A. Woods, assistant division chief of the Foreign Trade Division at Census.

The new form, Census Form 7525-V, includes new, specific data blocks, such as carrier codes, vehicle identification numbers and hazardous materials indicators. This information has always been required by the agency, but did not have special blocks to list it.

Since some exporters and freight forwarders may have large backlogs of the former SED forms, Census has given the industry until April 1 to switch over to the new form.

Exporters and forwarders may print the new form onto "buff" colored paper from Census' Internet Web site at www.census.gov/foreign-trade.

Meanwhile, Census is encouraging exporters and forwarders to file their export data through AES, or via the agency's free Internet link, AESDirect. ■

Off the beaten path

Orion Marine president Shauer prefers to move shipments to unusual locations that other NVOs won't touch.

By Chris Gillis

If the non-vessel-operating common carrier industry has an Indiana Jones, it would have to be Peter Shauer.

Shauer has spent much of his 30 years in the NVO business moving shipments to obscure reaches of the world, such as the remote islands of East Timor and the Maldives to rugged Western China and the Caucuses.

"If the freight is destined to mainline ports such as Rotterdam and Shanghai, then I don't want anything to do with it," Shauer said. "I want the challenging freight. The more difficult the better."

Shauer pulls out the *Times Atlas of the World.* He opens the heavy atlas, which he refers to as his bible, on his desk and points to some of the bazaar places of the world to which he's delivered freight. The walls and tables around his 11th-floor office in downtown Chicago are decorated with diverse artwork that add to the testimony of his adventures.

"I particularly like to deal with the small islands that you can only see with a magnifying glass," said the president of Orion Marine Corp. His magnifying glass sweeps across an island in the Atlantic.

"St. Helena. Who goes there?" Shauer said. "I once delivered shelters to a British garrison there. We placed them onto a troop transport in the United Kingdom destined to the island."

Over the years, Shauer has routinely accompanied shipments to these destinations. "Every shipment is unusual, because many of them are one-time deals," he said. "You're always pioneering with each one."

Coming To America. Shauer was born in Munich, Germany in 1941. His father, a prominent actor, and his mother escaped Nazi Germany and lived out the war in the United Kingdom.

He became involved in the shipping business shortly after high school in the late 1950s. At 19, he went to work for a ship broker in Hamburg.

With West Germany as part of the North Atlantic Treaty Organization, Shauer was required to serve in the military for two years. He didn't want to do that, so he slipped across the border to Denmark. There he faced the same pressures from the Danish government.

"In a matter of days, I got the cheapest ticket that I could on the *S.S. Bremen* on the North German Lloyd bound for America," Shauer said. But his troubles were far from over. When he arrived at Pier 42 in New York, U.S. immigration officials would not release him until he signed up for the draft.

Peter Shauer
president,
Orion Marine Corp.

"I want the challenging freight. The more difficult the better."

"I did it without thinking they would find me," Shauer. On a lead from a friend, he took a train from New York to Chicago and took a job with U.S. Navigation, an agent for Hapag Lloyd.

These were lean times in the life of Shauer. He earned $90 a week from U.S. Navigation. To supplement his income, he worked on the side offering skiing instruction in Wisconsin, busing tables at the Drake Hotel, laying tiles and playing Santa Claus during the Christmas holiday.

It wasn't long before the government located him. He got his employer to request a deferment. Shauer also took a leave of absence from the company to work as a ski instructor in Vale and Aspen, Colo. He also served drinks at the Red Line Inn and enrolled at the University of Denver.

But it was too late. The government found him in Vale and ordered him to report to Fort Knox, Ky. He became Private Shauer in the U.S. Army.

The Army almost sent him to a base in Bremerhaven, Germany, but changed his orders to Paris. "I spent the next three years in France in procurement and transportation," Shauer said. "I participated in decommissioning all the U.S. bases in France after Charles De Gaulle ordered the U.S. troops to leave."

Shauer was discharged from the Army in 1967 and returned to Chicago to start over again.

Early Containers. When he returned to U.S. Navigation, Shauer had found that the landscape of ocean shipping had started to change. Containers were beginning to replace breakbulk methods for loading cargo onto vessels.

He became involved in documentation and rates, and eventually container control for Hapag Lloyd. "In those days, shippers didn't know how to load containers," Shauer said. "Many shippers didn't want anything to do with them because the container concept was so alien to them."

In 1971, Shauer left Hapag Lloyd and struck out on his own as a steamship agent and broker, under the name Nauticus Shipping Corp. Within two weeks on his own, he landed his first big job. Ocean carrier Svenska Lloyd of Sweden asked him to manage the discharge and loading of the first full containership from Europe to Chicago via the Saint Lawrence Seaway.

The biggest part of the job was to find containerized cargo for the return voyage of the 240-TEU Hartford Express. "At first, I had no office, telephone, or credit — nothing," Shauer said. "I used an office of a friendly freight forwarder at the airport as my communication center."

Shauer, however, quickly located an office of his own in downtown Chicago for $50 a month. With a crate as a desk and a telephone, he arranged for stevedore, container lessor, chassis and credit from the port authority. Friends also helped at the office after hours and on weekends.

"Everyone in the Midwest forwarding industry was supportive," Shauer said. "We had 240 TEUs of export cargo ready for that vessel."

Svenska Lloyd was so impressed with the service that it decided to send another container vessel to Chicago. "This time it happened to be at the end of the Seaway shipping season, and when the captain got to Quebec City, he told me that he couldn't make the rest of the way due to the ice," Shauer said. "The voyage was terminated and the cargo was dumped in Quebec."

Shauer scrambled to move the containers via the Canadian National Railway to meet the carrier's ships on the East Coast.

Shipping to unusual locations creates unique problems. This shipment required switching railroad wheels at Iran/Turkmenistan border to conform with Russian rail gauge.

Shortly after, Svenska requested him to come to Gothenburg for a meeting with senior management. They were shocked that Nauticus Shipping was essentially a one-man operation. They offered to buy half of Shauer's company, but before he received the $5,000, Svenska was sold to Atlantic Container Line.

Becoming An NVO. Shauer had to find a new way to serve his growing client base. He created a deal with Finnlines to charter 100 TEUs of capacity on its fortnightly service from the U.S. East Coast to Northern Europe, but he needed an freight-all-kinds (FAK) rate from the carrier.

A business acquaintance in the U.S./Puerto Rico trade recommended that he become an NVO by filing a tariff with the U.S. Federal Maritime Commission. "At first, I didn't want any part of it," Shauer said. "The words 'non-vessel-operating' sounded so negative."

But he decided to go ahead with it. He went to Washington to meet with FMC officials. In a dingy hotel room, he manually typed his first tariff and the FMC approved it. "I took ads in the newspapers and sold my space," Shauer said. "Things had started to move."

Shauer classified himself as a full-container NVO, while most of his competition was focused on less-than-containerload cargo. This made him an even bigger threat to ocean carriers, who saw the NVOs encroaching in on their business.

"In 1975, I was on the dais of an industry conference with a handful of senior carrier officials. They asked me who I was. When I answered they quickly moved away and didn't talk to me," Shauer said. "Later on that night, three of the executives individually approached me for private meetings to see how we might work together."

Taste For Extremes. But Shauer would soon prove to be less of competition to mainline carriers when he started to get the taste for extremes.

In 1975, Shauer arranged a deal with the Baltic Shipping Co. The deal was not the traditional port-to-port scheme. Shauer had decided to create a landbridge service that stretched from Finland via the Soviet Union to Iran. He had to work with the Soviet railroad and SVT, the former Soviet forwarding company.

Shipping freight to the Iranian interior via the Persian Gulf was difficult at best. The containers were stripped at the piers and placed on trucks for delivery. That often resulted in cargo damage and pilferage.

The trick to making the landbridge service successful was the management of the containers. He set up an office in Iran to help oversee the process. "We were agents for a container leasing company in the United States," Shauer said. "We were responsible for making sure those containers continued to move through the carrier's network."

Shauer would position empty and full containers at the Soviet border with Iran and the railroad would transport them to Vostochny in the Russian Far East for further delivery to Asian markets. Major cargoes from Iran to the Far East included pistachios, carpets and pelts. The empty containers could also be used to load aluminum bauxite, tires and cotton in Soviet Central Asia.

During this time, Shauer's business grew to 12 U.S. offices and 150 employees. In 1978, the company's name was changed to Orion Marine Corp.

Then political relations between the United States and Iran soured with the downfall of the Shah of Iran. The problems exacted a big toll on Shauer's business.

"The business had made me rich. When the Iranian deal collapsed, I lost a lot," he said. "But I had to deal with the business realities and rebuild."

A New Niche. Shauer went back to one office in Chicago with about 10 staff as the center of his operation, and a small sales office in New York. His new niche focus would be on unusual cargoes to unusual destinations.

Some of the areas that Orion Marine has moved shipments to in recent years include the Southeastern Europe, the Caucasus, Central Africa, inner-China and Mongolia, Indochina, and the far northern reaches of the Indian subcontinent. He's recently explored business opportunities in the Amazon River Basin, the Mideast and North Korea.

Five years ago, Shauer's company participated in the U.S./Russian Nuclear Threat Reduction Program. It was no easy feat for Orion Marine. The company helped the U.S. Military Sealift Command over a two-year period to move pieces of equipment weighing 70 to 80 tons to the interior of Russia.

"They may have allowed the Americans to take part in the dismantling of nuclear facilities, but they didn't provide any logistics assistance, customs facilitation or even maps to reach as many as 66 sites around Russia," Shauer said. "Meanwhile, the U.S. government required total visibility of the shipments' movement."

Numerous forwarders and shippers rely on Orion Marine to move their unusual shipments.

"We use them a lot to Siberia and the Russian Far East," said Brian Scheele, president of Southern Cross Shipping Co., based in New Orleans, which specializes in handling disaster and famine relief shipments. "Orion can route cargo unusual ways to the final destination with proof of delivery."

Joe Travers, sales and marketing manager for Dan-Am Shipping and Chartering Inc., said his company has used the landside cargo management services of Orion Marine for its commercial and military shipments of explosives and other dangerous goods during the past five years.

This customer service approach doesn't

make Orion Marine a large NVO. The company moved about 1,500 TEUs and 60,000 metric tons of project cargo last year. Most of these shipments require proper export licenses from the U.S. Commerce Department's Bureau of Export Administration.

Also, not all of these shipments move without a snag or two in the process. A shipment was recently held up in Sao Tome because the container operator went into bankruptcy, while another container was stranded in China on route to Mongolia. "I have to find the answers to these problems," Shauer said. "It's my responsibility. I signed the through bill of lading."

Shauer doesn't profess to be cheap. "I'm 100-percent behind my product. I'll travel anywhere in the world to personally straighten out a problem. My bond is my word," he said. ■

NACA strengthens South Pacific roots

Container-sharing and other concepts developed in U.S. applied to market.

SYDNEY

The New American Consolidators Association Group has developed freight management strategy in the United States, which it is now ready to export to other overseas freight consolidation markets.

The group of Southern Calif.-based non-vessel-operating common carriers — Direct Container Line, Brennan International Transport, Conterm Consolidation Services and Universal Air Cargo — has become a major force in the U.S. consolidation business during the past three years.

Hackett

"One of the most important things that we've learned is that each company has its own strengths in the marketplace," said Robert Hackett, regional managing director of Asia-Pacific for NACA. "By bringing together the best talent in the NVO industry and applying an economy-of-scale operations model through centralized operations and container sharing, we're enabling each company to focus on sales and the services they provide to their customers."

While all three NVOs are under the same corporate umbrella, they must still "compete day-by-day, booking-by-booking for the business," Hackett said. "For the customers, this provides them with more options on choosing an NVO that best suits their needs."

This strategy has shaved as much as 30 percent off NACA's per-container handling and other related overhead costs, which it said translates into lower costs and better service for its forwarder and direct shipper customers.

"We've done this very successfully in the U.S. market and it's quite an achievement considering the stir we created back in 1998," Hackett said. "In Australia, we realize that the same thing is true."

South Pacific Connection. Prior to NACA, each of the NVOs in the group had services to the Australian market, either through its own operation or agents. Traditional, less-efficient methods of loading individual containers were used.

Last year in the United States, NACA created a shared-container loading and deconsolidating program under subsidiary Vanguard Logistics Services. This also allowed the NVOs to close up multiple warehouses in the same cities.

Vanguard management has gradually expanded to other NACA markets, such as Asia, Europe and South America, with the biggest push recently into Australia and New Zealand.

In addition, NACA members continue to expand their individual businesses into the Australia/New Zealand trade.

Brennan recently re-established an agency agreement with AFS of Australia. The two companies broke off their original agency agreement when Brennan joined NACA in 1998.

AFS, based in Sydney, is one of the largest NVOs in the region, moving more than 30,000 containers each year from its offices in Australia and New Zealand.

As part of the new agreement, AFS has been selected to be Brennan's agent in Australia, while Brennan has become AFS' representative in the United States with AFS's staff in the U.S. market working within the Brennan organization.

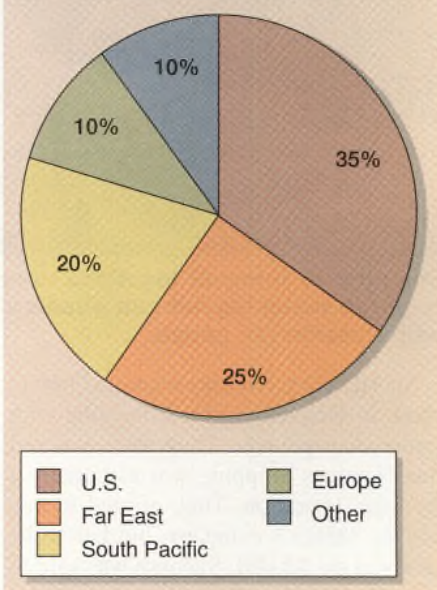
AFS now offers seven weekly direct services to Sydney and Melbourne, and one weekly direct service to Brisbane, Adelaide and Fremantle, from U.S. cities Atlanta, Chicago, Los Angeles and New York.

"We are enthused by this development and the opportunities that it provides AFS to extend coverage in the United States and to better service import freight to Australia," said Steve Rieson, AFS' chief operating officer.

AFS will also expand its exports from Australia to South America and Mexico, via Los Angeles and Miami, and will participate in the services of Vanguard, as a result of its partnership with Brennan.

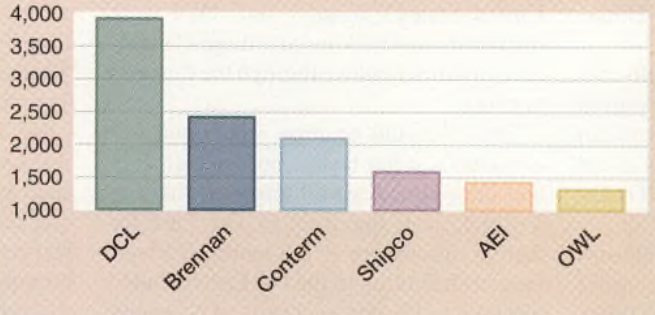
DCL has recently expanded

NACA trade to/from South Pacific



Source: NACA

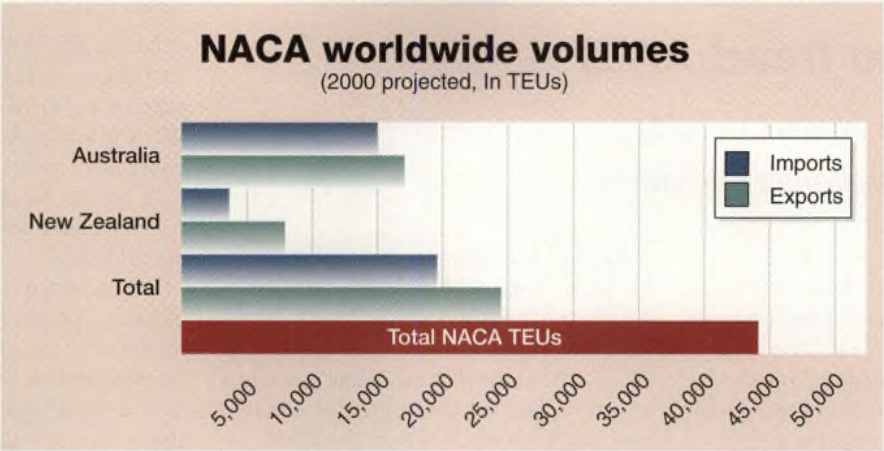
Leading NVOs to Australia/ New Zealand
(1999 U.S. exports, in TEUs)



Source: PIERS

its export services program from Brisbane, Melbourne, and Sydney. On Oct. 16, the company began loading scheduled groupage containers from these cities to 23 countries worldwide.

The new service offerings for less-than-containerload (LCL) and full-containerload (FCL) service include the United States, Japan, China, Singapore, Korea, Malaysia, Thailand, United Kingdom, Netherlands, Germany and all main destinations in the South Pacific. With transshipment services available in key ports, DCL is able to serve nearly all the world from Australia.



Source: NACA

DCL, which is ranked as the largest neutral NVO in the United States-to-Australia trade, has offered some export services to the Australian market since 1978. The new services are part of the NVO's biggest push in the market to date.

"The export market from Australia is growing and this is a natural extension of DCL's plans to operate a global network," said Zeljko Blazic, DCL's regional manager. "For most of these new services, it's DCL-to-DCL service. We're one of the few neutral companies with company-owned offices worldwide, which contributes to overall service continuity."

Similarly, Conterm is expected to offer a range of destinations worldwide for freight from the Australian market.

In November, Vanguard expanded its operations to New Zealand, with offices in Auckland and Wellington.

In New Zealand, Vanguard will handle cargo on behalf of AFS and DCL, and all of their overseas offices and agency partners. Under a corporate agreement with Tapper Transport Ltd., Vanguard will also provide full documentation services for AFS and DCL in New Zealand, such as issuing bills of lading, invoicing for export services, delivering arrival notices, and handling delivery of orders for import services.

"We've spoken to our customers in freight forwarding and they support the service 100 percent," Hackett said. "They just want the service to be consistent in quality."

Sales staff and customer service for AFS and DCL will relocate to a new location next to Vanguard to ensure efficient communication on operations issues.

Chris Eastwood has been appointed country manager for Vanguard in New Zealand. "We want to make it clear that Vanguard New Zealand is an operations and handling agent and that all transactions conducted with us are entirely confidential," Eastwood said. "Our role is to provide operations support to enable our customers — AFS and DCL — to focus on sales and services for their customers. I think our customers realize that at the end of the day, we can provide better service, and better accountability of service, with AFS and DCL staff on site."

Competitive Trade. While the ocean freight business has remained steady from Australia/New Zealand, the shrinking dollar values of both countries continue to put a squeeze on NVO profits in the trade.

Competition is also fierce in the U.S./Australia/New Zealand trade. "There's always room for other players," Hackett said. "I don't think it's our strategy to dominate. Competition is healthy."

In addition to the NACA companies, some of the biggest players for U.S. exports to the region are Shipco Transport, AEI, and Ocean World Lines, while large volumes of exports from Australia/New Zealand are handled by NVOs such as AGS and ISS.

"In the future, the successful players will be the low-cost operators, and this requires further rationalization of duplicated costs, with EDI (electronic data interchange) and other e-commerce cost-saving tools," Hackett said. "As a result, Australia and New Zealand-based NVOCCs have continued to become very efficient. They also continue to develop a good pool of mid-management." ■

NACA companies South Pacific timeline 2000

July 1
- Vanguard Logistics Services opens in Brisbane, Melbourne, and Sydney as neutral operations and handling agent for Brennan, Conterm, and DCL.

July 5
- NACA acquires Universal Air Cargo (UAC) Group, a neutral air freight company with offices and agents in Australia, New Zealand, North America, Asia, Europe, and Africa.

July 17
- NACA announces alliance with Australian Freight Services (AFS) to consolidate AFS operations in the USA.

August 16
- UAC announces plan to expand US export air freight services and market to existing customers of Brennan, Conterm, and DCL.

Oct. 4
- AFS is nominated as Brennan International Transport's representative in Australia and begins marketing Brennan's full range of LCL/FCL services available from USA to Australia/New Zealand.

Oct. 9
- AFS Australia announces strategic partnership with Brennan's agent in Japan in preparation for new export services from Australia to Japan.

Oct. 16
- DCL and Conterm in Australia launch new export services to 23 countries, including US, Japan, China, Singapore, Korea, Malaysia, Thailand, UK, Netherlands, Germany, and South Pacific.
- AFS signs agency agreement with Freight Links in Singapore
- UAC builds 10,000-square-foot warehouse for air freight services in Auckland
- AFS New Zealand announces entry into air freight market

November - January 2001
- Vanguard Logistics Services (NZ) Ltd. to open in Auckland and Wellington.
- DCL to expand export service offerings from New Zealand.
- UAC to add new sea freight services from Australia to Asia, Europe, and U.S.
- DCL & Conterm to add new import services from 20 countries in Asia/Europe to Australia.
- DCL to add new services from over 20 countries to New Zealand (Asia/Europe).

Simpson to head AAEI

Industry group's chairman makes good promise to change operation.

WASHINGTON

John P. Simpson has been appointed president of the American Association of Exporters and Importers, effective Dec. 4.

Simpson replaces Eugene J. Milosh who retired from the 79-year-old industry group on Oct. 1 after 20 years of service.

Prior to his appointment at AAEI, Simpson spent 35 years in the U.S. government working in various director roles in the Agriculture and Treasury departments. He most recently was deputy assistant secretary of Regulatory, Tariff and Trade Enforcement at Treasury.

He has experience in working with international organizations, such as the World Trade Organization and the World Customs Organization, on customs and trade issues. Recently, he was engaged in G-7 negotiations aimed at creating standard electronic messages to satisfy export/import reporting requirements for G-7 trade.

Simpson was also appointed by Vice President Gore as chairman of the an interagency board of directors to design fully electronic system for collecting data for more than 40 government agencies with an interest in international trade data.

"John is highly capable and extremely bright. He's very well grounded in our industry," Michael D. Laden, director of import administration and customs compliance at Target Corp., and chairman of AAEI.

John P. Simpson
president, American Association of Exporters and Importers

"I like AAEI's basic mission, which is to remove restrictions on exports and imports. We need to simplify the process of moving goods across international borders."

Richard J. Salamone, customs manager for BASF Corp., and chairman emeritus of AAEI, said the group's three-month search for a new president was rigorous. Among the qualifications each candidate was asked to give a detailed description of how the association should be run in the future.

"I like AAEI's basic mission, which is to remove restrictions on exports and imports," Simpson said. "We need to simplify the process of moving goods across international borders."

More importantly, Simpson's appointment is a major windfall for the 500-member association. Simpson is known throughout the industry for his thoughtful reviews of industry issues. He has delivered numerous speeches to AAEI and other industry groups over the years.

Laden said AAEI will have many new announcements to make during the coming year. One of those is expected to be a robust Web site to keep AAEI's members informed on industry issues.

"I set out to make positive charges at AAEI," Laden said. "I'm making good on my promise."

It's uncertain if the group, like so many others, will move from New York to Washington to be closer to activities in the government and on Capitol Hill.

"I believe that many of the members share my view that AAEI needs a more prominent presence in Washington," Simpson said.

Simpson said he also plans to spend some time getting to know the prominent members in the major industrial areas of the country.

"I want active members in every congressional district," Simpson said. "There's a mindset that if we ignore issues that they'll go away. I want to stir the pot and keep the members active." ■

NVOs to review AES concept paper

WASHINGTON

U.S. Customs has released a proposal that outlines how the non-vessel-operating common carriers may use the agency's Automated Export System to file their export transportation data.

The paper — *Proposed Enhancements to the Vessel Transportation Module to Include Non-Vessel-Operating Common Carrier Transportation Data* — was the result of a year's worth of work between the agency and small focus group of NVOs.

The group that generated the concept paper comprised representatives neutral, freight forwarder-affiliated, trucker and niche NVOs and representatives from Customs and the Census Bureau.

Under the proposal, NVOs will electronically transmit booking and manifest information to AES. Electronic transmission of the data to AES ensures confidentiality of the NVO's proprietary data and promotes consistency in reporting, Customs said.

The agency said it would help NVOs to achieve a higher level of compliance that may result in reduced liquidated damages/penalties. Additional benefits to the NVOs are reduced costs for staff hours spent in preparing the manifests, delivering export documents to carriers and Customs and storing paper documents.

Customs would like to receive comments about the proposal from the NVO industry by Nov. 30. The complete proposal is available on Customs' Web site at www.customs.gov under heading "What's New." ■

Census addresses forwarder as USPPI issue

SUITLAND, Md.

While the U.S. Census Bureau doesn't permit freight forwarders to be listed as exporters on shipper's export declarations, the agency has cited a special case where the rules may not necessarily apply.

The forwarder may be listed in Block 1A of the SED, known as the "U.S. Principal Party in Interest," for goods in transit through the United States. These goods are formally entered into Customs' Automated Broker Interface for the forwarder's convenience and later shipped to another country. The forwarder needs the overseas shipper's power of attorney to use its name as the USPPI.

Charles A. Woods, assistant division chief of Census' Foreign Trade Division, will soon issue a Foreign Trade Statistics Regulation letter to the industry to clarify this special case.

In addition, the agency will release another Foreign Trade Statistics Regulation letter emphasizing the requirement for shippers to file SEDs for shipments moving between the U.S. mainland and Puerto Rico. This is required under the auspices of a U.S./Puerto Rico government contract to capture trade statistics for these shipments. ■

Transport / Ocean

By Philip Damas, pdamas@shippers.com

E-boom for shipping

It was slow to happen, but e-commerce is now taking off in ocean shipping.

Many ocean carriers have announced a series of new e-commerce systems, services and capabilities in the last few weeks or months.

OOCL launched its CargoSmart cargo management system in September. Maersk Sealand, P&O Nedlloyd, Mediterranean Shipping Co., CMA CGM and Hamburg-Sud have just unveiled an agreement to build INTTRA, a common Internet platform. Australia-New Zealand Direct Line started live online bookings in March and many carriers have introduced a facility to print bills of lading through the Internet.

APL and OOCL, which are among the most advanced carriers in e-commerce, have published figures showing explosive growth in Internet transactions.

In April APL recorded its one millionth transaction on its Web site (since their start in 1996). Half of the Internet transactions of APL's customers are tracking requests; the other most common online transactions are schedule requests and bills of lading transactions.

In April and May, OOCL in North America generated more than one-third of its business through e-commerce transactions via its Internet Web site. On a global basis, the company achieved nearly 10 percent of all revenues on business conducted through its Web site. The company targets to conduct 20 percent or more of its business as e-commerce, globally, by the end of the year. The number of e-commerce transactions has more than doubled, when compared with the end of last year, OOCL reported.

Shippers in the United Kingdom, Germany, Australia, Japan, Malaysia and Hong Kong lag far behind those based in North America and Singapore in terms of e-commerce use, in OOCL's experience.

ANZDL, another innovator in customer service and Internet technologies, predicted that 15 percent of its business would be conducted online by the end of the year, compared to 8 percent in October. About 20 percent of ANZDL's bills of lading are now printed via the Internet and more than half of its customers registered to use its e-commerce site.

Fixing rates

Many shippers prefer all-in rates fixed for one year, but it seems that the period of validity of freight rates is now shortening in container shipping.

The Trans-Atlantic Conference Agreement carriers and the Canada/northern Europe conferences have adopted a system of increasing rates every six months. This replaces the former TACA practice of annual rate increases at the beginning of January, which required frantic negotiations between carriers and shippers near Christmas time.

Meanwhile, the shipping lines of the Far Eastern Freight Conference's Asia Westbound Rate Agreement have had fewer, rather than more frequent, periodic rate changes lately. Since this year, the group of Asia/Europe carriers has had two rate increases. Previously, there were rate increase announcements every three months, but the conference recognized that these were too frequent.

Outside the U.S. trades, where there are no service contracts, rates tend to be renegotiated more frequently.

The one major trade where shipper's goal of fixed all-in rates is generally met is the transpacific trade.

If overcapacity returns to liner shipping, watch for a return of shipper pressure on carriers to offer fixed yearly rates on many other trade routes.

How a shipper and a carrier "fit"

Courtenay Allan, transatlantic trade director at Orient Overseas Container Line, said that the advent of the U.S. Ocean Shipping Reform Act last year "heralded the introduction of confidential contracting, where the market dynamics of supply and demand would truly come into play."

"We now see the result of that legislation, whereby carriers are literally choosing the cargo which they wish to carry based on the attraction of revenue level and equipment matchback synergies," Allan added.

Courtenay Allan
transatlantic trade director, OOCL

"Carriers are literally choosing the cargo which they wish to carry based on the attraction of revenue level and equipment matchback synergies."

It is known that many carriers have introduced detailed profit contribution analysis tools that enable them to judge quickly how profitable their customers' individual shipments are to them.

For ocean carriers, this numbers-driven way of doing business and micromanaging customer relationships can help both carriers and shippers identify whether there is a good "fit" between their cargo and equipment flows.

For shippers, though, this may mean that you will be turned down with a comment like "sorry, your cargo goes to the wrong place, we cannot make a profit on you."

This is business. But let's hope that this approach does not lead to short-term changes in decisions and relationships.

More big ships for Maersk Sealand?

Maersk Sealand, one of the early operators of giant containerships of more than 6,000 TEU in capacity, has completed the retonnaging of one of its main services.

With the phasing in mid-November of the 6,600-TEU *Carsten Maersk,* the 14th in a series of "S-class" containerships, which Maersk Sealand runs in its north Europe/Asia/U.S. West Coast/Asia/north Europe AE5/TP6 "pendulum" service.

This service employs the largest vessels in Maersk Sealand's fleet and, indeed, in the worldwide fleet of containerships.

Maersk Sealand has just one more S-class vessel on order. It also operates six smaller 6,000-TEU "K-class" ships, deployed mainly in its AE1 service between Asia and northern Europe.

The question is: Will Maersk Sealand now pause, after several years of rapid fleet expansion? Or will the Danish carrier, now the world's largest, jump to a new generation of even bigger ships?

Niche lines battle in Atlantic

Carriers offer resistance to concentration in the liner industry.

BY SIMON HEANEY

The transatlantic trade is often thought of as something of a graveyard for small ocean carriers.

Does anyone remember BOLT Canada Line, Polish Ocean Lines or Rostock Atlantik Linie?

The recent joining of forces in the transatlantic between Maersk Sealand and the New World Alliance, and concurrently, the Grand Alliance and Americana Ships, highlights the increasing concentration among transport providers. But despite the presence of the global players, there are still a few carriers prepared to operate in this highly competitive market. Can the niche carriers prevent the big fish from swallowing them whole?

"Niche carriers need to be able to differentiate themselves — offer something that mainstream carriers can't," said Neil Johnson, global logistics manager of the Freight Transport Association in the United Kingdom.

One area of specialization is the type of cargo the niche carriers are able to accommodate, such as using vessels that are not restricted to containers. Atlantic Container Line operate five roll-on/roll-off container ships on its ConRo/A service.

By focusing on certain service areas, niche carriers can avoid direct competition from the global carriers. But specialized markets demand a specialized form of customer care. "Shippers certainly expect niche carriers to be a little more responsive (compared to global carriers) to their demands," said Kathy Luhn, vice president of public affairs for the National Industrial Transportation League. "The niche carriers are in business to cater for these special needs."

The growing trend in the liner industry is for big ships to call at fewer ports. Certain ports in North America and Europe, such as Boston, Mass.; Chester, Pa.; Liverpool; and Gothenburg are served by few direct services, most of which are from niche carriers (See tables). The direct services are not necessarily faster. For niche carriers the direct call gives them the marketing edge.

"We use niche carriers when they call at the ports we want to ship directly to," said Mike Camps, international transportation procurement manager at Du Pont. "It boils down to the transit times. Every time the box is handled there is potential for delay."

These smaller ports offer some distinct advantages to shippers and carriers alike. "Some overlooked ports wouldn't be so congested, allowing cargo to be moved in and out at a faster rate. Shippers may choose these ports because of their specialized cargo handling needs. Also, these ports often charge lower fees," Luhn said.

Independent Container Line is the only liner carrier serving the transatlantic market to offer weekly direct calls to the ports of Chester and Richmond. Both ports are operated by dockworkers not affiliated to the International Longshoremen's Asso-

Liner services to/from North America/Europe niche ports

North America ports

	Carrier	Service Frequency
St. John's, Newfoundland	Samskip - Iceland-USA/Canada	21 days
Argentia, Newfoundland	Eimskip - North America Route	Fortnightly
Shelburne, Nova Scotia	Eimskip - North America Route	Fortnightly
Boston, Mass.	Eimskip - North America Route	Fortnightly
	Med Shipping/Atlantic ContainerLine/Hyundai - North Atlantic	Weekly
Chester, Pa.	Independent Container Line	Weekly
Richmond, Va.	Independent Container Line	Weekly
Portsmouth, Va.	Atlantic Container Line/Med Shipping/ Hapag Lloyd/Wallenius Wilhelmsen - ConRo	Weekly
Mobile, Ala.	Star Shipping/Atlanticargo	10 days

North Europe ports

	Carrier	Service Frequency
Reykjavik, Iceland	Eimskip - North America Route	Fortnightly
	Samskip - Iceland-USA/Canada	21 days
Gothenburg, Sweden	Atlantic Container Line/Med Shipping/ Hapag Lloyd/Wallenius Wilhelmsen - ConRo	Weekly
Liverpool, U.K.	Atlantic Container Line/Med Shipping/ Hapag Lloyd/Wallenius Wilhelmsen - ConRo	Weekly
	Canada Maritime/OOCL/Cast - Route 3	Weekly
	Independent Container Line	Weekly
Tilbury, U.K.	CMA CGM/Contship/Marfret - Round The World*	11 days
	Star Shipping/Atlanticargo	10 days
Dunkirk, France	CMA CGM/Contship/Marfret - Round The World*	11 days

* Westbound only.

Source: ComPairData global liner shipping database (www.compairdata.com).

ciation, and so the potential for delay caused by strike is removed.

Boston was left with only two direct liner services covering the transatlantic trade after the Vessel Sharing Agreement on the North Atlantic ended in July. The port is trying hard to prove that size isn't everything. As part of its port optimization project, all container operations have been consolidated at Conley Terminal in South Boston, where Massport invested $50 million in four post-Panamax cranes, deeper berths and a 10-lane gate facility. Moran Terminal was transformed into Boston Autoport, a facility capable of offloading 400 cars per hour and more than 100,000 cars annually.

When a global carrier decides to drop a direct port call from one of its services, it is indirectly asking a shipper to change his habits. Which is no easy task as Luhn points out: "Locality has a lot to do with a shippers' choice of carrier. If you happen to be located near one of the bypassed ports or if you have a long-term rail link there, the shipper will choose the carrier who goes there."

Absorption. The world's top 20 carriers are getting bigger by the year, largely through the acquisition of smaller carriers. The appeal of the niche carriers to the global players is the variety of service they can add to the brand. In September, P&O Nedlloyd bought New York-based Farrell Lines. Previously, Farrell operated an eight-day sailing from the U.S. East Coast to Mediterranean ports. A key cargo segment for Farrell is U.S military and preference cargoes, which require U.S.-flag ships.

There are doubts as to the long-term dedication of the global carriers to niche markets. "With the level of concentration taking place in the industry the fear is that the different types of service offered by the niche carriers will disappear," said Johnson.

Owned by Star Shipping, Atlanticargo's business traditions can be traced back to the early part of the century. "There will always be room for the niche carriers in the transatlantic trade," said Capt. Charles Hansen, chief operating officer of Atlanticargo.

"With 32 years of experience in the market I have seen a lot of changes. There are only a few of us niche carriers left in the Atlantic. We have seen some new carriers entering the market but they have all failed. Our success is based on our longevity. Everybody knows Atlanticargo. Many of our local agents have been there for over 30 years. We try to be very good at what we do. Atlanticargo is not for sale."

Whereas P&O Nedlloyd have retained the Farrell name, other niche carriers completely vanish once they are bought out. Americana Ships has renamed the services of Christensen Canadian African Line, the North America/Africa niche operator it acquired in August. The service is now marketed under Lykes Lines, another unit of CP Ships-owned Americana Ships.

Worldwide, other small liner operations that have recently disappeared as a result of acquisition and absorption include Harrison Line, acquired by P&O Nedlloyd, and effective in December, Safmarine is dropping the CMBT moniker.

The Future. There is money to be made for the efficiently run small carrier. Atlantic Container Line has just reported a 300-percent increase in net profit for the first three quarters of the year, to 140 million Swedish Krona ($15 million).

But the specter of the global carriers is never far away. CMA CGM recently bought 10 percent of the share capital of ACL. ACL has prepared for the future by expanding its number of transatlantic service loops,

Making connections with niche ports

(Examples of direct and selected relay transit times from two U.S. and North Europe ports)

Ports	Carrier and service	Transshipment ports or relay points	Transit time in days
Boston to Antwerp	Med Shipping/Atlantic Container Line/Hyundai - North Atlantic	Direct	14
	Evergreen	New York	8
	NYK	New York	9
	Canada Maritime	Montreal	10
	Maersk Sealand	n/a	10
	Hanjin	New York & Rotterdam	22
	Zim	Halifax & Barcelona	24
Antwerp to Boston	Med Shipping/Atlantic Container Line/Hyundai - North Atlantic	Direct	13
	Evergreen	Zeebrugge	12
	NYK	New York	14
	Canada Maritime	n/a	n/a
	Maersk Sealand	n/a	11
	Hanjin	n/a	n/a
	Zim	Barcelona & New York	60
Gothenburg to New York	Atlantic Container Line/Med Shipping/Hapag Lloyd/ Wallenius Wilhelmsen - ConRo	Direct	15
	APL	Rotterdam	11
	Hanjin	Rotterdam	14
	Hyundai	Bremerhaven	14
	Evergreen	Hamburg	15
	Maersk Sealand	n/a	16
New York to Gothenburg	Atlantic Container Line/Med Shipping/Hapag Lloyd/ Wallenius Wilhelmsen - ConRo	Direct	15
	APL	Bremerhaven	13
	Hanjin	n/a	n/a
	Hyundai	n/a	n/a
	Evergreen	n/a	n/a
	Maersk Sealand	n/a	13

Source: ComPairData global liner shipping database (www.compairdata.com) and carriers' Internet sites.

taking space on the U.S. North Atlantic and South Atlantic services of the Grand Alliance

The continued presence of niche carriers goes some way to preventing complete hegemony in the liner industry. According to Du Pont, niche carriers have a vital role to play in maintaining competition in the liner industry. It is generally accepted that many direct calls to smaller ports simply would not be available to shippers without niche services. Also, it should not be forgotten that the local economies surrounding these neglected ports benefit from their direct calls.

With mounting pressure from the alliances and mega-carriers, it remains to be seen if niche carriers can survive independently, but those that are still standing seem ready for the fight. ■

Carriers take higher ground

World Shipping Council seeks to reverse losses from Washington infighting.

NEW YORK

The World Shipping Council, a new collation of 31 ocean carriers based in Washington, D.C., will not take on certain causes that have split the shipping industry, notably cabotage and the Jones Act.

The council will steer clear of such divisive issues because "the maritime industry is often better known by government policy makers for its intramural quarrels than for coming together," Christopher L. Koch, president and chief executive officer of the Council, told members of the Maritime Association of the Port of New York and New Jersey at a recent luncheon.

"We fight with each other — carriers, shippers, ports, labor, terminal operators, transportation intermediaries," he said. And because "we fight among ourselves, government policy rarely changes."

"In Washington, we all know that the odds are pretty good that each sector of the industry has at least a fairly decent chance of obstructing the other sectors' agenda if it wants to," Koch said.

There have been exceptions, as when the Ocean Shipping Reform Act passed, and when the regulatory structure of international liner shipping was stabilized.

"We can certainly continue business as usual," he said. "Many people, including a fair number of lobbyists in Washington, make a good living from it. But there are limits to the satisfaction one gets from being in that rat race where the objective is to try to keep the other guy from getting ahead.

"The trouble with being in a rat race is that, even if you win, you're still a rat," he said.

The World Shipping Council, in seeking higher ground, will focus on such issues as port security, harbor dredging, preserving OSRA, and developing "a cargo liability regime that is internationally consistent, uniform and viable."

Questioned specifically about the Council's response if Sen. Kay Bailey Hutchison, R-Tex. introduces a bill next spring that would reform the United States' creaking Carriage of Goods By Sea Act (COGSA), Koch said that "we will certainly have a role in discussing such a proposal."

Christopher L. Koch
president & chief executive officer, World Shipping Council

He pointedly refrained from saying whether or not the World Shipping Council would endorse the current COGSA revision proposed by the U.S. Maritime Law Association.

Concerns about port security should be addressed "in a way that does not impede the flow of commerce nor disrupt a system already congested in many places," Koch said.

"A *USS Cole*-type of terrorist incident in an American port city is certainly not inconceivable," he said.

Koch said that some of the council's 31 carrier members can "trace their roots to the era of sail-powered clipper ships," while others have just begun service to the United States.

In looking at his members' business, "too many people do not recognize the high fixed-cost nature of liner shipping operations," he said, "where fixed costs exceed 75 percent of total costs."

Not only do carriers have to focus on "earning an acceptable return on their existing investment — which they haven't — they also have to plan for the investment necessary for future growth," he explained.

Recent trade projections predict a doubling of containerized shipping volume in the next decade. To handle that, such surveys say that carriers will have to invest $34 billion of new capital in operating assets.

Koch, a former Sea-Land executive and chairman of the Federal Maritime Commission, pointed out that a recent analysis found that container carriers lost $3.4 billion on major international trade lanes in 1998. "All in" ocean revenue, including accessorials and surcharges per load, dropped 29 percent from 1995 to 1998.

"While things improved for some in the industry last year," he said, heightened carrier profitability is essential if the private sector is to ante up the $34 billion needed just to go on doing business by 2010.

"I am bemused at times by those who criticize the existing regulatory system" for international liner shipping "as being uncompetitive or anticompetitive," Koch said.

"The truth is that the liner industry is so competitive that the publicly traded U.S. liner companies sold their interests in the business, because the intensity of that competition resulted in their not being able to earn even the cost of capital for their shareholders."

Koch noted that several wholly American-owned companies continue to provide liner services. He named Crowley, Waterman, Central Gulf and Tropical, adding that "they are companies that are rich with family commitment to the business and are not publicly traded."

"But, to those who say that the existing regulatory system isn't competitive, I ask you to step around the bodies still warm on the competitive battleground."

Will one more lobbying voice in Washington, albeit a less strident one, make a difference amid the cacophony of special interests that seldom sing from the same page? "Changing that dynamic won't be easy, " Koch said.

"While we expect everyone to look after their own self-interest, we hope that dialogue and cooperation can bear fruit."

"It won't happen overnight," he said. "The Bible says that the lion and the lamb can lie down together. It's just that the lamb won't get much sleep." ■

Transpacific linkup

China Shipping Container Lines starts two bilateral cooperation agreements with CMA CGM and Zim.

SHANGHAI

Three transpacific carriers operating outside the big global alliances are expanding their services through a series of bilateral space-sharing agreements.

In October, expansion-minded China Shipping Container Lines started taking space on the transpacific leg of CMA CGM's MEX/TPX service. The weekly pendulum service has a U.S. West Coast/Asia/Mediterranean/Asia/U.S. West Coast rotation.

In return, CMA CGM took space on the Asia America South weekly transpacific service operated by China Shipping, which includes direct port calls at Xiamen, China.

For China Shipping, the arrangement is the latest in a series of slot-exchange and vessel-sharing agreements.

Also in October, China Shipping and Zim Israel Navigation began a separate slot-exchange agreement which also covers the Asia/U.S. West Coast trade. The agreement allows both carriers to offer four joint weekly strings between the Far East and the U.S. and Canadian west coasts. The agreement combines Zim's ZPS and ZCS services with China Shipping's AAC and AAS loops.

The ZPS service has a revised rotation of Shekou, Hong Kong, Shanghai, Pusan, Vancouver, Seattle and Kwangyang.

China Shipping/CMA CGM and China Shipping/Zim now control a large number of transpacific West Coast and East Coast services (see chart).

Steve Taylor, vice president of marketing and sales at China Shipping North America (Agencies) Inc., said China Shipping takes 150 TEUs a week on CMA CGM's MEX/TPX service and has increased its number of slots on Zim's services from 250 to 500 TEUs a week.

Both agreements became effective in late October.

New Alliance? Asked whether the services between China Shipping and its partners are mere slot-charter agreements or part of a new global alliance, Taylor replied, "they're slot charters."

The agreements follow the implementation in April of a vessel-sharing agreement between China Shipping, CMA CGM and P&O Nedlloyd on the Asia/Panama/U.S. East Coast route.

Taylor said that he could not rule out that the China Shipping/CMA CGM and China Shipping/Zim agreements could be combined into a three-carrier agreement.

"Who knows?" he said. "Right now, it is what it is."

Saade

CMA CGM is not involved in the slot-charter agreement between China Shipping and Zim, said Rodolphe Saade, vice president in charge of the east/west trades at CMA CGM. Asked whether the three carriers would combine their services, Saade said that this was not envisaged "for the time being."

The recent slot-charter agreements between China Shipping and its two transpacific partners have enabled the Chinese carrier to increase its number of transpacific West Coast services from three to five a week.

They also meant that CMA CGM increased its transpacific West Coast services from two to three a week and Zim from three to four a week.

No capacity was added to the trade under those agreements.

But China Shipping and Zim are revising two of their four joint services. The ZPS/Asia America North service, operated with Zim ships, will now utilize five ships of 1,662 to 1,900-TEU capacity, instead of six, while keeping its weekly frequency. Calls at Long Beach and Oakland are being dropped, but the service will add a direct call at Seattle.

A spokesman for Zim said that former calls at U.S. Pacific Southwest ports under the ZPS service will now be covered by the AAC and AAS strings.

The Asia America Central service, operated with China Shipping vessels, is also dropping a sixth ship, leaving five vessels with an average capacity of 1,770 TEUs. Calls at Seattle, Kobe, Lianyungang, and Yokohama are gradually being dropped from the rotation, which will be Los Ange-

Joint transpacific services of China Shipping and partners

China Shipping services	CMA CGM services	Zim services	Port rotation
Asia America Central (AAC)	Not involved	AAC	Los Angeles, Oakland, Qingdao, Ningbo, Shanghai, Kwangyang, Busan, Hakata, Los Angeles, Oakland
Asia America South (AAS)	AAS	AAS	Los Angeles, Vancouver, Xiamen, Yantian, Hong Kong, Busan, Los Angeles, Vancouver
MEX/TPX	MEX/TPX	Not involved	Los Angeles, Oakland, Busan, Keelung, Hong Kong, Chiwan, Jakarta, Singapore, Port Kelang, (European ports), Port Kelang, Singapore, Yantian, Hong Kong, Kaohsiung, Los Angeles, Oakland
Asia America North/ZPS	Not involved	ZPS	Vancouver, Seattle, Kwangyang Shekou, Hong Kong, Shanghai, Busan, Vancouver, Seattle
ZCS	Not involved	ZCS	Long Beach, Shekou, Hong Kong, Keelung, Busan, Osaka, Yokohama, Long Beach*
Asia America East/PEX	PEX	Not involved	New York, Norfolk, Savannah, Busan, Qingdao, Shanghai, Yantian, Hong Kong, New York, Norfolk, Savannah

* Zim also calls at the East Coast ports of Savannah, New York and Halifax on this service.

Notes: Norasia takes space on the Asia America South and MEX/TPX services; P&O Nedlloyd is also part of the Asia America East/PEX vessel-sharing agreement with China Shipping and CMA CGM; CMA CGM also takes space on the TP2 (eastbound) and TP5 (westbound) services operated by Maersk Sealand.

Sources: Global liner shipping database www.compairdata.com and carriers.

les, Oakland, Qingdao, Ningbo, Shanghai, Hakata, Busan, Los Angeles and Oakland. Frequency for this service remains weekly.

Expansion. China Shipping will introduce five new 5,500-TEU containerships in the Pacific, the first to be delivered in December, Taylor said. This will lead to changes in services.

China Shipping's transpacific vessels currently average about 2,500 TEUs in capacity.

In a separate development, CMA CGM has commenced a slot-charter agreement on Maersk Sealand's transpacific services, effective until May 1, 2001. But once the slot-charter agreement with Maersk Sealand expires next May, CMA CGM will introduce another weekly West Coast service with its own ships of about 3,000-TEU capacity, Saade said.

This will be operated as part of a new vessel-sharing agreement service between CMA CGM and China Shipping, with ships calling at Shanghai.

CMA CGM and China Shipping also plan to combine some of their other transpacific services by running a service using both carriers' vessels between North Chinese ports, Japanese ports and the West Coast of North America.

Both China Shipping and CMA CGM entered the trade in 1999, and they have since expanded their services and capacity in the transpacific.

It is not clear whether China Shipping will bring together both CMA CGM and Zim within a wider cooperative agreement. However, those expansionist carriers will be watched by other carriers as a potential threat to the big established global alliances in the transpacific trade. ■

Shippers groups offer OECD 7-point agenda

WASHINGTON

The U.S. National Industrial Transportation League and several large shippers' organizations from Canada, Asia and Europe have urged the Organization for Cooperation and Economic Development to continue its probe ocean carriers' antitrust immunity.

The shippers groups also urged the OECD to expand its maritime reform study to include:

- Pricing in international ocean shipping.
- Entry and exit from trade routes.
- Ocean carriers' financial position.
- Industry cost structures and trends.
- Market concentrations.
- Activities of carrier discussion agreements.
- The role of technology in reducing costs and increasing flexibility.

The NIT League called the recommendations to the OECD an "unprecedented display of unity" among the world's largest shippers' organizations.

The proposal by the NIT League and other shipper groups is at odds with ocean carriers, who urged the OECD to discontinue its investigation into the antitrust issue. The carriers say its still too early to address the antitrust issue in light of the enactment of the U.S. Ocean Shipping Reform Act.

Ed Emmett, president of NIT League, said the U.S. reform law "produced clear benefits," but it is important "that the dynamics of this (shipping) industry be examined globally."

"Knowledge is the most powerful tool for establishing sound transportation policies," Emmett said.

Supporters for the proposal to the OECD are the NIT League, the Japan Shippers' Council, the European Shippers' Council, Canadian Shippers' Council, Hong Kong Shippers' Council, Korean Shippers' Council, Thai National Shippers' Council, the Federation of ASEAN Shippers' Councils, and the Singapore National Shippers' Council.

The united stand resulted from the Tripartite Shippers Group meeting held recently in Haifa, Israel, where Asian, European and North American shippers agreed that liner carriers' antitrust immunity required further scrutiny, the NIT League said. ■

Multiyear funding urged for U.S. MSP

WASHINGTON

Congress should provide multiyear funding instead of annual appropriations for the Maritime Administration's Maritime Security Program, according to a report issued recently by the Working Group on Maritime Policy.

The group, headed by former maritime administrator Albert Herberger and sponsored by the National Defense Transportation Association, said multiyear appropriations would improve stability for investing in new U.S. ships. A multiyear system would also reduce problems faced by commercial operators attempting to plan for 25- to 30-year investments, the report said.

The report also called for mandating that U.S. military requirements, rather than budget caps, determine the number and types of ships in the liner program. ■

Sinotrans seeks exemption from FMC

WASHINGTON

China National Foreign Trade Transportation (Group) Corp., known as Sinotrans, has asked the U.S. Federal Maritime Commission for permission to have the ability to match competing carriers' rates on 24 hour's notice.

As a controlled carrier, Sinotrans is prohibited from reducing its rates to meet those of competing carriers without approval of such authority from the FMC, and must wait 30 days before matching a competitor's rates.

Sinotrans is seeking to be placed on an equal footing with another controlled carrier Chinese carrier, China Ocean Shipping Co. Sinotrans said its request is identical to COSCO's request to match competitors rates which has been approved by the FMC.

In that ruling, Sinotrans noted, the FMC said its approval of COSCO's request might be unfair to other controlled carriers. The FMC also found that giving COSCO the right to match competitors' rates on one day's notice would not be anticompetitive or detrimental to commerce.

Sinotrans said if it is not granted the same right as COSCO and other carriers, the impact of such a disparity on Sinotrans and its customers would be "unnecessarily severe."

Forbidding Sinotrans the right to match competitors' rates on one day's notice would not further the purposes of the controlled carrier act and would frustrate the intent of the Ocean Shipping Reform Act to place a greater reliance on the marketplace, said David P. Street, Sinotrans' attorney. ■

Hart returns to MarAd

WASHINGTON

Clyde Hart has returned to the Maritime Administration to reassume his position as Maritime Administrator.

At the request of Secretary of Transportation Rodney Slater, Hart took a five-month leave of absence from MarAd to serve as acting deputy administrator of the Federal Motor Carrier Safety Administration, a new agency set up on Jan. 1 to address trucking safety.

John Graykowski, who had been acting MarAd administrator in Hart's absence, retired Nov. 4. ■

Creel: U.S., Europe on 'parallel' course

LONDON

The U.S. Ocean Shipping Reform Act has brought the nation's regulation of liner shipping much closer with Europe's, said Hal Creel, chairman of the Federal Maritime Commission.

"The two systems are so fundamentally similar, and have been moving in such complimentary directions, that the industry has been able to make the transition to a service contract-based commercial environment without encountering conflicts of laws, or other legal ambiguities and uncertainties," Creel said at a recent conference in London.

Creel

Europe and the FMC both maintain exemptions from their general competition laws for liner shipping and have no plans to change these exemptions, Creel said.

Both sides have sought to promote competition through shippers' and carriers' rights to negotiate independent confidential service contracts. This has lead to the "explosion of independent service contracting activity that we have seen in 1999 and 2000," he said.

The FMC still differs from European regulation by allowing discussion agreements, allowing carriers to adopt "voluntary guidelines," and to agree on common prices for the inland portion of intermodal moves.

The European Commission, on the other hand, does not require regulatory filing requirements, review and waiting periods for efficiency-enhancing consortia and operational agreements, while the FMC does, he said.

While OSRA "appears to be working as well as Congress expected," Creel admits that "not everyone is happy with the results under OSRA."

Non-vessel-operating common carriers, "apparently dissatisfied with their inability to obtain the right to offer service contracts ... have instituted a two-pronged attack against the statute," Creel said. "This is occurring at a time when NVOCC trade growth is increasing and NVOCCs account for about 20 percent of the service contracts ocean carriers filed with the commission.

The NVOs have, nevertheless, raised concerns about carriers' antitrust immunity and are backing House Judiciary Chairman's Henry Hyde's bill to repeal that immunity (see related story, page 45).

He also noted that the National Customs Brokers and Forwarders Association of America is polling its members on whether to petition the FMC for an exemption from tariff publication.

"The commission will, of course, give due consideration to any petition that may be filed," Creel said.

The full text of Creel's speech is available at http://www.americanshipper.com/remarks_of_harold_creel.asp.

Meanwhile, at another conference, FMC commissioner Del Won said that ocean carriers' antitrust immunity has undermined the full benefit of confidential service contracting under OSRA.

Addressing customs brokers and forwarders attending the Western Cargo Conference 2000 in Palm Springs, Calif, Won said OSRA was "only marginally successful."

The drive to curtail carriers' antitrust immunity is undergoing international and congressional scrutiny, and will not go away, Won predicted.

He called on the FMC to change its focus from looking at specific activities like discussion agreements as being legal under the words of OSRA, to making findings regarding the "market-distorting" nature of such activities. ■

World Liner Supply

A **ComPairData** *report*

Transatlantic's Big Three

Three carrier groups control 58% of Atlantic container trade.

Three carrier groups now control 58 percent of the total capacity in the transatlantic container trade, according to a report by World Liner Supply, a reporting service from the ComPairdata.com online shipping database.

In October, the three biggest groups of transatlantic carriers — Grand Alliance/Lykes/TMM, Maersk Sealand/New World Alliance/CMA CGM and Canada Maritime/Cast/OOCL — controlled 58 percent of vessel capacity on the transatlantic route, the fourth-quarter 2000 report from World Liner Supply said (see table). This is a marked increase from July, when the three largest carrier groups — Grand Alliance, Maersk Sealand and Canada Maritime/Cast/OOCL — had a combined 44-percent share of the total trade capacity.

Five weekly services operated jointly by the Grand Alliance, Lykes Lines and TMM Lines now provide a total weekly one-way capacity of 15,438 TEUs, or 26 percent of the trade's capacity. Grand Alliance carriers Hapag-Lloyd, NYK Line, Orient Overseas Container Line and P&O Nedlloyd merged their services with those of CP Ships-owned carriers Lykes Lines and TMM Lines in October, creating the trade's biggest carrier grouping.

Maersk Sealand and New World Alliance carriers APL, Hyundai Merchant Marine and Mitsui O.S.K. Lines combined their transatlantic services this month to create the second-largest carrier group in the northern Europe/North America trade. These carriers now provide three joint weekly services, with a weekly one-way capacity of 12,351 TEUs, or 21 percent of the total capacity on this route.

Canada Maritime, Cast and OOCL, with three northern Europe/Montreal services, are the third-largest carrier grouping in the Atlantic.

The merger of services and the combination of smaller carrier groups has led to a substantially higher market concentration in the North America/northern Europe container trade.

Shipping lines in the transatlantic trade now offer shippers 25 joint and/or individual liner services with a total of 136 liner vessels, the report said.

The biggest carrier grouping controls 26 percent of the transatlantic container capacity, a percentage that is generally not considered to be anticompetitive by regulators.

However, Chris Welsh, secretary general of the European Shippers' Council, said there is a "gray area" about how two carrier groupings should be treated when there is an overlap in their member carriers.

Because Canada Maritime and Cast are sister companies of Lykes and TMM within CP Ships, while OOCL is affiliated with the Grand Alliance, those companies or groups are now involved in two of the three largest transatlantic carrier groupings.

"There are numerous interlinkings between different groupings and different carriers," said Neil Johnson, global logistics manager at the U.K.-based Freight Transport Association. "This may further reduce competition."

Johnson added that carriers linked to other carriers "may not be quite so independent as you might think."

He acknowledged that there had been a consolidation in the shipping market for some time, but expressed concerns about

Breakdown of transatlantic capacity

October 2000	Capacity/week TEUs	%	Loops	July 2000	Capacity/week TEUs	%	Loops
Grand Alliance/Lykes/TMM	15,438	26%	5	Grand Alliance	9,431	17%	3
Maersk Sealand/New World Alliance/CMA CGM	12,351	21%	3	Maersk Sealand	9,051	16%	2
Canada Maritime/Cast/OOCL	6,838	11%	3	Canada Maritime/Cast/OOCL	6,838	12%	3
Mediterranean Shipping	5,582	9%	2	Lykes/various partners	6,807	12%	3
COSCO/K Line/Yangming	5,152	9%	2	Mediterranean Shipping	5,331	9%	2
Evergreen	4,054	7%	1	COSCO/K Line/Yangming	5,152	9%	2
United Alliance	2,765	5%	1	Evergreen	4,133	7%	1
				United Alliance	2,765	5%	1
Other carriers	7,462	13%	8	Other carriers	7,407	13%	7
Total for all carriers	59,642	100%	25	Total for all carriers	56,915	100%	24

Source: World Liner Supply fourth quarter 2000 report available from www.compairdata.com.

the regulation of capacity by carriers.

"Lykes Lines and TMM Lines are two of six shipping lines in the CP Ships group that, when they operate in the same markets, do compete with each other," said a spokesperson for Americana Ships, the CP Ships subsidiary which operates Lykes and TMM.

Lykes and TMM "have separate sales, marketing and customer service teams and both lines have individual targets to reach," she said.

The fact that three groups control 58 percent of the trade "is not relevant to the customers," the Americana spokesperson added.

"These three groups are not homogenous bodies, but each is made up of fiercely competing lines, offering customers lots of choices, for example, different rates, different value-added services, different inland services, but a better, more frequent service because of the decision to share ships," the Americana spokesperson added. For example, the Grand Alliance/TMM/Lykes grouping "is made up of six competing shipping lines."

Americana Ships said that Lykes and TMM gain many efficiencies by sharing ships and container fleets, and buying fuel and other supplies. "This is only to the benefit of the customer, most of whom are probably already aware that there is a degree of cooperation between the lines (whether sister companies or not)," she said.

"Capacity management agreements are certainly a concern to us, particularly given the increasing shares of these groups," said Johnson, from the Freight Transport Association, referring to a plan by the Trans-Atlantic Conference Agreement to reduce capacity during the New Year slack period.

However, a TACA spokesman in Europe said the conference carriers would still provide sufficient capacity to meet the trade's demand and its slack-period capacity plan is different from the former Trans-Atlantic Agreement's capacity management program.

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TACA files capacity plan for slack season

LONDON

Trans-Atlantic Conference Agreement carriers have filed an amendment to their cooperative agreement with the U.S. Federal Maritime Commission and the European Commission seeking to allow them to withdraw surplus capacity during the Christmas-New Year slack period.

The amendment would enable the lines to match supply and demand more closely during the winter holiday period on the trade between northern Europe and the U.S. East and Gulf coasts. If the agreement is approved, the carriers will withdraw one or two vessels during the slack period and perform dry dock or other ship maintenance tasks during the period of low demand.

A spokesman for TACA said the capacity move is not related to plans by the conference to revise freight rates.

David Jeffries, general manager of TACA in Europe, said the conference carriers would still provide sufficient capacity to meet the trade's demand.

"In previous years, unused capacity (during this slack period) averaged over 25 percent," he said. "As far as the shippers are concerned, this will be seamless."

Carriers who withdraw ships would enter into slot-charter agreements with other carriers to continue to provide services during the gap, Jeffries said, adding that these specific agreements would be conducted on a bilateral basis between individual TACA carriers.

The transatlantic conference appears to be keen to underline that the seasonal capacity pact is different from earlier, controversial attempts by carriers to regulate capacity. In the early 1990s, the Trans-Atlantic Agreement introduced a program of restrictions on ship utilization levels among its members that was strongly criticized by U.S. and European regulators.

"This has nothing to do with the capacity management program of the Trans-Atlantic Agreement," said Jeffries, referring to the latest slack season plan.

TACA carriers are Atlantic Container Line, Hapag-Lloyd, Mediterranean Shipping Co., Maersk Sealand, NYK, OOCL and P&O Nedlloyd. ■

Transport / Air

By Gordon Forsyth, gforsyth@shippers.com

China's "welcome mat"

The air freight market in China will boom, leading the world in traffic growth, now that the country plans to open its borders to the global economy as a member of the World Trade Organization. And the time to begin sowing the seeds of success in China is now, says Michael Chowdry, chairman, president and chief executive officer of all-cargo airline Atlas Air.

American shippers must begin building "personal relationships, in-country partnerships and outsourcing alliances with their commercial counterparts and customers" in China, Chowdry said in a recent statement supporting the U.S. vote for permanent normal trading status.

"In the PRC, your reputation precedes you," he said. "In operating jumbo freighters for four of the largest airlines in the region, we've found they expect compelling value, promises fulfilled and a quality product or service delivered on time without excuses or shortcuts."

The Colorado-based wet-lease freighter specialist has signed long-term contracts with China Southern Airlines, China Eastern Airlines, Air China and Dragonair. These leading Chinese carriers hope to use Atlas planes to build a solid cargo business in anticipation of the trade expansion associated with WTO entry. Air freight analysts expect a wave of semi-finished manufacturing products, telecommunications equipment, computers, consumer chemicals and precision instruments to move via air to and from China in the next three years.

Chowdry cited the massive investment in new airport facilities in China as a major driver of industrial development. China Southern is building a cargo hub in Shenzhen. Shanghai Pudong International Airport recently opened a new $60-million cargo facility. And similar cargo development projects are underway in Beijing and Guangzhou.

"This is an unprecedented investment in the PRC's air cargo industry and represents a welcome mat to businesses, especially importers and exporters in the computer, information technology, telecommunications, medical instrumentation and machinery sectors,' he said.

Driving globalization

The international aviation industry is both a driving force for globalization and a laggard when it comes to adopting business practices made possible by globalization and deregulation, according to a report by three influential U.S. researchers and academics.

Daniel Yergin of Cambridge Energy Research Associates, Professor Richard H.K. Vietor of the Harvard Business School and Peter C. Evans of Massachusetts Institute of Technology explore that dichotomy in their new report *Fettered Flight: Globalization and the Airline Industry.*

Driven by the potential for economies of scale, increased efficiency and customer demand, the pressure to consolidate will continue to grow for airlines. Those carriers that build the broadest and most efficient networks will likely be the winners in an emerging global economy, said Yergin, chairman of CERA.

However, regulatory barriers constrain the industry's ability to build the networks that Yergin believes the world will need.

Vietor backed him up. "U.S. airlines may be further along in that they have gone through a longer process of deregulation and have been exposed to competitive pressures for a longer period of time. But the entire industry confronts a common agenda of issues driven by globalization — including regulatory adjustment and risk, scale and ownership, role of national identity and investment policy, competitive pressures, consolidation, service, national security and network economies."

To confront these challenges, the airline industry will need governments to balance the need for safety with the demand from travelers and businesses for more economic air transport.

"Opportunities for other industries to find efficient solutions are not currently available to the international airline industry, which is unique among industries in the level of regulatory rules, owing to history, security considerations and national development," said Evans, a specialist in international political economy.

The authors believe a key development will be how the alliances evolve, and wonder whether they will remain rooted in national interests or move toward cross-equity ownership and cross-border consolidation.

"Looking at other industries, one must question whether alliances represent the ultimate evolution of the industry — or only a layover en route to someplace else," Yergin said.

The possibility of significant industry change could be brewing right now within the European Union, they said. "If Europe's national airlines begin to consolidate into true European airlines, the competitive dynamics of the entire industry will be altered."

Governments will continue to guard their right to regulate the airlines to ensure benefit to consumers, but should do so on a coordinated basis. A competitive global airline industry will be key to developing the benefits of freer trade and economic integration for all countries, according to the authors.

"Regulators, the airline industry, and the publics they serve will increasingly be required to think about competition, scale and scope, quality of service, and industry consolidation, not only from the perspective of their national markets, but from a global standpoint and in the context of network competition," the report says. "This will be a considerable challenge in a world in which barriers and borders of all kinds are coming down — a world that is at one and the same time composed of nation states and a global marketplace."

DHL Airways, too

Unless your name is United Parcel Service Inc. or FedEx Corp., things are pretty terrible in the domestic United States air freight markets this year.

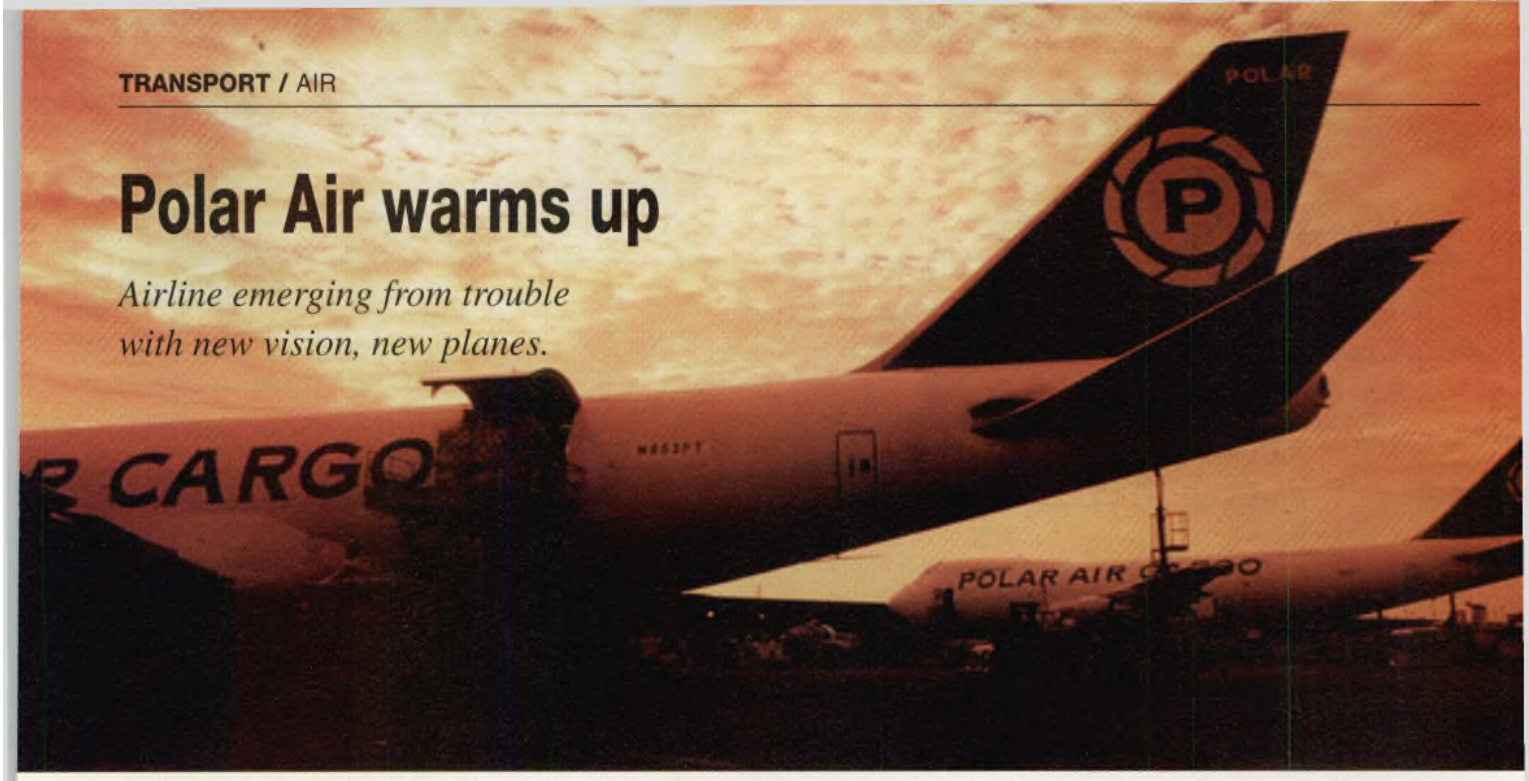
UPS and FedEx have reported growth in overnight air traffic and revenue in recent quarters. But everybody else is suffering in the red. BAX Global and Emery Worldwide reported operating losses in the third quarter of $12.7 million and $5.8 million, respectively. Airborne Express posted a net loss of $5.5 million.

Even DHL Airways, the U.S. operating arm of DHL Worldwide Express, operated at a loss in the first six months of the year, according to the IPO prospectus filed by Deutsche Post AG.

As a private company, DHL is not required to disclose results. But Deutsche Post informed potential investors of the loss at DHL Airways to explain poor first-half results at DHL International. Deutsche Post plans to acquire in January a 50.6-percent controlling stake in Belgium-based DHL International, which owns 52 percent of the share capital and 23 percent of the voting rights in DHL Airways and is entitled to a share of the U.S. company's income.

Polar Air warms up

Airline emerging from trouble with new vision, new planes.



LONG BEACH, Calif.

Just a year ago, Polar Air Cargo seemed on the brink of extinction as its pilots threatened a strike that would have likely doomed the scheduled all-cargo airline started in 1993 by Ned Wallace and Mark West.

The airline was struggling financially, having taken a beating from an Asian economic crisis that temporary halted the carrier's lifeblood of transpacific air cargo. Polar's planes were aging and the company needed money to replace them. GE Capital Aviation Services, the airline's owner, was questioning its resolve to keep the carrier flying. Any work stoppage would have put Polar's only source of income — its airplanes — on the ground, likely for good.

But this story still has a chance for a happy ending. Polar reached agreement with the Air Line Pilots Association at the last minute. Traffic between Asia and the United States began to flow again at near pre-crisis levels and the revenue kept rolling in.

A year later, Polar looks very different. For one thing, the airline's founders — Wallace and West — are gone, off to start an Internet company, iCargo.com. A completely new management team has taken over. GE Capital has decided to invest in Polar's future with new planes. And the carrier now appears ideally situated with a strong Asian network to benefit from what analysts say will be a freighter demand boom in the coming years.

Polar's comeback, though not complete yet, lends credence to the industry's claims that a bigger part of the air cargo industry's future rests with the all-cargo airlines. Growing demand from shippers for reliable air freight service and a shrinking supply of available capacity is creating a growing reliance on scheduled main-deck lift, observers say. That reliance will only grow in the next two decades, leading airlines to double the world freight fleet to more than 3,000 planes, Boeing Co. and Airbus Industrie predict.

Face Lift. If the Boeing and Airbus predictions come true, Polar will be able to look back at the late 1990s and smile. Clearly that's what GE is betting on.

"The increase in focus on JIT (just-in-time) delivery in the supply chain, particularly now in the business-to-business space, is a driver of demand for air freight," said Eric M. Dull, Polar's chairman and chief executive officer, in a recent interview. "People can't count on the bellies for moving large volumes of consolidated amounts of freight.

"The visions for us going forward on the shipper side and the forwarding side is that there needs to be integrated solutions," Dull said. "Polar is very well-positioned to take part in a global alliance that will serve the needs of our shipper and forwarding customers.

"These are the assumptions on which the strategic investment decisions were based," he said.

Dull said Polar has been involved in several negotiations with possible alliance partners. He declined to elaborate any further other than to say that Polar's transpacific freighter network is particularly enticing to potential partners hungry for a larger piece of the growing air freight pie in Asia. Air cargo trade routes to and from Asia are expected to grow faster than anywhere else in the world in coming years. Dull expects to make an alliance announcement by the end of the first quarter next year.

Dull took over as chief executive on an interim basis in May. "Over the past year, Polar has taken substantial strides forward," Dull said at that time. "The company is strengthening its position in key markets, investing heavily in a number of new information systems, expanding on its new company-wide six-sigma quality programs, enhancing its maintenance capabilities with a new maintenance facility in the U.K., and adding a significant number of new employees. We want to keep building on this momentum."

Dull has filled several key management positions since taking over the executive reigns. He appointed Lee P. Steele, a former operations executive at America West Airlines, to be vice president and director of operations at Polar. Steele has extensive experience in aviation, starting first in the U.S. Air Force and then with Eastern Air Lines.

Ron Lane, an industry veteran from all-cargo carrier and competitor Evergreen International Airlines, joined Polar recently as the airline's chief marketing officer. Lane brings more than 25 years of air freight experience to Polar. Most recently, he was vice chairman at Evergreen.

Dull also brought in a new presence in Washington, D.C., hiring Kevin Borland to serve as Polar's director of government affairs. Borland is an old hand in Washington's aviation arena, coming to the airline from the McDermott, Will & Emery law firm.

Chartering New Course. Dull has brought in more than just new faces. He is building a new fleet of freighters. And he

has refined Polar's strategic approach to the global air freight market.

Most significantly, Polar took delivery in October of the first of five brand new B747-400 freighters on order from Boeing. The new 400s, three of which Polar will bring into operation this year, "will be the cornerstone of our fleet for the next decade," Dull said.

The B747-400F is the most efficient freighter in commercial use. It can carry up to 125 metric tons of freight 2,800 nautical miles, making it the premier freighter for serving transpacific and other key long-haul air freight routes. The majority of worldwide air freight traffic growth is coming on these long-haul routes, evidenced by the dizzying growth of B747 wet-lease specialist Atlas Air.

Polar's 400s, on long-term lease from GE Capital, will replace older B747-100 freighters in the carrier's scheduled fleet. B747-100s, most around 30 years old now, are becoming too unreliable and expensive to operate in scheduled service. Polar plans to move these aircraft into a new charter division set up this year.

Polar also is buying B747-200 planes to replace 100s in its scheduled fleet. The carrier has acquired three 200s this year, bringing the total number of 200s in its fleet to six.

At the end of next year, Polar plans to have four B747-400s, eight B747-200s and seven B747-100s in operation. By April, all of the 100s will be operating only in the charter business.

Polar launched a separate business unit this summer to manage and grow the carriers charter business, which accounts for up to 30 percent of the airline's revenue in any given year. The charter business is nothing new to Polar, which has operated dedicated flights for the U.S. military for years. Dull said the new PAC Charter unit was formed to create a clear division between the scheduled and charter businesses and also to confirm to Polar's ad hoc customers that the airline will remain committed to charters.

Lynn Stauffer, a 28-year airline veteran, is leading the new unit.

While allowing Polar to explore opportunities in a growing market for all-cargo wet-leases, the charter unit will also give Polar another tool to manage scheduled demand growth, Dull said.

"A problem that has plagued us historically is switching capacity back and forth between scheduled and charter," Dull said. Without the division between the two units, Polar "was never meeting the needs of both customers," he said.

Reliability. Another key transition for Polar, and one that may be more difficult to make in the long run, is that the carrier will need to change its image. Polar has historically been perceived as a low cost alternative, according to industry officials. To survive with its new fleet, the airline will have to position itself as a premium provider.

The carrier's image transformation is certainly off to a good start. The B747-400s and 200s will lower operating costs in the long run and make Polar's services more reliable – a key denominator for shippers considering rates.

But industry officials also believe that a good part of Polar's future – and that of many freighter operators – will depend on developments out of their control. If all-cargo planes are going to play a larger role in world air freight markets, air freight rates, on average, will have to come up.

Dull believes alliances will play a role. He said the industry together has to begin communicating the value of air transport more effectively to customers.

"Shippers and forwarders are going to have to try coming together to wring productivity benefits out of the chain instead of beating up each other on price," he said. ■

Kitty Hawk files restructuring plan

Disclosure statement details progress, reveals Kalitta debacle.

DALLAS

U.S. all-cargo carrier Kitty Hawk Inc. was hoping to be in the air and out from under bankruptcy protection by the end of November, after delivering a restructuring plan to creditors that would basically restore the company to its old self before the fateful Kalitta Cos. acquisition in 1997.

There are two main differences:

- The new Kitty Hawk will no longer operate an on-demand charter business.
- Kitty Hawk's energetic founder, Tom Christopher, will not be running the show.

Kitty Hawk management did not respond to interview requests. However, *American Shipper* recently obtained a copy of the company's disclosure statement filed to bankruptcy court, lawyers and creditors. It details Kitty Hawk's failed merger with Kalitta, various pending law suits and arbitration proceedings and the steps Kitty Hawk has taken to shore up its finances since filing for bankruptcy in May.

Looking Ahead. Business has improved significantly since Kitty Hawk shut down the old Kalitta operations, according to the statement. In May, the company earned more than $1 million, including fees related to the Chapter 11 filing. The company reported that it broke even in June.

Kitty Hawk said it "believes these results are significant since they demonstrate a financial improvement as a result of the suspension of operations at International and the ability of Kitty Hawk to concentrate on its three primary business lines."

Under its restructuring plan, Kitty Hawk plans to re-incorporate in Delaware under the name Kitty Hawk Aircargo and to focus on providing scheduled overnight air freight services with a fleet of B727 freighters, mail carriage services for the U.S. Postal Service and wet-lease freighter services for clients, such as BAX Global and EGL Inc., formerly Eagle USA Airfreight.

"Kitty Hawk believes that the heavyweight segment of the U.S. expedited cargo market is currently underserved and that the marketplace will increase its demand for a provider focused solely on the heavyweight, time-definite freight market," the company said.

Kitty Hawk implemented in June a 6-percent rate increase for its domestic services to improve yield. The carrier has increased the premium rate for express services and the surcharge rate for oversized cargo.

Defending its USPS business, Kitty Hawk said its postal contracts "generally allow it to pass through fuel costs, landing charges and other variable costs. Accordingly, Kitty Hawk is not generally at risk of loss in the event that these variable costs increase during the term of these fixed-price arrangements."

> ***"Kitty Hawk believes that the heavyweight segment of the U.S. expedited cargo market is currently underserved and that the marketplace will increase its demand for a provider focused solely on the heavyweight, time-definite market."***

Kitty Hawk provides some dedicated lift to the post office throughout the year in the western United States and also under holiday contracts to meet end-of-the-year spikes in mail traffic.

Kitty Hawk also has raised rates on its USPS contracts, creating a 10 percent improvement in revenue from its postal business, according to the company.

Kitty Hawk wants to expand its wet-lease business providing aircraft, crew, maintenance and insurance to forwarders and airlines that want to contract freighter capacity. "Freighter aircraft continue to increase their share of total world cargo capacity relative to cargo transportation in passenger aircraft," the company said. "As a result of this trend, Kitty Hawk believes that there is an increasing demand for dedicated airlift in support of shippers."

Kitty Hawk would like to upgrade its fleet of wet-lease B727s to improve revenue potential. The airline's core customer in this segment is BAX Global, the integrated air freight subsidiary of The Pittston Co. At the end of August, Kitty Hawk had seven aircraft with BAX, which is having financial difficulties of its own. Despite that, Kitty Hawk restructured a previously unprofitable contract with BAX this summer, raising rates more than 10 percent. The BAX contract was extended until Dec. 31 next year.

Kitty Hawk also has sold significant assets to reduce its debt load. The company signed an agreement to sell its federally approved B727 freighter conversion program for $3 million. It reached agreement to sell its charter business, its engine maintenance division and a hangar owned by the former Kalitta Cos. for a combined $22.4 million. It sold a lease at Honolulu International Airport for $4.5 million. It sold for $200,000 the international aircraft operating license acquired from Kalitta back to owner Conrad Kalitta, who also has assumed a contract with the Teamsters union.

Kitty Hawk has reached a preliminary agreement to sell two DC-9s for $5.9 million. It also has scheduled four auctions to liquidate surplus spare parts, ground equipment and other inventory related to its grounded B747, L-1011 and DC-8 fleets. Kitty Hawk still needed to find a buyer for 12 DC-8s and 2 DC-9s.

Kitty Hawk's debt load equals roughly $458 million. Between $223 million and $278 million is not covered by the airline's B727 and widebody aircraft collateral. Kitty Hawk plans to offer debt holders equity shares in the new company to replace the bonds, which Kitty Hawk said will give creditors a larger return than immediate liquidation.

Creditors were scheduled to meet in November to vote on the plan. Considering that through liquidation creditors would get just a fraction of every dollar they originally invested, Kitty Hawk has at least a chance of making it through to build value into the company again.

Buyer Beware. The airline's travails are a case study for what can go wrong when an acquisition turns bad.

In 1997, the Kalitta purchase was supposed to give Kitty Hawk the international reach it always wanted. Before the deal, Kitty Hawk was a fast-growing, nimble U.S.-centric freight operator that never had a losing quarter in its history. Kitty Hawk financed the Kalitta deal with a $340-million debt offering.

In 1998, Kitty Hawk began to integrate Kalitta's international freight business into the company's domestic overnight freighter operations. But in 1999, trouble started and by the first quarter this year, Kitty Hawk began to unravel. Some of the company's problems can be blamed on a general weakening of air freight demand in the United States. But much of Kitty Hawk's financial difficulties can be directly attributed to Kalitta's aircraft.

Kitty Hawk grounded several former Kalitta freighters due to unscheduled maintenance problems, including premature engine failures. Kitty Hawk also was forced to repair

damage to several planes caused by minor accidents. In general, maintenance costs for the Kalitta planes were much higher than expected.

Then, as fuel prices spiked this year, Kitty Hawk's financial position became untenable. In April, the airline missed a $16.9-million semi-annual interest payment, and was forced to file for bankruptcy protection the following month to stop creditors from seizing planes.

Kitty Hawk opened an arbitration proceeding against Conrad Kalitta in May.

"Most of the allegations in the arbitration focus on the condition of the widebody assets and whether the substantially larger maintenance costs and reduced reliability caused significant harm to Kitty Hawk," the disclosure document said. "The arbitration demand alleges that either the operating expenses were too large because the status of the engines was misrepresented, or there was an undisclosed material adverse event that harmed the engines."

The arbitration proceeding has been postponed until spring, Kitty Hawk said. ■

CNF, U.S.Postal Service go separate ways

PALO ALTO, Calif.

After fighting for months in court over a contract dispute, CNF Inc. and the U.S. Postal Service have agreed to dissolve the Priority Mail contract signed in 1997.

The USPS will assume on Jan. 7 operating responsibility over the air freight network set up by CNF subsidiary Emery Worldwide to handle Priority Mail delivery in the eastern U.S. The original contract, which was viewed as ground-breaking at the time because of its scope and duration, was scheduled to end in 2002. Emery operates a network of 10 sortation centers and 4,000 employees for Priority Mail.

CNF will report the results of the USPS contract as a discontinued operation and record an estimated after-tax charge of about $15 million for the third quarter.

"After substantial effort by all parties to make this a successful partnership, it is now agreed that it is best for the Postal Service to assume ongoing operating responsibility," said Gregory L. Quesnel, CNF president and chief executive officer.

Emery recently was granted a summary judgment in a law suit filed against the USPS claiming that the Post Office reneged on a pricing agreement signed in 1998. According to Emery's suit, mail volumes were higher than projected and the USPS imposed numerous changes in performance requirements, which combined to significantly increase Emery's operating costs.

The court ruled that the USPS never gave Emery a price for operating the Priority Mail contract in 1999 or 2000. It ordered the USPS to respond to Emery's specific pricing proposals and that the pricing method used by the USPS must be discontinued and that certain deductions the agency made from payments to Emery were improper.

Under the terms of the agreement signed by CNF and the USPS to discontinue the contract, CNF said it "retains the right to pursue claims for underpayment under the contract and plans to do so." ■

Airborne Freight reports 3rd-quarter loss

SEATTLE

Flat domestic business and escalating fuel costs led Airborne Freight Corp. to report a third-quarter net loss of $5.5 million, compared to earning of $21.6 million for the year-earlier period.

Revenue improve 2.4 percent to $804.5 million for the Seattle-based

"Our total revenue growth in the third quarter was not enough to cover our cost increases," said Carl Donaway, president and chief operating officer.

Operating expenses increased 8.2 percent, due to a 51-percent increase in fuel costs and higher transportation purchase expenses both domestically and internationally.

Domestic shipment volume declined 0.6 percent to 78.5 million units, despite improvement in second-day shipments through airborne@home service.

International freight shipments grew 6.3 percent, while total international shipment volume declined 11.4 percent due to a decrease in express shipments. And while international revenue improved 10.5 percent, demand pushed international airline linehaul prices up.

"The shift in the mix of business to import and the cost increases on international air segments created significant cost pressures," Donaway said.

For the first nine months of 2000, net income was $40.4 million, compared to $73.9 million for January-September 1999. Revenue rose 4.0 percent to $2.4 billion.

Airborne said it is taking several initiatives to spur growth, including introducing a ground delivery service in April. Other initiatives include leveraging yield management, pursing the small business market, enhancing its suite of products and expanding third party logistics capability. ■

UPS Picks MD-11, sets financial course

ATLANTA

United Parcel Service Inc. said its airline division, UPS Airlines, has signed an agreement with Boeing Co. to take delivery of 13 MD-11 widebody freighters over the next four years.

The deal also includes options for 22 more MD-11s, which if exercised could bring the value of the agreement to more than $2 billion, UPS said.

The 13 firm orders will be delivered starting next year. The options would be delivered beginning in 2005. Boeing's Airplane Services unit will convert the aircraft from passenger to freighter configuration. UPS will use the planes to expand its international business, particularly on long-haul flights from the United States to Europe and Asia.

The deal was announced at an investor conference last week, where UPS executives also laid out financial expectations for the coming quarter and next year.

UPS expects peak fourth quarter business to produce growth in line with annual expectations. Slightly weaker demand is expected this year compared to last.

UPS plans to achieve revenue growth of about 10 percent next year, with earnings-per-share growth in the mid-teens and a return on equity of about 30 percent.

International export traffic should continue to grow in the double digits. International domestic growth will likely be in the upper single digits, UPS said.

UPS Logistics will continue to post 30 percent-plus quarterly revenue growth rates and should hit about a 5 percent to 6 percent profit margin in the 2002-2003 time frame. Service parts logistics will be a key segment. Logistics will be the most significant "growth driver" in the non-package segment, UPS said.

UPS also said it plans to expand its financial services business, including trade logistics financing, next year.

"When you look at the UPS of 2000 — a logistics company, an electronic commerce company, a consulting company and a financial services company — it's obvious we're not just delivering packages," said Jim Kelly, chairman and chief executive officer. ■

Snow: CSX operations 'improved dramatically'

RICHMOND, Va.

CSX Corp. reported net income from continuing operations of $59 million for the third quarter, compared to $118 million for the year-earlier period.

Operating income for CSX's core rail and intermodal businesses was $190 million, compared to $213 million in the third quarter of 1999.

"Rail operations have improved dramatically in recent months," said John W. Snow, chairman and chief executive officer of CSX Corp. "We are handling the heavier volumes associated with current seasonal demand well."

CSX has struggled to integrate its rail operations with its share of the former Conrail network that it took over in June 1999. However, in the most recent quarter, CSX said it has "improved significantly in the key performance measures of velocity, cars-on-line, yard and terminal dwell times, locomotive utilization and safety."

Higher wages, burgeoning fuel prices and softer demand in several commodity groups offset the productivity gains. The railroad experienced declines in autos, chemicals, paper, forest products and coal.

Operating income for CSX Transportation was $163 million, down 11.9 percent from the year-earlier period. Operating revenue rose 1 percent to $1.5 billion. Operating ratio climbed 1.6 points to 89.1 percent.

CSX subsidiary CSX Intermodal's operating income fell 3.6 percent to $27 million, while operating revenue was flat at $288 million. The intermodal subsidiary's operating ratio was 90.6 percent, compared to 90.3 percent for the year-earlier quarter.

CSX's third-quarter earnings did not include $365 million in after-tax earnings from the sale of CTI Logistx, a wholly owned logistics subsidiary, on Sept. 22.

For the first nine months of 2000, CSX earned $132 million before one-time items, compared with $279 million for the comparable period in 1999. The 1999 results included significant earnings from the Sea-Land Service, the international container-shipping operation that was sold to A.P. Moller-Maersk Line in December.

CSX's rail and intermodal operations reported operating income for the January-September period of $508 million, compared to $710 million in 1999. Operating revenue rose 13.6 percent to $5.4 billion. The 1999 period included only four months of integrated Conrail operations. ■

BNSF 3rd-quarter income drops 16%

FORT WORTH, Texas

Burlington Northern Santa Fe Corp. said sharply higher fuel costs and a downturn in rail shipments resulted in a 16.3-percent drop in third-quarter net income, to $272 million.

Operating income fell 9.5 percent to $571 million, while operating expenses increased 2.0 percent to $1.74 billion. Fuel expenses was $61 million higher than the year-earlier period despite a 1-percent decrease in consumption. Revenue was down slightly, to $2.32 billion from $2.34 billion. Operating revenue rose 2.3 points to 75.3 percent.

"Earnings continue to be affected by sharply higher fuel prices and softness in the agricultural commodities and coal market," said Robert D. Krebs, chairman and chief executive officer of BNSF. "These were partially offset by strong intermodal growth and tight expenditure controls."

Intermodal revenue rose 5.4 percent, to $687 million, and automotive revenue rose 8.0 percent to $107 million. Agricultural commodities fell 16.6 percent to $317 million and coal declined 2.5 percent to $550 million for the quarter. Carload revenue was largely flat, at $652 million.

For the first nine months of 2000, net income fell 6.6 percent to $764 million, on revenue of $6.79 billion, up 1.1 percent.

Operating income fell 1.7 percent to $1.61 billion, while operating expenses rose 2.0 percent to $5.18 billion. Operating ratio rose to 76.3 percent, from 75.7 percent. ■

Union Pacific sees continued growth

OMAHA, Neb.

Union Pacific Corp. reported third-quarter net income of $256 million, up 4 percent from the year-earlier period.

Operating income, excluding Overnite Transportation, the less-than-truckload carrier, was $550 million, up 8 percent over the year-earlier period.

Commodity revenue rose 5 percent to a record $2.65 billion. Automotive revenue was up 17 percent to $280 million. Intermodal rose 10 percent to $506 million. Chemicals improved 3 percent to $412 million, energy was up 5 percent to $586 million, industrial increased 2 percent to $501 million, while agricultural fell 1 percent to $363 million.

For the first nine months of 2000, UP's net income rose 27 percent to $685 million. ■

Norfolk Southern continues rebound

NORFOLK, Va.

Norfolk Southern Corp., the fourth-largest U.S. railroad, reported third-quarter net income of $99 million, up from $19 million in the year-earlier period.

Results for the recent quarter included the sale of timber rights by several NS subsidiaries, which boosted net income by $46 million. Third-quarter 1999 results were impacted by a non-cash charge of $31 million for a "work incentive plan."

Operating income for the quarter rose 1 percent to $1.52 billion.

"A slowdown in the economy, mild weather in Norfolk Southern's service region and a change in traffic mix reduced third-quarter railway operating revenues to lower-than-anticipated levels," said David R. Goode, chairman and chief executive officer of NS.

Intermodal revenues increased 7 percent to a record $287 million. Intermodal traffic was improved through new transcontinental traffic, the opening of Rutherford Yard near Harrisburg, Pa., and growth in premium service traffic, NS said.

General merchandise revenue rose 1 percent to $869 million and automotive climbed 9 percent. Coal revenues fell 2 percent to $361 million, NS said, due to sluggish volume related to milder weather in the railroad's service region and mine production problems.

Operating expenses fell 4 percent, to $1.31 billion, despite a 50-percent increase in diesel fuel costs over year-earlier volumes. Operating ratio dropped to 86.1 percent, from 90.3 percent in the third quarter of 1999.

For the January-September period, net income was $167 million. A $62-million work force reduction charge was offset by gains of $63 million on the sale of timber rights and other interests in oil and natural gas properties.

NS reduced its nonunion personnel through a voluntary early retirement program and reduced union personnel primarily through furloughs.

Nine-month operating revenues were $4.59 billion, up 23 percent, while operating expenses rose 30 percent to $4.07 billion, including the work force reduction charge. Operating ratio for the period was 86.5 percent, up from 84.4 percent for the year-earlier period. ■

CN sees 9% jump in income

MONTREAL

Canadian National reported net income of Canadian $216 million ($143 million) for the third quarter, an increase of 9 percent over the Can $199 million reported in the year-earlier quarter.

Operating income rose 9 percent to Can $407 million ($270 million), while revenue increased 4 percent to Can $1.33 billion ($882 million). The railroad's operating ratio improved by 1.4 percent to 69.4 percent — the best among North American Class I railroads.

"Operating expenses rose by only 1.8 percent in the quarter despite a 44-percent increase in fuel expense," said Paul M. Tellier, president and chief executive officer of CN.

Four of CN's seven business units saw increased revenue: intermodal and automotive, up 15 percent to Can $240 million ($159 million) and Can $118 million ($78 million), respectively; grain and fertilizers, up 8 percent to Can $265 million ($176 million); and petroleum and chemicals, up 4 percent to Can $225 million ($149 million. Forest products was flat at Can $252 million ($167 million), while metals and minerals declined 7 percent to Can $102 million ($68 million), and coal fell 20 percent to Can $79 million ($52 million).

Net income for the first nine months of 2000 was Can $642 million ($426 million), excluding a one-time $58-million after-tax gain related to the exchange of CN's minority equity investments for common stock of 360networks Inc. That compares to Can $533 million in net income for the year-earlier period.

Operating income for the first nine months rose 14 percent to Can $1.21 billion ($800 million), on revenue of Can $4.04 billion ($2.68 billion). Operating ratio improved by 2.4 points to 70.1 percent. ■

Canadian Pacific sees dip in income

CALGARY

Canadian Pacific Railway reported a 14-percent dip in net income for its third quarter, to Canadian $95.8 million ($63.5 million).

Third-quarter 1999 results benefited from a non-recurring tax adjustment.

Operating income improved 5.5 percent to Can $222 million ($147 million), on revenue of Can $910.4 million ($603.7 million), up 4.2 percent. It was the fifth consecutive quarter of improvement for CP's operating income.

Despite significantly higher fuel prices, the railroad's operating ratio improved to 75.6 percent, from 76.0 percent.

Freight revenues improved among most commodity groups. Despite a government imposed cap on export grain rates, effective August 1, grain revenues rose 6 percent. Revenues from intermodal and automotive shipments improved 5 percent, due to strong consumer demand in a healthy economy, CP said.

For the first nine months of 2000, income jumped 187 percent to Can $141.3 million ($93.7 million). Operating income increased 125 percent to Can $177.4 million ($117.6 million), on revenue of Can $2.88 billion ($1.91 billion), up 39.6 percent. ■

Larrabee finds his stride

New York-New Jersey's new port director cannot forget JFK, Jr., EgyptAir crashes.

By Robert Mottley

Why is his face familiar?

Richard M. Larrabee, who has succeeded Lillian C. Borrone as director of the port commerce department of the Port Authority of New York and New Jersey, never wanted to be a presence in the nation's living rooms.

It was pure chance that, as commander of the First Coast Guard district in Boston that Larrabee was the ranking officer when John F. Kennedy Jr., his wife and sister-in-law, died in a small plane crash off Martha's Vineyard in July 1999.

Larrabee directed the multiservice search-and-rescue operation until the wreckage of the plane was found on the ocean floor, and divers had retrieved the bodies of the victims. Each night, he appeared on global television as the U.S. Coast Guard's spokesman, saying what could be told in a manner that many viewers found to be dignified and comforting.

On Oct. 31, 1999, an EgyptAir jetliner crashed in the ocean off Nantucket, killing all 217 persons on board. Subsequently, Larrabee directed the Coast Guard's search-and-rescue operation and the recovery from the sea of what could be found of the airplane, its passengers and crew. Once again, he found himself in front of camera crews from around the world, explaining the unthinkable.

Those two tragic events of 1999 will always remain in Larrabee's memory. "You never want something like that to come your way," he said in an interview, "and you never want it to happen again."

Ocean Engineer. Born in 1945, Larrabee grew up on Long Island, N.Y., and graduated in 1967 from the U.S. Coast Guard Academy in New London, Conn. Although he was no stranger to water, his first experience of the North Atlantic in winter, while serving aboard a Coast Guard vessel, "made stories told by my father, a merchant mariner in World War II, sound almost understated," Larrabee said.

A year out of the Academy, Larrabee commanded a coastal patrol boat stationed in Santa Barbara. "Drugs in those days were not a big issue," he said. "Our work was primarily search and rescue — there are fairly long distances between ports on the West Coast."

Richard M. Larrabee
director of port commerce department, Port Authority of New York and New Jersey

In 1968, Larrabee married and was stationed in California. He and his wife, Pam, have one daughter, Jennifer. After his time at sea, he spent more than a year in Long Beach as an admiral's aide. "That was a chance for me to be a fly on the wall, to see how decisions were made."

Swapping coasts, Larrabee studied ocean engineering for two years in graduate school at the University of Rhode Island. "The course work covered all of the engineering disciplines as they apply to the ocean environment: wave mechanics, corrosion of the shore, underwater acoustics," he said.

After earning a master's degree, Larrabee went on to the research and development sector of the Coast Guard's headquarters in Washington, D.C. "My job there was to help develop equipment for oil and pollution response."

Serving in Washington was a turning point in Larrabee's career. The Coast Guard next rotated him to Norfolk, Va., as marine safety officer. "I was frequently in the repair yards at Newport News Shipbuilding and other facilities," he said. "That was a hands-on learning experience."

Oil Spill Responder. From Norfolk, the Coast Guard sent Larrabee to Detroit, for a stint as commanding officer of the marine safety office in that region. "Detroit wasn't a place that anyone in my family wanted to go at the time, but it proved to be a great tour," he recalled. "My wife, at 39, was able to go to law school."

Pam Larrabee earned her law degree, and has practiced since as an attorney. Called back to Washington, Larrabee served from 1986 to 1990 as chief of the Coast Guard's environment response program. He was involved in the aftermath of the *Exxon Valdez* incident, and in the subsequent gestation of the Oil Pollution Act.

Asked if he had a public role, Larrabee recalled that "I testified a couple of times before Congress.

"There was a real need to make some changes to our system. *The Exxon Valdez,* as unfortunate as that event was, really became the catalyst for the U.S. to alter the way in which we dealt with oil spills. Since 1990, when the Oil Pollution Act took effect, we've seen a dramatic change for the better," Larrabee said.

He then served as the Coast Guard's captain of the port of New York, starting in 1990, and eventually became commander of the Boston district. In that capacity, his experiences "were what one might expect" until the evening of July 16, 1999.

Unscripted Spokesman. That night, a single-engine Piper Saratoga II carrying Kennedy, 38; his wife, Carolyn, 33, and her sister, Lauren G. Bessette, 34, disappeared after dusk. It would later be determined that the aircraft had hit the water 7.5 miles southwest of Gay Head, at the western end of Martha's Vineyard.

"The fact that we were able to bring 41 federal, state and local agencies together in that six-day period and work toward a common goal was a tribute to the Coast Guard," Larrabee said. "That's not to say we didn't have our differences, but we worked with one goal in mind in a very unselfish way."

"We started on a day when we really didn't know where the plane was, covering 11,000 square miles of ocean. Six days later, we were able to find the wreckage and recover the bodies.

"The other part of it that still amazes me, to this day, is that during that entire process, not once did anyone in the govern-

ment tell us what to do or say," Larrabee said. "That's kind of extraordinary when you think about it. The president, the secretary of the navy, the commandant of the Coast Guard had no words or guidelines for us. They left it up to those of us on the scene."

As for handling the media, "I don't think we really understood what was going on the other side of the cameras until it was long over," Larrabee said.

He personally "never saw one minute" of his own protracted appearances on television. Did his family watch? "I had feedback from my wife, who was my greatest critic," he explained.

"It was such an extraordinary event — we all just focused on what we were doing. The part I think that worked for us, if we had any strategy at all, was that I was able to talk directly with the Kennedy and Bessette families.

"We advised them of what was going on, and we had the sense they knew what was happening and were part of the decision-making process. That allowed me to be confident about what I could say on television," Larrabee said.

"Without being able to talk to the families, I don't think I would have had that same confidence."

The EgyptAir crash, three months later, required a different kind of full-scale response. "The effort made from the initial search-and-rescue to the eventual recovery was extraordinary," he said. The finality of what happened was certain much earlier than with the Kennedy plane, but it was very difficult for Larrabee, again, to face the cameras and confirm details for the families of the victims.

Now, as a private citizen, Larrabee is sensitive to the fact that there's been no closure in regard to the EgyptAir tragedy, due in part to Egypt's edginess over the question that one of the pilots may have deliberately crashed the plane.

Port Director. Larrabee retired "pretty much at the point I wanted to," he said. "After spending 35 years in the Coast Guard, I thought there were others things I would like to try to do.

"Lillian Borrone brought me here. When I decided to retire, Lillian was one of the first people I called. The job as her deputy looked as if it were open, and she encouraged me to apply for it.

"The human resources people told me they weren't taking any more applications. I didn't even have a resume, until I put one together."

"I encouraged him to apply for the position, but he had to find his level during the interviewing like anyone else," Borrone said. "We had 200 resumes come in for that job. There were ten serious finalists.

"Richard had been an impressive captain of the port between 1990 and 1993. We were all aware of his communication skills during the tragic events in 1999.

"Having it work for him to come our way was a stroke of good fortune — and perfect timing," she said.

Larrabee admits that he has had no experience managing ports. "I thought I knew the port here, the people, and what the port authority did, but then I realized after a few weeks on the job as Lillian's deputy that I had a lot to learn," he said. It was understood that Larrabee would move up to the full director's job in a matter of time.

What was it like to come into a bureaucratic milieu from a military environment? "I've found it's a help to have been accustomed to discipline and compliance," Larrabee said. One could say that preparing a standing-watch schedule aboard ship and setting rounds of civilian meetings are not dissimilar exercises in managing time.

Larrabee intends to visit other U.S. ports to benchmark New York's continuing growth against that of other regions.

"All U.S. ports share similar problems. Every region is different, and that's why we find ourselves being as open as we are. Although we are in competition, we recognize that we can gain a lot from each other.

"Other ports are doing a great job with their rail connections, and we can certainly learn from that," he said.

"We're currently looking at rail operations in a couple of West Coast ports. We are expanding ExpressRail, linking Howland Hook to our rail connections in the next couple of years," he said.

Yet other U.S. ports lack the single largest problem prevalent in the port of New York and New Jersey. Through a circumstance of geography, the Hudson River acts continually as a hose, funneling silt into the harbor and creating a perpetual need for dredging.

As recently as 1995, Larrabee noted, more than 80 percent of all containerships had drafts of less than 40 feet. By 2020, 65 percent of all traffic will travel on ships with drafts of more than 40 feet — includ-

Borrone has new perspective

NEW YORK

Lillian C. Borrone, previously New York-New Jersey's port director for 12-plus years, has moved to the 67th floor of One World Trade Center from her former offices on the 34th floor.

She is now assistant executive director, a position recently created for her by Robert E. Boyle, executive director of the bistate Port Authority.

Borrone

Boyle already had a deputy executive director, Ronald H. Shiftan, and defined Borrone's duties so as not to conflict with Shiftan's.

Borrone brought upstairs only her assistant, Arlene Babakitis. More of her prior staffers may follow, as Richard Larrabee, her successor, moves in his own people.

"This is a different direction for me, and it gives me a chance to look around the port authority from a perspective that I've not had before," Borrone said.

"I'm assessing different line functions. My role is to assist Robert Boyle by pulling together the threads of our diverse organization. I bring a bit of historical expertise to the table, because I do know all of the city's boroughs rather well."

Asked how she gets along with Boyle, a political appointee and confidant of Gov. George Pataki, Borrone said that "we have an excellent rapport. We talk every day."

One of her immediate tasks "is to review the port's international offices, seeing where it makes sense to add capacity." She expects to travel abroad several times a year, and will leave very soon for Europe.

What lies ahead for Borrone? "This is a new job," she said. "I'm the first to hold it. There are real opportunities here to use the overview I'm getting to make the port authority's existing infrastructure and the future plans we have meld more easily.

"As I've said, when I was a compatriot line director, I didn't always have the larger picture in mind."

Asked about political tensions within the port authority that have only recently appeared to ebb, Borrone answered with her usual poise, choosing her words with care: "I have the sense that those frustrations are behind us. I think we need to look ahead now, to the first year in a new century, and all the uplift that it may bring."

ing 30 percent carried on ships with drafts exceeding 45 feet.

In 2000, only at high tide can the Port of New York and New Jersey's channels and container terminals accommodate ships with a 45-foot draft.

In 1999, the Army Corps of Engineers and the port authority have begun a dredging project that will deepen the channels serving Port Newark-Elizabeth to 45 feet. The Corps has completed cost-benefit studies of dredging the main channels to 50 feet at an expense of $2.8 billion, with the federal government bearing between 40-60 percent of that amount.

"It may take 10 years to get the channels to 50 feet. We have no choice," Larrabee said.

Was he hired for his public relations skills? "I don't know about that," he said. "My job is to gain a consensus, to try to find a way through some very legitimate agendas. We have a great opportunity in New York in the next 10 to 15 years, in terms of making this the hub port of the East Coast." ■

ILWU seeks 'common ground'

Spinosa, newly elected union chief, will work with PMA to modernize processes.

PALM SPRINGS, Calif.

No doubt about it. Newly elected international president of the International Longshore & Warehouse Union, James Spinosa, will look out for the interest of his workers.

But that doesn't mean he's unreasonable. Spinosa wants to encourage the 45,000-member union to modernize some of its processes.

"We'll work together (with the industry) to find a common ground," said Spinosa to a group of shipping executives at a recent Western Cargo Conference in Palm Springs, Calif. "Too many times, we find ourselves at the ILWU on the short-end of that."

In last year's negotiations on a new master contract with the Pacific Maritime Association, labor and management agreed to establish a Joint Technology Committee that will serve as a forum for the parties to come to terms with technology issues affecting the industry.

The PMA, which represents about 100 ocean carriers, stevedores and terminal operators in negotiating and administering labor contracts with the ILWU, has long accused the union of failing to embrace technology that would improve productivity on the West Coast waterfront.

The PMA said that despite generous pay and benefits, the ILWU continues to foster outdated, inflexible work rules and a reluctance to accept new technologies.

Longshore workers who work full time, or about 2,000 or more hours a year, earn more than $100,000 a year. They also receive extensive benefit packages, which include health coverage, an employer-paid pension plan, 401(k) plan and other benefits.

Spinosa is unapologetic. He said that's all part of representing the best interests of the union's workers. "We're concerned about our people and the impact (that new technology will have)," he said.

"We could move cargo faster and more efficiently," he said. "But that doesn't necessarily mean less workers."

Freight moving through major West Coast ports, such as Los Angeles and Long Beach, Calif., has increased by 32 percent this year. The ILWU is working hard to move that freight faster through the terminals, he said.

To try to relieve cargo gridlocks on the piers, the ILWU agreed to try 24-hour gates, but the shippers didn't take advantage of them. "That's a problem for sales people, forwarders and NVOs," Spinosa said.

However, the ILWU president said he is holding up his end of the master contract and has begun to explore the use of new waterfront technologies with Joseph Miniace, PMA president and chief executive officer.

"I'm in favor of exploring this technology," Spinosa said. "Once we could successfully identify the problems — how it will take place and when it takes place — then we can see how to move forward and find a middle ground."

Spinosa believes that worker education about technology will also help the union move forward. "Change is tough and we have to work toward that change," he said.

The last landmark agreement with the ILWU to modernize the waterfront was the 1960 Mechanization and Modernization Agreement, which paved the way to containerization on the West Coast.

"My goal is to move the union forward through another mechanization period," Spinosa said. "I've inherited the legacy for now. I'm committed to keeping the ILWU strong through this period." ■

P&O Nedlloyd signs lease for Newark terminal

NEW YORK

The Port Authority of New York and New Jersey has signed a 30-year lease with Port Newark Container Terminal LLC, a new joint venture company.

P&O Nedlloyd and P&O Ports joined forces to form the new company, which will operate the 158-acre Port Newark Container Terminal in Port Newark, N.J.

Maersk Inc., and Universal Maritime Service Corp. formerly occupied the Port Newark terminal, before Maersk-Sealand took over the Sealand facility in the Elizabeth-Port Authority Marine Terminal.

P&O Nedlloyd was formed in 1996 as a 50-50 joint venture of P&O and Royal Nedlloyd, consolidating the liner shipping sides of the two partners.

P&O Ports, a wholly owned subsidiary of the P&O Group, operates approximately 25 container terminals in 16 companies. ■

Report: Ports will top 500 million TEUs in 2015

LONDON

Container ports will handle a total throughput of more than 500 million TEUs a year in 2015, compared to a volume of 210 million TEUs in 1999, according to a report by U.K.-based Ocean Shipping Consultants.

The report, *The Containerport Market* to 2015, predicts that world port volumes will reach 505 million to 611 million TEUs in 2015, depending on the economic growth.

In its higher-growth case forecast, containerport throughput is predicted to increase by 61 percent, to 337 million TEUs in 2005. It will rise further to 462 million in 2010 and 611 million in 2015.

The lower-growth case prediction gives 47-percent growth forecast, to 307 million TEUs in 2005, 401 million TEUs in 2010 and 505 million TEUs in 2015.

Ocean Shipping Consultants said that world containerport demand increased by 142 percent last decade.

"After three decades of dynamic expansion, the world containerport market shows no sign of slowing down," the consultants said.

North American ports' total box throughput is forecast to increase from 28 million TEUs in 1999 to between 38 million and 40.5 million TEUs in 2005. By 2010, it is projected to rise to 49 million to 53 million TEUs by 2010 and to between 58 million and 67 million TEUs in 2015. West Coast port volumes are expected to rise the fastest. ■

Corporate Appointments

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Logistics

BAX Global

Dennis Eittreim has returned to BAX Global as executive vice president of the United States and Canada, based at the Irvine, Calif headquarters.

Eittreim spent the past year with Dynamex, a Texas-based same-day transportation and distribution company.

He spent more than 25 years with BAX Global and was appointed to oversee the United States and Canada prior to his departure in 1999.

CCEWeb Corp.

Arthur O. Thomas has been appointed vice president of business development for the Internet firm specializing in finance and international trade.

Thomas will be responsible for promoting the company's @GlobalTrade software, an Internet-based business-to-business trade processing system similar to others being developed by Bolero.net and TradeCard.

Prior to joining CCEWeb, Thomas was manager of trade and regulatory affairs at APL Ltd. He's also involved with various industry groups, such as the International Financial Services Association and the Customs Electronic Systems Action Committee.

Ryder Systems Inc.

Gregory T. Swienton has taken over as chief executive officer of the Miami-based transportation and logistics provider. He replaces M. Anthony Burns, who retired Nov. 1 after serving 18 years as CEO.

Swienton has served as Ryder's president and chief operating officer.

Before joining Ryder in 1999, Swienton was senior vice president, growth initiatives, for the Burlington Northern Santa Fe Corp. Previously, he had been executive director for Europe and Africa at DHL Worldwide Network.

Burns will continue as chairman of Ryder's board of directors, on which Swienton has a seat.

United Parcel Service Inc.

The Atlanta-based integrated carrier has promoted two insiders to take over key management positions left open by retiring executives.

Thomas H. Weidemeyer, president of UPS Airlines, has been appointed chief operating officer, effective Jan. 1. A 28-year veteran of UPS, he will replace Charles L. Schaffer. Schaffer retires as COO at UPS after 30 years with the company.

D. Scott Davis, vice president of finance, was named chief financial officer to replace Robert J. Clanin, who also will retire Jan. 1. Davis joined UPS in 1986, after the company acquired Oregon-based aviation technology company II Morrow, where he was CFO. II Morrow is now UPS Aviation Technologies.

Air

British Airways World Cargo

Denis Connolly, general manager-regions, is taking over the new post of general manager-commercial, responsible for all sales, pricing and marketing activities worldwide and all commercial relationships with customers. He has worked for British Airways since 1965 and joined the airline's cargo division in 1985.

Pat Pearse becomes general manager customer service with worldwide responsibility. He was general manager service delivery. Pearse joined World Cargo at the end of 1994. He had spent 23 years in BA's engineering division.

Paul Burton takes over the new position of general manager-business development, with responsibility for information systems and commercial product development focused on special handling and perishables. Burton will develop World Cargo's commercial vision, including new products, pricing and distribution strategies. Since joining British Airways in 1976, he has held a number of business management, consultancy and IT roles in the United Kingdom, the United States and Australasia. He joined the cargo division as a general manager in 1995.

Pegasus Aviation Inc.

Richard M. Oster has been named chief financial officer and senior vice president, administration, for the San Francisco-based commercial aircraft leasing company.

Oster was CFO and senior vice president of Crowley Maritime Corp. During his 17 years with Crowley, his responsibilities included strategic policy administration, finance and accounting, information systems and human resources.

Inland

Burlington Motor Carriers

Terry A. Wallace has been promoted to president and chief operating officer of the Daleville, Ind.-based truckload carrier.

Wallace, formerly executive vice president, replaces Ralph Arthur, who is leaving the company to "pursue other interests."

Wallace, 37, joined Burlington in 1998 as vice president of marketing and was promoted to executive vice president with responsibility for sales, customer service, marketing, operations and driver recruiting. Prior to joining the company, he worked with Schneider National and Transtar.

CSX Corp.

CSX Corp. has named Lester M. Passa as senior vice president of strategic planning for CSX Transportation Inc.; Clarence W. Gooden as president of CSX Intermodal Inc., and Christopher P. Jenkins as senior vice president of the coal services group.

Passa, president of CSX Intermodal Inc., will report to John W. Snow, chairman and chief executive officer of CSX Corp., and will work with P. Michael Giftos, CSXT executive vice president of sales and marketing and chief commercial officer, and Michael J. Ward, CSXT executive vice president-operations.

Before heading CSX's intermodal subsidiary, Passa was CSXT vice president, commercial integration during the railroad's integration of its share of Conrail. Previously, he held senior positions with Conrail, including vice president, logistics and strategic planning; and senior vice president, automobile service group.

Gooden, formerly senior vice president, coal services group, succeeds Pasha at CSX Intermodal. He joined CSX in 1970 and had served as vice president, operations for CSX Intermodal for six years, and as vice president of network operations, vice president of transportation field and vice president of systems transportation at CSXT.

Jenkins succeeds Gooden as senior vice president, coal services group. He joined CSX in 1982 and has served as vice president of chemicals, assistant vice president of agricultural products, assistant vice president of marketing services and assistant vice president of energy systems development.

Service Announcements

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TACA to raise U.S. West Coast/Europe rates

The Trans Atlantic Conference Agreement said it will increase eastbound West Coast tariff rates by $240 per 20-foot container and $300 per 40-foot or 45-foot box, effective Jan. 1.

The increase applies to shipments from the U.S. West Coast to northern Europe. For less-than-containerload shipments, rates will go up by $15 per freight ton.

TACA said the increase is needed to improve the viability of rates relative to service offered.

TACA conference lines are Atlantic Container Line, Hapag-Lloyd, Mediterranean Shipping Co., Maersk Sealand, NYK, OOCL and P&O Nedlloyd.

EGL to expand international services

EGL Inc., the Dallas-based forwarder that recently merged with Circle International, said that it is planning to expand its international freighter activities with the launch of a transatlantic service.

The move follows a twice-weekly transpacific MD-11 freighter service, which started Oct. 16.

The transpacific service stops at Austin, Texas; Los Angeles, Calif.; Honololu, Hawaii; Guam; Taipei, Taiwan; and Austin. The service, which provides guaranteed space and feeds into the company's U.S. charter system, has been so successful that EGL is now looking at starting a service to connect the U.S. Midwest and central Europe, the spokesman said.

EGL is the largest domestic heavyweight air freight forwarder in the United States.

P&O Nedlloyd raises Europe/Montreal rates

P&O Nedlloyd said that it will increase westbound freight rates on cargoes moving in its non-conference northern Europe/Montreal service, effective April 1.

The increases will be $200 per TEU and $275 per FEU.

"This may be followed by a further general rate increase later in the year," a spokesman for the carrier said.

P&O Nedlloyd's move towards higher rates follows the recent announcement by the Northern Europe/Canada conferences of westbound rate rises of $150 per 20-foot container and $250 per 40-foot box, also effective next April.

The Canada Express service of P&O Nedlloyd and partners calls at Rotterdam, Felixstowe and Bremerhaven in Europe and Montreal in Canada.

Europe/Canada pacts raise westbound rates

The Northern Europe/Canada conferences have announced further rate increases on westbound shipments, effective April 1.

The planned rate rises are $150 per 20-foot container and $250 per 40-footer.

The conferences said the rate rises are in a context of "continuing and projected strong market conditions in the westbound trade to Canada."

The rate increases follow two rounds of hikes in westbound rates earlier this year, on April 1 and Oct. 1.

The conferences said carrier members will next review their rates on Oct. 1, 2001.

The members of the northern Europe/Canada/northern Europe conferences are Atlantic Container Line, Canada Maritime, Cast, Hapag-Lloyd and Orient Overseas Container Line.

Maersk Sealand expand TP3/TA3 service

Maersk Sealand is introducing a direct service connecting Asia and Europe to the West Coast of Mexico by adding a call at Manzanillo, Mexico, to its established Asia/North America/northern Europe TP3/TA3 weekly service.

The carrier has experimented with occasional calls at Mexican ports and decided to include weekly calls in the service, a Maersk Sealand spokesman said.

The TP3/TA3 service has a revised rotation of Halifax, Nova Scotia; New York; Norfolk; Charleston; Manzanillo, Panama; Manzanillo, Mexico; Long Beach; Oakland; Yokohama; Kobe; Hong Kong; Kaohsiung; Kobe; Nagoya; Yokohama; Oakland; Long Beach; Manzanillo, Mexico; Manzanillo, Panama; Miami; Charleston; New York; Le Havre; Felixstowe; Bremerhaven; Rotterdam; Halifax; New York; Norfolk; Charleston; Port Everglades; Manzanillo, Panama; Manzanillo, Mexico; Long Beach and Oakland.

In a related development, Maersk Sealand is adding a 12th ship to the service. Vessels of the weekly "pendulum" service have an average capacity of 4,426 TEUs.

The additional vessel will ensure that on-time reliability remains high during the winter months, the Maersk Sealand spokesman said.

CMA CGM and New World Alliance carriers APL, Hyundai and Mitsui O.S.K. Lines take space on the transatlantic leg of the TP3/TA3 service.

Maersk Sealand adds Asia/U.S. East Coast link

Maersk Sealand has started its new weekly all-water service between the Far East to U.S. East Coast ports.

The TP7 service will use eight vessels with average capacity of about 3,500 TEUs.

The port rotation is Norfolk; Miami; Manzanillo, Panama; Yokohama; Kobe; Hong Kong; Yantian; Kwangyang; Manzanillo; Miami; Savannah; and Norfolk.

Maersk Sealand recently said its current Asia/U.S. West Coast/U.S. East Coast service TP2 was to stop calling at the East Coast ports.

FESCO, Great Western merge services

Far Eastern Shipping Co. and Great Western Steamship Co. are planning to merge their two transpacific services, pending Federal Maritime Commission approval.

Tequesta-based Great Western Steamship and Russia-based FESCO each provide a weekly service between Hong Kong and China in Asia and the U.S. West Coast.

The merged service will deploy five ships averaging 1,540 TEUs with Great Western supplying three vessels and FESCO two.

The service rotation would be Los Angeles, Shanghai, Yantian, Hong Kong and Los Angeles.

A spokesman for Great Western said this development was intended to reduce capacity for the off-peak season.

Lloyd Triestino finalizes two new services

The Italian carrier Lloyd Triestino has announced the start dates for two additional transpacific container services.

Lloyd Triestino entered the transpacific trade in August with one weekly eastbound and westbound service between Asia and the U.S. East Coast, operated in cooperation with parent company Evergreen. The Italian carrier is adding two Asia/West Coast of North America weekly services called TPN and HTW, also in cooperation with Evergreen.

Lloyd Triestino will begin accepting cargo on the TPN service, previously operated by Evergreen on its own, starting with the sailing of the *Ever Diadem* eastbound from Kaohsiung on Nov. 30 and westbound from Vancouver on Dec. 18. The TPN service calls at Kaohsiung, Hong Kong, Osaka, Tokyo, Tacoma, Vancouver, Tacoma, Tokyo, Osaka and Kaohsiung.

In addition, the first Lloyd Triestino sailings on the HTW service will be provided by the *Ever Gleeful,* sailing eastbound from Kaohsiung on Dec. 22 and westbound from Los Angeles on Jan. 9. The HTW service calls at Pusan, Kaohsiung, Hong Kong, Los Angeles, Portland, Tacoma, Vancouver and Pusan.

Lloyd Triestino said it will provide one of the five ships in the TPN service. The carrier will take delivery of the first of three new 5,364-TEU ships, the *LT Usodimare,* in late November.

Lloyd Triestino's Asia/U.S. East Coast all-water service, introduced in August, uses slots on Evergreen's respective eastbound and westbound round-the-world services.

Evergreen drops Nagoya from Pacific link

Taiwanese mega-carrier Evergreen has dropped direct calls at Nagoya from its weekly transpacific TPN service.

The TPN service uses five vessels with an average capacity of 5,076 TEUs. The revised port rotation is Vancouver, Tacoma, Tokyo, Osaka, Kaohsiung, Hong Kong, Osaka, Tokyo, Tacoma and Vancouver.

Nagoya calls were dropped from the TPN service to "improve overall transit and service levels," a spokesman for Evergreen said.

Evergreen continues to call at Nagoya weekly to the U.S. West Coast on its round-the-world eastbound service.

Columbus line adds ships to AMPAC service

Columbus Line will add a vessel to the Far East service leg of its West Coast Americas service (AMPAC), which it operates with Maruba and TMM.

The service upgrade will is scheduled to start Dec. 12, with the sailing of the 1,150-TEU Columbus Pacific to Kaohsiung, Taiwan.

Columbus Line, Maruba and TMM started the service in May, comprising two strings. One string uses three vessels, two supplied by Columbus Line, operating a 42-day round trip rotation between Vancouver, Seattle, San Francisco, Long Beach and West Coast Latin America ports as far south as Lirquen, Chile. Columbus Line will shift the Columbus Pacific from the first string to the second string, which operates between Hong Kong, Kaohsiung, Shanghai, Busan, Long Beach and West Coast South America ports.

Alianca enhances South American service

Brazilian shipping line Alianca said that it has enhanced its capability to carry roll-on/roll-off, breakbulk and project cargoes following the recent addition of a second specialized ship in its service linking the U.S. Gulf and Mexico with the Caribbean and the East Coast of South America.

In addition to containerized cargo, Alianca's two vessels on this trade route — the Alianca Maracana and Alianca Ipanema — are configured to handle heavy lift, ro/ro and breakbulk shipments such as construction and manufacturing equipment, trucks, machinery, and other outsized items, a spokesman for Alianca said.

CSX Lines adds Hawaii service

CSX Lines Inc. has added a service between the U.S. West Coast and Hawaii.

The Midweek Express offers a direct sailing from Southern California to Honolulu, from Honolulu to Tacoma, and an intercoastal service from Tacoma to Long Beach.

CSX Lines has also added a second weekly sailing from San Juan direct to Jacksonville, Fla. This service will depart San Juan every Friday evening and will arrive in Jacksonville the following Monday.

Matson adds 8th ship to Hawaii service

Matson Navigation Co. has added an eight vessel to its seven-ship Hawaii service fleet.

With the new vessel, Matson offers four arrivals from the West Coast every week.

Twice-weekly service is provided from northern California, with direct sailings ever Tuesday and Friday afternoon. From southern California, direct sailings are every Wednesday and Saturday morning.

The Pacific Northwest service will continue to offer a weekly Sunday departure.

How Many Super Portals Are Needed?

At long last, five container shipping lines have announced a significant joint initiative to work together in the field of information technology systems and customer-facing interfaces. (see story, page 8). The portal known as INTTRA is being designed with capability to serve the entire shipping industry.

It is not clear at present whether INTTRA will in fact achieve this goal and be adopted as a global utility for management of international supply chains or will simply evolve as just one of several competing consortia, each with its own "super portal."

At this writing, we will not hazard a guess. But in either case, INTTRA is welcomed for its recognition of the need for harmonization in an industry heretofore characterized by incompatible proprietary systems and a reluctance to work together on industry issues.

Because of the size and market strength of the shipping lines (Maersk Sealand, P&O Nedlloyd, Hamburg-Sud, Mediterranean Shipping Co. and CMA CGM) which provided financing, INTTRA must make sure that it is nondiscriminatory or it will be seen too closely associated to a few transportation vendors to attract new participants and numerous customers.

It must deal also with the sensitive question of carrier/forwarder and third-party logistics relationships. INTTRA said that forwarders and logistics companies will be able to use its system, but makes no mention of non-asset-based carriers such as forwarder-owned non-vessel operating common carriers joining INTTRA as participating carriers.

To what extent should ocean carriers act as supply chain management specialists when they negotiate service contracts? Where should the line defining carrier responsibility be drawn? Will sharing systems change the industry even more than sharing ships? Should INTTRA be a business facilitator and software developer rather than a virtual mega-carrier? Many questions must be answered.

Other industry portals are expected to follow and, like INTTRA, they will create alternative procedures for shipping lines, shippers and forwarders work together.

Ultimately, shippers and forwarders will choose what suits their needs. They may prefer one super portal like INTTRA; they may feel more comfortable with several. Confidentiality, convenience, consistency and cost will be controlling factors.

Philip James

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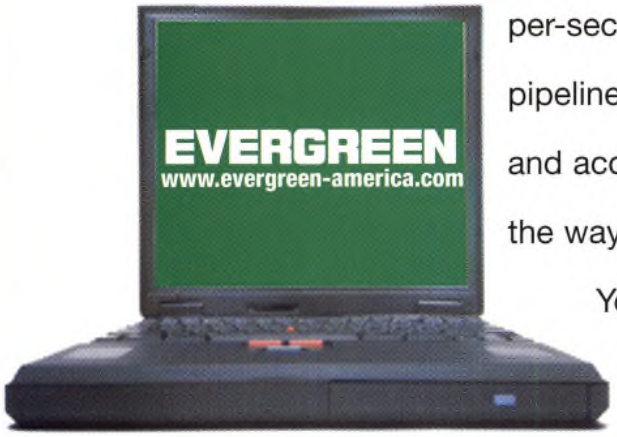
The pace of change in logistics has gone from months to bits-per-second. You need to track what's in the pipeline, and allow suppliers, buyers, sales and accounting to stay informed every click of the way.



You're on the net, but to turn surfing the net into business you need more. Trust is the key. *Check it, quote it, bill it, and trust it to Evergreen.* We're sailing every ocean and riding every road to earn and retain your trust. Security in transactions, safety in operation and speedy delivery, whether you're making one shipment or thousands. It's the net, working.

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