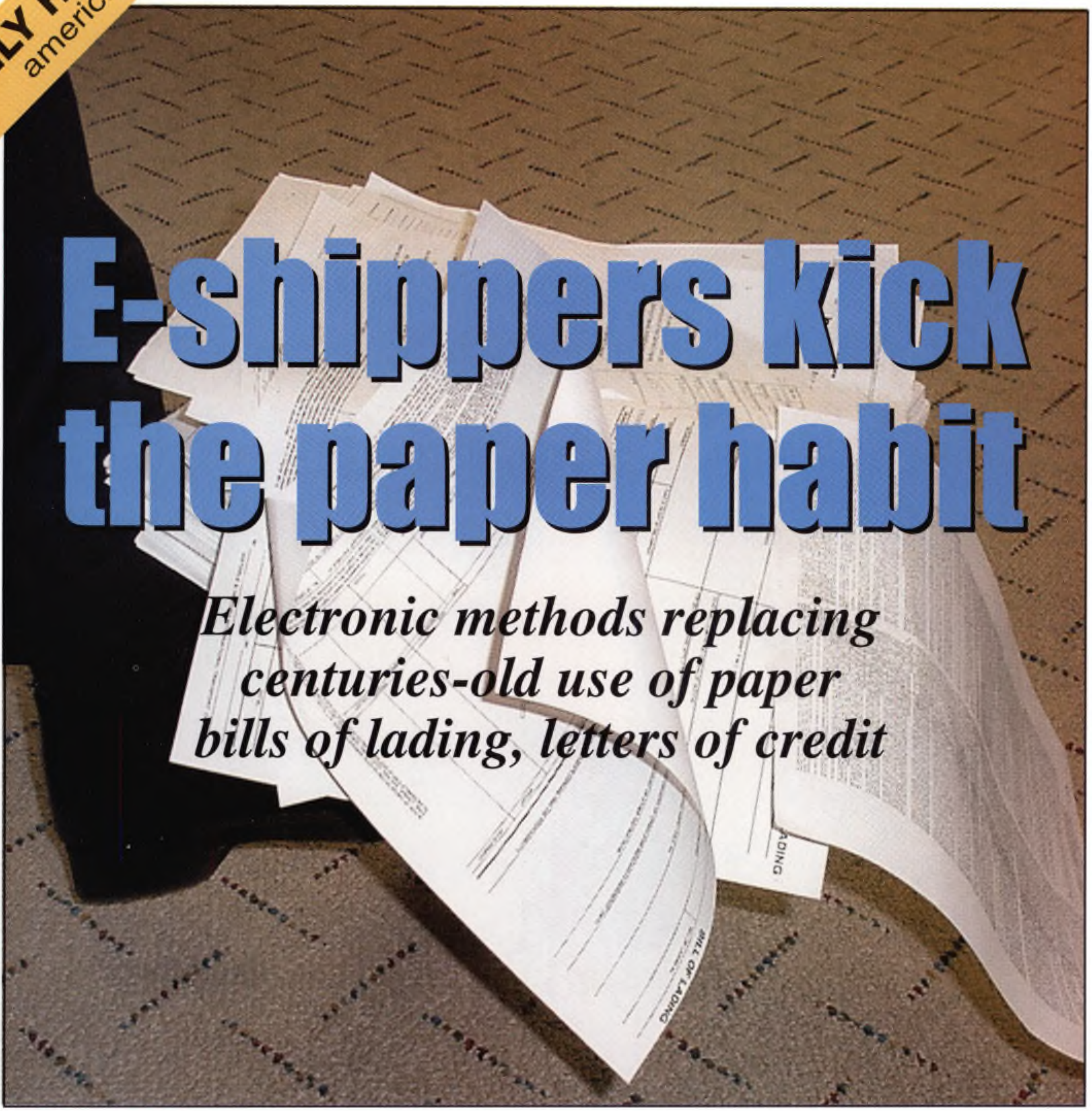
ILY HEADLINE NEWS
americanshipper.com

FEBRUARY 2001

American Shipper

The Monthly Journal of INTERNATIONAL LOGISTICS



E-shippers kick the paper habit

Electronic methods replacing centuries-old use of paper bills of lading, letters of credit

American Shipper

Vol. 43, No. 2 February 2001

On the Cover

For many, holding onto an original paper document like a bill of lading or letter of credit has been like clutching a security blanket. But despite the safeguards to trade they provide, such paper-based processes are slow, cumbersome and error-prone. Electronic trade facilitators like Bolero.net, CCEWeb and TradeCard have recently been established, seeking to provide a system that's acceptable to banks, insurers and shippers.

In the past few years, every ocean carrier, freight forwarder and consolidator have introduced basic database query systems. Internet-based tracking by container number or bill of lading has become a given. However, HomePort, APL's portal, and CargoSmart, OOCL's subsidiary, have created Internet-based customized ocean shipment management tools that go beyond tracking and tracing to aid shippers and forwarders.

During the past 15 years, U.S. Customs and the industry have worked together to shift the process of producing manifests from one based on paper to computer transmissions through the Automated Manifest System. Today, AMS has provided itself a durable process for Customs to meet its enforcement requirements while making it easier for transportation companies to file their shipment data.

With the woods full of 90-day wonders in electronic commerce software, Log-Net is a survivor, with a decade of business life under its belt. Former APL veteran John Motley has developed a software program that can "cover the entire purchasing process from the first day," from handling back-office management of a freight forwarder, to purchase order management and distribution and warehouse management.

American Shipper
INTERNATIONAL LOGISTICS

Publisher Hayes H. Howard
Jacksonville hhoward@shippers.com

Editorial David A. Howard, Editor
Jacksonville dhoward@shippers.com

Gary G. Burrows, Managing Editor
Jacksonville gburrows@shippers.com

Philip Damas, International Editor
London pdamas@shippers.com

Christopher Gillis, Deputy Editor
Washington cgillis@shippers.com

Tony Beargie, Associate Editor
Washington amshpdc1@aol.com

Robert Mottley, Associate Editor
New York rmottley@shippers.com

Gordon Forsyth, Contributing Editor
New York gforsyth@shippers.com

Francis Phillips, Shipping Research
London fphillips@shippers.com

Simon Heaney, Research Asst.
London london@shippers.com

Michael Merrill, Electronic media
Jacksonville mmerrill@shippers.com

Virginia Powers, Graphics

Advertising Cathy Avolio, Advertising Manager
New York cavolio@shippers.com
Nancy B. Barry
Jacksonville nbarry@shippers.com

Circulation Karyl DeSousa
Kerry Cowart
Jacksonville circulation@shippers.com

To subscribe call
1 (800) 874-6422

New York **(212) 912-1077**
Fax: (212) 912-1244
5 World Trade Center, Suite 9259
New York, New York 10048

London **+44 (20) 8970-2623**
Fax: +44 (20) 8970-2625
Empire House
Empire Way, Wembley
North London HA9 0EW, England

Washington **(202) 347-1678**
Fax: (202) 783-3919
National Press Bldg., Rm. 1269
Washington, DC 20045

Jacksonville **(800) 874-6422 (904) 355-2601**
Fax: (904) 791-8836
300 W. Adams St., Suite 600
P.O. Box 4728
Jacksonville, FL 32201

BPA INTERNATIONAL

American Shipper is published monthly, except one additional issue for the Southern Region only. Published on the 15th of each preceding month by Howard Publications, Inc., 300 W. Adams St., Suite 600, P.O. Box 4728, Jacksonville, Florida 32201. Periodical postage paid at Jacksonville, Florida, and additional mailing offices. Subscriptions $60 per year for 12 issues;$180 for air mail; $5.00 for single copies. Telephone (904) 355-2601.

American Shipper (ISSN) 1074-8350)

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

Printed in U.S.A.

Comments & *Letters*

Logistics network for sale: $2 billion

The size of the recent takeovers among international logistics service providers makes you wonder how much it costs now to build a global logistics network.

UPS announced a $450-million friendly takeover of Fritz Cos., one of the largest U.S.-based customs brokerage and freight forwarding firms.

APL Logistics, the international logistics arm of Singapore-based Neptune Orient Lines group, has acquired GATX Logistics, Inc., the large Jacksonville, Fla.-based contract logistics providers, for $210 million.

In the last two years, Deutsche Post acquired Air Express International for $1.14 billion and Danzas for $1.1 billion, while Federal Express took over Tower Group International, the $116.3-million-revenue New York-based customs broker, for an undisclosed amount.

But each of these large acquisitions covered only part of the total scope of activities required to have a global logistics network.

To put together an international network of non-asset-based transportation, customs clearance and warehousing activities, you are probably talking about spending about $2 billion in today's market.

That the money for these major takeovers is coming mainly from the highly profitable integrators and the protected European postal service operators is no longer a surprise. It is now common for a forwarder to compete against post offices, parcel operators, shipping lines, airlines and third-party logistics providers, to name but a few.

But the work now for the acquiring groups is to integrate supply-chain management services, transportation and information for shipments of any size, by any mode, and globally. *(Philip Damas)*

Splitting hairs on 'Made in USA' definition?

Black & Decker Corp. and its subsidiary Kwikset Corp. have agreed to settle charges with the Federal Trade Commission for representing their residential locks and locksets as made in the United States.

The FTC said that the packaging for Kwikset Tylo Unkeyed Knobs read "All American Made." Inside a stars and strips shield on the packaging also stated "All American Made And Proud Of It." However, in small print on a side panel said "Assembled in Mexico."

The agency said "these representations were false or misleading because these products were actually made with significant foreign components."

Some industry officials, however, believe that Black & Decker technically did not the break the law and say the FTC is simply splitting hairs over its definition of "Made in USA."

"Last time I looked Mexico was in America," said a customs broker. "The U.S. flag does nail them a bit to a false C/O (certificate of origin) location, but the style 'Made In America' is correct."

The proposed settlement with the FTC would prohibit the manufacturer from misrepresenting the extent to which its locksets are made in the United States. In addition, a number of record keeping and reporting requirements designed to assist the FTC in monitoring compliance would have to be maintained by the company.

The agency will finalize its settlement terms with Black & Decker before the beginning of February.

Some pro-"Made in USA" groups are reportedly threatening to take Black & Decker and Kwikset to court for misleading U.S. consumers.

In 1997, the FTC tightened its "Made in USA" advertising and labeling policy so that these claims could only cover products which are "all, or virtually all" made in the United States. The agency has issued a guide, "Complying with the Made in USA Standard," to assist shippers. *(Chris Gillis)*

ACCESSIBILITY

SOUTH AMERICA SURROUNDED.

'ERY MONTH, INTERMARINE SERVICES MAKE MORE THAN 60 CALLS AT SOUTH AMERICAN PORTS WITH
: TRADE'S LARGEST AND MOST MODERN FLEET OF MULTIPURPOSE PROJECT CARGO VESSELS. WHETHER
J NEED SERVICE TO BUENOS AIRES OR VALPARAISO, MARACAIBO OR MANAUS – WE HAVE SOUTH AMERICA
RROUNDED. WITH **FIVE SAILINGS A WEEK** FROM THE US, NO ONE OFFERS AS FAST, AS FRE-
ENT OR AS FLEXIBLE A SERVICE TO MEET YOUR SCHEDULING NEEDS. FOR SPECIAL PROJECTS, HEAVY
FTS AND OVERSIZED PIECES, OR JUST REGULAR CONTAINERS, INTERMARINE PROVIDES THE **BEST**
:CESS TO SOUTH AMERICA. CALL US AND EXPERIENCE INTERMARINE'S ABILITY TO DELIVER
RE THAN PROMISES.

INTERMARINE
INCORPORATED

ISO 9002 CERTIFIED

NEW ORLEANS 504.529.2100

HOUSTON 713.451.2700

WWW.INTERMARINENOLA.COM

Borrone's legacy

It's hard to say good-bye to Lillian Borrone, who retired at the end of 2000 as assistant executive director of the Port Authority of New York and New Jersey. For 12 years, Borrone served as port director for the bistate agency. She had been promoted to assistant executive director only a few months before her retirement at the age of 55.

I first met Borrone early in her stint as port director, when Nick Blenkey, editor of the *Marine Engineering Log*, sent me to interview her. The only time available was the ungodly hour of 6:45 a.m. I don't remember my expectations, but I was confounded to meet a petite, fashionably dressed lady who resembled the actress Audrey Hepburn in her speech and mannerisms. She was far more awake than I, crisp and to the point. I went back to Blenkey said, "we have *Breakfast at Tiffany's* when the script calls for *On the Waterfront*. She won't last four months."

A few days before her retirement, Borrone and I met for a final interview — not to talk about her well-publicized career, but the personal side of her life. I came away with the feeling that some people are indispensable. They fill a void and upon departing, leave one.

At the beginning of her tenure as port director, the port authority's board of directors was comprised of individuals who had more wealth, clout, and class than the governors of New York and New Jersey. The governors listened to the board. Today, it's the governors who have the whip hand.

That change in tone was most apparent on Robert Boyle's first day as executive director of the port authority. Greeting Borrone before a series of meetings, Boyle said that he would most likely fire her by late afternoon. At the end of the day, he asked her to stay on. "You're the only person all of these factions will talk to civilly," he said.

There have been events that rankled Borrone. A short list would include the notorious farewell roast for Conrad Everhard, where she was cast as Saint Joan on a dais of rowdies, and *The Daily News'* taunts about a $400-plus hotel room on an Asian tour promoting the port, and the luxurious two-pilot helicopter used by port authority brass.

Most vexing, for Borrone, were the daily stress and tensions that flared during the long-running, recently concluded political spat between the governors of New York and New Jersey, which nearly cost the port several prominent tenants.

Borrone will never forget the nerve-wracking day that the *Regina Maersk* steamed gingerly into the port, mercifully clearing detritus in the shipping channels by margins of one and two feet. Had the blue-hulled behemoth run aground, the result would have been a public relations fiasco.

Her problem all along has been that the marine port does not have top priority with the port authority, which is aviation-driven. How could be it be otherwise when landing slots at La Guardia Airport sell for $2 million? No wonder that Borrone, at first, aspired to be aviation director. In the prevailing hierarchy, bridges and tolls come second, followed by the port. Yet she made her case for a turnaround in marine fortunes that can be fairly said to have occurred on her watch.

The port depends on a mosaic of understanding and trust, sustained from meeting to meeting, by people willing to look above their lunch boxes and be generously disposed to each other. That's Borrone's legacy. How it will endure remains to be seen. *(Robert Mottley)*

MOL globalizes Japanese mindset

Japanese shipping lines, like Japanese businesses in general, have always had a way of doing business that is unique to their country. But Mitsui O.S.K. Lines said it is working on a campaign of globalized management.

"We must continue our efforts toward globalization, while maintaining our long-term relationships with Japanese customers," said Kunio Suzuki, the new president of MOL. "Each division is now taking a different approach to globalization. But I hope we will develop a common idea of global logistics, and the ways we will execute our policies."

Suzuki said the borderless economy that began to develop at the end of the 20th century will be completed in this century through initiatives of the World Trade Organization, governments, and the private sector.

At some point, terms such as "international and domestic logistics" and "offshore trade" will become "all but meaningless in economic terms," he said.

Suzuki stressed that it is vital for his company to understand exactly how worldwide shipping will be affected by these changes. One of the steps to be taken will be to "pay particular attention to logistics in Asia including China and India."

"This is not to say that our Japanese customers will be less important," he said. "But we cannot stay competitive tomorrow if we hold onto yesterday's Japan-centered mindset." *(Philip Damas)*

Your opinion, please

The new year finds several new faces gracing the pages of *American Shipper*, as three well-known industry veterans have become monthly columnists.

Surface transportation industry veteran Theodore Prince, of Transgistics LLC, began writing his column in January. This issue also brings the second installment of an insightful three-part series on drayage issues.

This issue also brings the introductory columns of Barry Horowitz, a senior executive with Danzas AEI who will write on shipping, forwarding and logistics, and Satish Jindel, a principal of SJ Consulting Group Inc., who will cover express and air cargo industries.

Of course, Letters & Comments is a forum open to anyone in the industry to offer thoughts and comments. If there's an issue you hot to talk about, write us and let us know. *(Gary Burrows)*

Avolio joins *American Shipper*

Cathy Avolio has joined *American Shipper* as advertising manager. A 14-year veteran of industry publications, Avolio was advertising manager of *Pacific Shipper* for four years. Prior to that she was with the *Journal of Commerce*, where "I worked in all aspects except circulation and editorial."

Avolio is based in Middlesex, N.J. *(Gary Burrows)*

Correction

A story in the January issue of *American Shipper* ("Too many hands to move cargoes?", page 62) was based on comments made by Claude Lebel, director of OOCL (Europe) Ltd. at the recent Intermodal 2000 industry conference.

The article incorrectly said that the CargoSmart system of Orient Overseas Container Line is also used by China Ocean Shipping Co. In his conference presentation at the conference, Lebel made no reference to COSCO in the context of CargoSmart.

APL Logistics plans more buys

Acquisition of GATX Logistics could be followed by deals in Europe, the Americas, Metzler said.

JACKSONVILLE, Fla.

APL Logistics' purchase of GATX Logistics for $210.5 million is only the beginning, said Richard Metzler, chief executive officer.

The acquisition by the international logistics arm of Singapore-based Neptune Orient Lines group is the company's first since announcing a growth-oriented policy of acquisitions and joint ventures last year.

Metzler

"I have other deals in the pipeline that are similarly strategically grounded," Metzler told *American Shipper,* citing several transactions "in Europe and in the Americas" that "may come to fruition in 2001."

The acquisition of GATX Logistics, the second-largest warehouse-based contract logistics company in the United States and one of the top logistics players throughout North and South America, is expected to increase APL Logistics' revenue by 70 percent or more than $300 million, a company spokesman said. In 1999, APL Logistics had revenues of $372 million.

The acquisition also creates an integrated end-to-end service for shippers, Metzler said.

"This does it. You can go from a factory floor in Bangladesh to the door of a store in Peoria with one custody, and be fully integrated on the supply chain management information systems side to proactively go against exceptions," he said.

For U.S. retailers, APL Logistics "brings product from a diverse number of factories all over Asia and the Indian subcontinent into key consolidation points. where we perform value-added services, labeling, tagging, barcoding, etc., to make sure the information flow is there," he said.

"Then we build consolidated loads. About one-third of those loads move on APL iron (vessels), so we are truly a neutral third-party provider. Yet what we've been able to do is only part of the supply chain," he said.

"GATX Logistics can now catch that business on the other end," Metzler said. "This acquisition allows APL Logistics to do warehousing for goods that aren't allocated in stores yet. It also gives us the ability to bypass directly to a store for back-ordered materials or seasonal products, or to go directly to an individual consumer's door."

"We have one of the largest warehousing capabilities of any provider in the U.S.," said Joseph A. Nicosia, president and chief executive officer of GATX Logistics. "In addition, we have strong IT capability to manage information through the pipeline. We know where the product is at any point in time when it's in our control, or in the control of someone else with whom we have EDI connections."

Nicosia

As part of APL Logistics, "we will take the cargo from the port and move it through the appropriate distribution channel to the ultimate consumer.

In addition to warehousing, "we also provide transportation and freight management services," Nicosia said. "We're doing probably less than $100 million in freight management today. After this combination, we can add another $150 million in freight management, to become a powerhouse in leveraging transportation for our customers."

APL acquired GATX Logistics from financial firms Oak Hill Capital Partners L.P. and Stephens Group Inc., which had bought 89 percent of the company from Chicago-based GATX Corp. on June 1 and acquired the balance by the end of the year.

The financial firms had several proposals from companies wanting to buy GATX Logistics. Daniel L. Doctoroff, managing partner of Oak Hill Capital, found APL Logistics's overture to be "a compelling opportunity."

Was acquiring GATX a hard sell within NOL? "Not at all," Metzler said. APL became profitable again in the first quarter of 2000, assisted by rising freight rates and burgeoning trade.

"I had unanimous support within the NOL Group at every stage of the financial analysis that went along with the purchase," he said.

APL Logistics hired Credit Suisse First Boston to advise the transaction, which will be financed by funds raised in 1999 when NOL sold new shares to raise $500 million. The transaction is expected to close during the first quarter.

GATX Logistics has had close ties to Credit Suisse as well, brokering the first deals in the United States in which a bank partnered a logistics provider.

"The ability to finance inventory is dependent on two things: control over the inventory, and information about where the inventory is," Nicosia said.

"We can apply more of those concepts, particularly now that we're going to control the supply chain from end to end." APL Logistics' acquisition "will enhance our ability to do those kinds of things," he said.

"I see only minimal overlapping," Metzler said.

APL said the GATX Logistics name will be replaced by that of APL Logistics over the next six months.

As for Nicosia's future, he said, "I will probably take less than a full-time role, but I want to remain involved. I have a lot of sweat equity built up in this company. I will probably be a senior advisor for strategic growth initiatives."

"I was first attracted to GATX Logistics by the leadership team Joe built," Metzler said. "That team will have a prominent role in what now transpires. I'm not prepared to announce the organization today, but we will shortly, and you'll see what I mean." ■

	GATX Logistics	APL Logistics
Services:	Integrated warehousing, transportation and information technology	Consolidation, transportation, distribution, contract logistics and information technology
Date founded:	1974	1980
Number of employees:	3,000	2,000
Number of offices:	125	115
Headquarters:	Jacksonville, Fla.	Oakland, Calif.
Other principal offices:	34 cities, 22 states, five countries	115 cities, 52 countries, 5 continents
Warehousing:	125 facilities totaling 22 million square feet in 34 cities, 22 states, five countries.	104 facilities totaling 6 million square feet in 72 cities, 34 countries.
Major clients:	Electronics firms, chemical producers, retailers, a number of Fortune 500 companies.	Automotive, computer, chemical producers; retailers, apparel importers

Source: GATX Logistics; APL Logistics.

UPS acquires Fritz Cos.

Express carrier looks to San Francisco-based customs broker-forwarder to increase its logistics capabilities.

ATLANTA

Fritz Cos., once the buyer of numerous freight forwarder and customs brokerage operations, has itself been acquired.

United Parcel Service, one of the world's largest express carrier operations, bought the San Francisco-based firm for $450 million in UPS Class B common stock. Fritz is expected to expand UPS' coverage into new logistics businesses.

"This acquisition enhances UPS' strategy by providing comprehensive solutions across the supply chain at any point our customers desire, moving goods of any size, by any mode, anywhere in the world," said Joe Pyne, UPS senior vice president for corporate development. "This expands our flexibility to offer a broader portfolio of services, including air, ground, and ocean freight to our global customer base."

The transaction marks the first UPS stock acquisition since UPS' initial public offering in November 1999, which raised $5.5 billion.

Although subject to the customary closing conditions, including approval by Fritz shareholders and regulatory clearance, UPS said it expects to complete the transaction by the second quarter this year.

Fritz chairman and chief operating officer Lynn C. Fritz, who holds about 36 percent of the outstanding shares of the company, has entered into an agreement to vote the shares he controls in favor of the merger. The acquisition is structured as a tax-free, stock-for-stock merger in which Fritz shareholders will receive UPS Class B common stock in exchange for their Fritz common stock. Each of the roughly 37 million shares of Fritz stock will be exchanged for 0.200 shares of UPS stock.

"We are very excited about the powerful combination that UPS and Fritz will create, and I believe the decision to join the UPS team is the best for the growth and development of this business," Fritz said.

Lynn Fritz
chairman & CEO, Fritz Cos.

"I believe the decision to join the UPS team is the best for the growth and development of this business."

No Surprise. To many industry analysts, the UPS acquisition of Fritz came as no surprise. The Atlanta-based company's archrival, Federal Express, last year bought the former McGraw-Hill unit, Tower Group International. Other large carriers, such as Deutsche Post and the Belgian Railway, have started to build sizable logistics operations through acquisitions in recent years.

Forwarder-broker and shipper executives accept the trend as a fact of life. "I don't see anything that's going to slow it down," said Richard J. Bolte Jr., president of Philadelphia-based BDP International, which has traditionally expanded its operations through organic growth and joint ventures. "It's still a fragmented business."

Bolte

"You're going to need companies the size of UPS to serve growing companies, such as ourself," said Michael D. Laden, director of import administration and customs compliance for Target Corp., which uses Fritz for inbound deconsolidation and distribution work. "In the future, we're going to need companies with a full range of logistics services."

UPS is no stranger to acquisition of forwarder-brokerage firms, but it has tended to make these purchases on a smaller scale. Two years ago, UPS bought Champlain, N.Y.-based Trans-Border Customs Services, a broker specializing in the Canada-to-U.S. trade. Last year, UPS quietly bought another northern border broker, Border Brokerage of Blaine, Wash.

The carrier began to operate in-house brokerage services in 1985. In 1994, the company started to provide brokerage of northbound shipments to Canada. UPS has said that it believes that it has a healthy future in the management of imports. It's own research has show that importers make about 70 percent of all international express shipment buying decisions.

Fritz adds more diversity and depth to UPS' service offerings. The carrier said it would train its national and strategic account managers during the next several months about Fritz's operation and how to sell its services to existing and potential clients.

UPS will also work closely with Fritz to integrate their computer systems. Fritz is completing the rollout of a new system, the Global Business System, Pyne said.

Because of the logistics operator's new parent, it's long-time customs clearance business with FedEx is expected to terminate in the coming year.

There is some concern by shippers that UPS may lean on Fritz to fill its capacity, which may result in the use of a more costly transport service in certain markets or distribution situations. The carrier insists that it will handle the shippers' freight in the most efficient manner.

68 Years. Fritz has a long history of aggressive growth from its humble beginnings as a small San Francisco-based broker in 1933. Lynn Fritz, son of founder A.J. Fritz, joined the firm in 1965, and quickly set out to build a national brokerage operation.

By the mid-1980s, Fritz had about 35 offices scattered throughout the country. These offices helped Fritz to expand services to include forwarding, cargo consolidation, air cargo shipping, warehousing and distribution. Brokerage now accounts for about 30 percent of Fritz's revenue, while air and ocean forwarding covers 49 percent, and logistics services covers the rest.

In 1992, Fritz issued its first stock to raise money to expand its operations. Lynn Fritz took his company into an aggressive growth mode the following year by acquiring numerous small to mid-sized forwarders worldwide. The company bought about 50 firms between 1993 and 1996.

Most of these companies were easily absorbed into the Fritz network. However, one of the biggest acquisitions, Intertrans Corp., gave Fritz some problems. After taking over the air freight forwarder, Fritz had to straighten out Intertrans' bad debts. Fritz's bottom line suffered in 1997 with a posted profit of only $308,000, down from $25 million a year earlier.

Lynn Fritz weathered the storm and continued to build his company's customer base. Today, the company owns and operates 400 facilities in more than 120 countries, and has more than 1,000 employees globally. Fritz reported gross revenues of $1.6 billion and net revenues of $619.3 million during its last fiscal year, which ended May 31. ■

Customs lists dumping-injured firms

U.S. agency follows requirements of Byrd Amendment through Internet Web site.

WASHINGTON

U.S. Customs has published a list of domestic manufacturers, labor unions and trade associations that have petitioned the federal government for relief as a result of financial injury caused by imports dumped on the market.

The International Trade Commission recently compiled and forwarded to Customs a list of 360 dumping investigations in effect on Jan. 1, 1999. This list identifies the Commerce case numbers, in addition to providing product descriptions, subject countries and affected U.S. entities.

"We have asked the Secretary of Commerce to identify all such orders for which there are pending administrative reviews and will forward those additions to the list as soon as we receive them," said ITC Chairman Stephen Koplan in a letter to Customs.

The dumping cases cover an array of products, from Canadian brass sheets and strips to Italian pasta, which were sold by overseas companies on the U.S. market at below domestic wholesale prices.

Once dumping is discovered, Customs imposes enough duty on the imports to offset the below-market value of the product. The government then can provide relief to injured domestic entities through the collected duties.

Attention was raised on this issue after Congress passed the so-called Byrd Amendment, proposed by Sen. Robert Byrd, D-W.Va., in the fiscal 2001 Agriculture Appropriations bill. The amendment allows for the distribution of antidumping and countervailing duties to firms that are involved in these legal cases.

The import industry has complained bitterly that it was caught off guard by the legislation. Industry groups, such as the American Association of Exporters and Importers, attempted to stop the Byrd Amendment's passage.

AAEI warned that the legislation could result in U.S. conflicts with the World Trade Organization and deteriorating relations with overseas trade partners. The association also said the legislation could cause an unusual increase in trade litigation and other frivolous actions.

Customs said it's only doing its job as mandated by the Byrd Amendment. "We have a law in place and we're moving ahead with it," said Dennis Murphy, spokesman for Customs in Washington. The agency will develop a mechanism for dispersing money to the injured firms.

The dumping case list can be viewed at Customs' Web site: www.customs.gov, by clicking on "Importing & Exporting." Customs said it's publishing the list under the auspices of the Electronic Freedom of Information Act (EFOIA).

An earlier list published by Customs under EFOIA created a stir in the industry because companies that had voluntarily tendered underpayments to the agency were listed with companies that paid penalties.

Before issuing the dumping list, Customs officials said they are taking steps to avoid similar mistakes in future electronic publishings. ■

Marine Transport's projected financial performance
(In $millions)

	2000	2001	2002	2003	2004	2005	2006
Revenues	$234.4	$228.3	$224.3	$193.7	$159.2	$158.0	$150.3
Operating expenses	$228.1	$216.1	$205.8	$176.5	$148.4	$146.6	$137.9
Operating income	$6.2	$12.1	$18.5	$17.2	$10.8	$11.3	$12.3

Source: Crowley's filing with Securities and Exchange Commission.

Crowley to buy Marine Transport

Sees more profit than risk in oil and chemical trade.

NEW YORK

Crowley Maritime Corp., on Jan. 5 filed notice with the U.S. Securities and Exchange Commission to acquire Marine Transport Corp., based in Weehawken, N.J.

As previously announced, Crowley has agreed to buy all outstanding shares in Marine Transport for $7 a share.

A source at Crowley said the company expected to own a majority of the shares after Feb. 5.

In its statement to the SEC, Crowley said the purchase of Marine Transport's shares would be done through a Crowley subsidiary, Shiloh Acquisition Inc. The amount of the transaction was given as $48.6 million— "estimated for purposes of calculating the amount of the filing fee only," the filing said.

The filing noted that the first overture between Thomas B. Crowley Jr., chairman and chief executive officer of Crowley Maritime, and Richard T. du Moulin, chairman of Marine Transport, occurred in Chicago Sept. 21-22.

In December, Crowley said that "it is our plan to allow Marine Transport to pursue its present strategic plan, with its dedicated management and employees.

The purchase of Marine Transport Corp. reverses a recent trend of foreign companies buying U.S.-owned carriers. Crowley Marine sold its U.S./South America liner services, operated under the name Crowley American Transport, to German line Hamburg Sud in January 2000.

Crowley will garner revenues from Marine Transport's time-chartered tankers and chemical product carriers, but will also be exposed to liabilities associated with transporting hazardous cargoes.

That element of risk has puzzled observers in the industry. Many, but not all, of Marine Transport's vessels are older ships. Some have allegedly been prone to operational problems.

"One bad oil spill, or a chemical explosion due to the inattentive handling of cargo, could be very harmful to Crowley," said a source in New York. "Such misfortunes might befall any tanker operator, but in the U.S., in the post-OPA age, the courts can really sink their teeth into you."

"The talk I hear is that Crowley will do well enough from the charters to justify that risk," he said.

Crowley Maritime, founded in 1892, is a family and employee-owned company. Subsidiaries include Crowley Liner Services, Crowley Marine Services, Crowley Petroleum Transport and Crowley Logistics.

Crowley operates regularly scheduled tug-barge combinations carrying containers between the U.S. and Puerto Rico, as well as vessel services between the U.S. and Central America.

MTL Petrolink, a Houston-based subsidiary of Marine Transport, provides lightering services for crude oil in the Gulf of Mexico.

ING Barings LLC advised Marine Transport in negotiating the deal. ■

Systems developers reach for ACE

Bid deadline to build U.S. Customs' future computer system nears.

BY CHRIS GILLIS

When U.S. Customs recently announced that the money was in hand to start building its future computer system, the country's leading systems developers moved into action.

Customs had released a solicitation to the private sector to build its Automated Commercial Environment in late December. The agency believes that an outside firm could more efficiently build the $1.4-billion system.

That's good news to systems developers who have been waiting for Customs to release its so-called request for proposal to build ACE for more than a year due to lack of funding from Congress. The written bids are due to the agency by Feb. 5.

"We're excited about the RFP," said Kevin J. Durkin, vice president of EDS Government Industry Group, based in Herndon, Va. "It shows real commitment by Customs to move ahead with a real industry partnership to achieve a modernization result that will enhance trade and the inspector's work on the front lines."

Customs said it would pick a "prime contractor" to head the development of the system. Because of the complexity of the system, the prime contractor is expected to manage a handful of other large systems developers and upwards of 15 smaller, more specialized technology firms.

"We're very pleased that the RFP is finally released," said William E. Eldridge, managing director for IBM's Worldwide Tax and Revenue Practice. "We've got the energy and enthusiasm back that we had a year ago. The delay in the RFP also resulted in a 10-fold increase in our knowledge of the Customs process."

IBM's main team comprises Lockheed Martin, KPMG, Sandler & Travis Trade Advisories, and Computer Sciences Corp. Each of these firms will bring their own expertise to the bid. IBM is active in commercial and financial systems development. Lockheed Martin is known as one of the largest law enforcement systems developers. KPMG and Sandler & Travis are strong in industry compliance with government regulations, while Computer Science Corp. has experience with building the future Internal Revenue Service System.

William E. Eldridge
managing director, Worldwide Tax & Revenue Practice, IBM

"All the teams are equally qualified. It will be up to Customs to decide who they're most comfortable working with."

The primary EDS team comprises PriceWaterhouseCoopers and Harris Corp. Accenture (formerly Andersen Consulting), another large systems developer vying for the contract, has a team that includes Unisys and Science Applications International Corp.

Northrop Grumman initially expressed interest in bidding for the contract, but industry analysts expect the company to step out of the race.

Tough Process. Since the stakes are high to win this multibillion-dollar Customs' modernization contract, the competition between the bidders will likely resemble a clash of the titans. Each company will spend well more than million dollars to prepare their bids.

Customs has made it clear to the bidders that the selection process will not be easy. Besides the written proposals, each bidder must conduct an oral presentation before the agency's management by late February or early March.

"This contract is fairly unprecedented in the size and scope for Customs," said Michael Rebain, contracting officer for Customs' Procurement Division in Washington. "There will also be emphasis placed on the oral presentations as opposed to just written ones."

Although each bidder's oral presentation will be well prepared, many industry analysts believe that this phase of the bid will either make or break the bidder's effort to secure the contract.

"All the teams are equally qualified," Eldridge said. "It will be up to Customs to decide who they're most comfortable working with."

Big Requirements. The prime contractor requirements are complex. Customs set the parameters of the contract with the help of Mitre Corp., a not-for-profit company specializing in large systems development for government agencies. Mitre has provided similar assistance over the years for the Federal Aviation Administration, Defense Department and, most recently, the IRS.

Each bidder and its team must use the "Capability Maturity Model," a program developed by the Software Engineering Institute at Carnegie-Mellon University. The bidder must also include small businesses in the process.

Eldridge described the experience of preparing for the ACE bid like buying new tires. "If you have no intention of buying new tires, you'll never know there are tire ads in the newspaper," he said. "When you need tires, then suddenly there are 20 ads a week. Same with Customs' need for a new system, we quickly absorbed vast amounts of knowledge on the subject."

Mascola

The bidders are also aware of the complexity of Customs' role in U.S. trade. "It's truly modernization and transformation work," said Lisa Mascola, managing partner of the Treasury account at Accenture. "It isn't just about installing new hardware."

To get an overview of day-to-day operations, Customs took the perspective bidders on a "field trip" to the seaport of Long Beach, Calif., and the land-border crossing at Laredo, Texas.

The systems developers were impressed by the strong desire of the field staff to acquire a new system. "Customs is absolutely committed to making ACE success-

ful," Durkin said. "We're strongly encouraged by the field's enthusiasm. That's not always the case at other government agencies and businesses."

Accenture has conducted a few of its own border simulations. "The technology must enable both better trade facilitation and law enforcement for Customs," Mascola said.

Most of the systems developers are no strangers to big government agency systems development. Accenture has been involved in other government agency modernization projects over the years. The firm helped to modernize New Zealand Customs' operations five years ago. Accenture recently won a contract to develop a plan to modernize U.K. Customs and it will soon perform similar work with Chinese Customs.

The developers will have to consider what's technologically important to Customs as well as what's on the horizon for future computer systems.

"Through our experience in large-scale modernization efforts, such as General Motors and the United Kingdom's tax agency, we're well aware of the flexibility needed over the long term for enterprise systems development," Durkin said.

One of those systems challenges for Customs will be the accommodation of Internet transactions.

"The Internet poses many challenges. How do you tax the value of goods transacted over the Internet from other countries? How does Customs deal with pornography and acts of terrorism over the Internet?" Eldridge said. "These are real issues that need to be dealt with."

Customs and the prime contractor will also be responsible for developing the International Trade Data System, the proposed front-end system for ACE, which electronically links as many as 100 agencies with an interest in trade data.

The new system will also have to take into account the current and future systems needs of the industry. The country's biggest industry groups, such as the American Association of Exporters and Importers, National Customs Brokers and Forwarders Association of America, Joint Industry Group and Business Alliance for Customs Modernization, will be closely watching the ACE rollout closely, and will contribute heavily to how it operates.

"One of the biggest challenges for Customs is keeping its great diversity of constituents happy," Mascola said. "Getting a consensus among them will be a challenge."

Customs postponed a Trade Support Network meeting, scheduled for Jan. 10-11 in Washington, to accommodate bidders' participation. The TSN, a group of industry executives, is designed to provide Customs with input about the business needs, which should be considered in the development of ACE.

"Federal acquisition regulations require that all potential bidders have equal access to information pertaining to the scope of work under the RFP," said Janet Pence, Customs' TSN coordinator.

Ultimately, ACE is only a part of the deal. The contract commits these firms to the entire Customs modernization program, a 15-year endeavor, which covers the agency's other support systems, such as finance, passenger processing, outbound cargo, enforcement and human resources.

Resolved Funding. After several years of failing to secure funds for ACE from Congress, Customs is eager to get its ACE development started. The contract will be awarded by late April and work should commence in mid-June. The system will be rolled out in phases over the next four to five years.

Kelly

"This is not only a new system that will help imports move across our borders more efficiently," said Customs Commissioner Raymond W. Kelly. "It is also a system that will help Customs to do a better job of protecting America from contraband and dangerous goods."

The agency said ACE will dramatically streamline its commercial processing, thus generating revenue for both government and industry through faster cargo release, reduced labor costs and easier payment options.

Customs received $130 million to start the RFP and $5.4 million for ITDS on Dec. 21 when President Clinton signed off on the fiscal 2001 Treasury-Postal Service appropriations bill.

During the past fiscal year, Customs processed commercial imports valued at $977 billion with its 17-year-old Automated Commercial System. That's about $100 million more than the previous fiscal year. The agency expects the volume of trade to double during the next decade.

Meanwhile, Customs worries about the ability of ACS to handle the huge growth in trade data volume before the new system is built. ACS has experienced several "brownouts" or temporary shutdowns that drastically slowed the flow of goods.

"These brownouts put a brake on the economy," Kelly said. "They have an adverse impact on every facet of the U.S. economy, from Wall Street to Main Street."

The agency has promised the industry that it would not allow the aging system to collapse. Customs received $123 million in its fiscal 2001 budget for ACS maintenance. "We can't take our eye off the ball. ACS will continue to receive our constant attention," Kelly said. ■

CCAF prepares for Bush, Congress

WASHINGTON

The shipping industry's successful lobbying of Congress to fund Customs' future computer system in fiscal 2001 may be cause to celebrate, but not for long.

The Coalition for Customs Automation Funding, a group of more than 200 companies, trade associations, consultants, law firms and lobbyists, is moving ahead to develop a new agenda for lobbying the Bush Administration and Congress during 2001.

During the past two years, the coalition engaged in an intense letter writing and meeting campaign with congressional officials to win their approval to fund Customs' Automated Commercial Environment in fiscal 2001.

In the budget, Customs secured $258 million for its automation budget, of which $130 million was earmarked for ACE development. The system is expected to cost $1.4 billion and take about four to five years to build.

CCAF give most of the credit for the initial ACE funding to the hard work and understanding of Rep. Jim Kolbe, R-Ariz., chairman of the House Appropriations Subcommittee on Treasury, Postal Service and General Government.

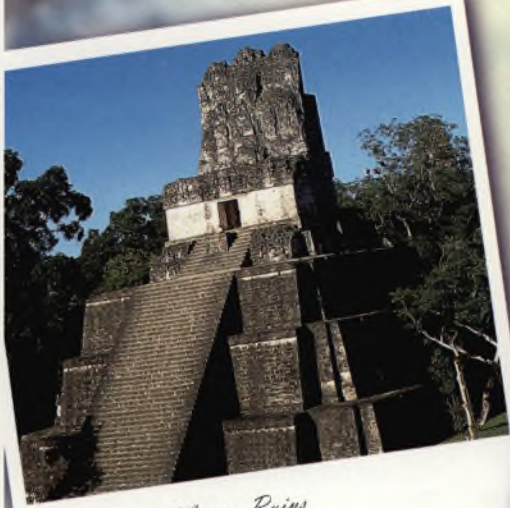
But the incoming Bush Administration and change in leadership among the congressional committees poses a new set of problems as well as opportunities.

"We have a shot with this administration," said Robin Lanier, chairman of the coalition, based in Washington. "But we have to make our arguments heard."

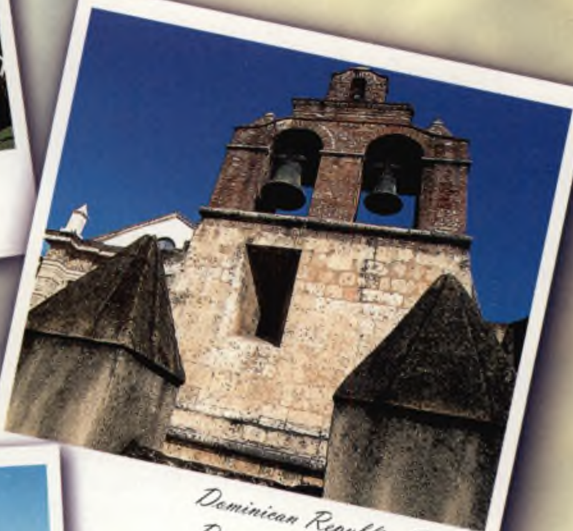
One of the coalition's biggest concerns will be to dispel any belief lingering in the White House and Office of Management and Budget that industry user fees should be imposed to help pay for ACE. The Clinton Administration had repeatedly proposed user fees, but industry continued to shoot them down.

Also, Ernest Istook Jr., R-Okla, has replaced Kolbe as the new House Ways and Means Subcommittee chairman on Treasury, Postal Service and General Government. Lanier said the coalition would work hard to educate Istook and other leading congressmen about ACE funding issues. ■

We've been known to get around...

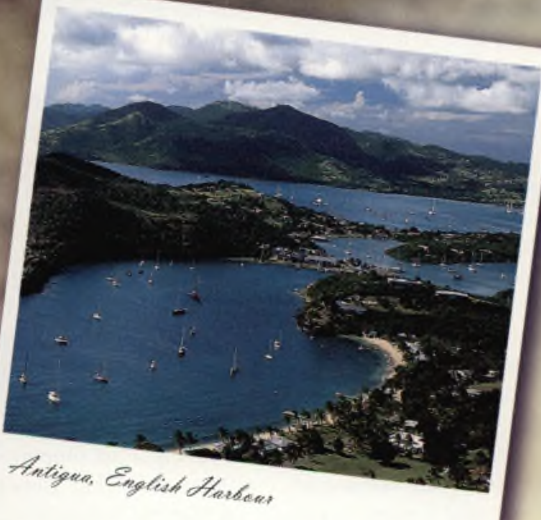


Guatemala, Mayan Ruins



Dominican Republic, Santo Domingo, Cathedral (1540)

Seaboard Marine



Antigua, English Harbour

...build solid relationships, take care of business, and say thanks.

From the U.S. to Central America, South America and the Caribbean, Seaboard Marine really gets around. Our success is driven by you, the customer. So, if you need ocean transportation to accommodate oversized equipment, we've got it. And, if you need Lo/Lo or Ro/Ro capabilities, reefers or containers, we've got it. Fixed sailings...got it. A 75-acre facility at the Port of Miami secured by a highly sophisticated video system...got it. Remarkable staff...got it. If that's not enough, we're friendly, caring and our offices are located just about everywhere you need to go. Got it? Call Seaboard Marine today and get around easily.

SEABOARD MARINE

8050 NW 79th Avenue, Miami, FL 33166
(305) 863-4444 • Fax: (305) 863-4777

www.seaboardmarine.com

DOT seeks fix for intermodal connectors

Agency launches drive to improve U.S. highway connections to ports, airports and intermodal freight transfer facilities.

By Tony Beargie

The U.S. Department of Transportation is lobbying Congress, local politicians and the public to "upgrade the nation's deteriorating intermodal freight connectors."

The connectors are short public roads arteries, averaging less than two miles, that provide access to and from the nation's seaports and airports. Outside of a few high-profile projects like the Alameda Corridor in southern California, intermodal connectors have been relegated to "orphan" status.

The DOT's Office of Freight Management and Operations is using a new study highlighting problems associated with the intermodal freight connectors, and will hold a series of outreach meetings throughout the country this year.

The agency will hold a national freight summit in Washington in December with the goal of reaching consensus on how to carry out and fund a rehabilitation program. This would be presented to Congress before it considers surface transportation reauthorization legislation in 2002.

DOT officials will also hold a forum in Genoa, Italy, April 4-6, with officials of the European Union to discuss intermodal connectors.

Trade Growth. The DOT study's bottom line is that the connectors need upgrading to handle projected trade growth over the next 20 years and to help U.S. manufacturers remain competitive in the global economy.

U.S. domestic trade is projected to grow 87 percent, or 3.4 percent annually from 1998 to 2010 and by 2.4 percent per year from 2010 to 2020.

U.S. international trade is projected to grow 113 percent over the same 22-year period, or 4 percent a year from 1998 to 2010 and 2.9 percent per year from 2010 to 2020.

Trade between the U.S. and Canada is projected to grow 3.1 percent per year through 2020, while U.S./Mexico trade is projected to grow 3.5 percent annually over the same time frame.

Intermodal connectors "are critical components" of the U.S. freight system since they tie transportation modes together and facilitate the distribution of products to users, the DOT study said. "They are the key links integral to achieving a U.S. transportation system that will seamlessly move goods within regions, across the country and throughout the world."

Defense. Connectors also play a major role in military deployments, because the military is becoming more reliant on commercial transportation, according to the study.

The Department of Defense spends $2 billion yearly on freight services alone, and the military anticipates that it will rely on commercial transportation providers for 90 percent of its peacetime movements and 85 percent for its wartime movements, the study said.

As of this year, the Defense Department is requiring the capability to respond to two geographically divergent contingencies, each the size of Desert Storm, at nearly the same time. Such a situation will require the capability of shipping 7,000 containers per week, most of which will move through intermodal freight connectors, the study said.

In Desert Storm, more than 3.5 million tons were moved, equivalent to moving the entire city of Atlanta (including people, their belongings and cars), the DOT said.

Connectors must be able to function reliably to achiever just-in-time deliveries with minimal delays stemming from congestion at or near intermodal terminals, the study said.

Ports. The DOT study said connectors leading to ocean and inland waterway ports are in need of the most attention. About 15 percent of the mileage leading to ports are either in poor or very poor condition, compared to 12 percent of the mileage leading to truck or rail terminals, and 7 percent leading to airports.

Officials familiar with the problems say politics and public opinion focus on passenger-oriented projects over freight-based projects. As Harry Caldwell, the study's team leader, observed, "freight doesn't vote."

A DOT analysis of investment practices shows "a general lack of awareness and coordination for freight projects within the metropolitan planning organizations planning and programming process," DOT said. "Given the pressing need for passenger-related projects, little incentive exists for investing in freight projects that appear to primarily benefit only a small segment of its constituent population."

Connectors to ports, as opposed to other freight terminals, received the smallest level of funding and were found to be in the worst condition, having twice the percentage of mileage with pavement deficiencies when compared to non-interstate National Highway System routes, said the American Association of Ports Authorities.

The DOT report showed that, excluding the top five projects, the level of investment for ports is $40,600 per mile, less than 40 percent of the average for the National Highway System, which is $101,100 per mile, the AAPA said.

"The study shows that intermodal connectors to terminals and to ports particularly are not getting a fair share of funding and are not faring well in the planning process," said Jean Godwin, executive vice president of the AAPA

"The Department (of Transportation) and Congress should review the current funding programs and look at options tailored to promote funding for freight mobility and port access," said Kurt J. Nagle, AAPA president.

Awareness, Coordination. Lack of awareness of the problem and poor coordination by state and local officials is "clearly the biggest problem" in carrying out intermodal connector projects, the DOT said.

The DOT study suggested three possible actions to raise the visibility and priority of freight projects in State and municipal planning organizations programming processes:

- Additional funding for planning and coordination to support states and metropolitan areas that identify, conceptualize and plan for freight projects.

Grants could be awarded to areas and agencies that have shown a commitment to coordination and meaningful private sector involvement, the study said.

"These incentives might consider a planning agency's progress in facilitating ongoing private-sector freight participation, coordinating project development among public agencies and the development of a freight project implementation plan," the study said. "Evaluation criteria would need to be developed to encourage adoption of best practices in freight planning throughout the State and local planning communities."

- Make public planning agencies aware of the importance of freight to their local communities and to the nation as a whole.

The study suggested identification of an intermodal freight network. In the early 1980s, the study noted, the National Truck Network was designated. The network is mostly interstate and principal arterial plus other defined truck routes, but is limited in some states and fails to extend to some of the largest generators of heavy truck traffic, the study said.

Establishing a National Truck and Intermodal Network would extend the network to major ports, airports, rail yards and pipeline terminals that generate high volumes of intermodal freight by truck, the study said.

Authors of the study envision that the highway component of the network, including intermodal connectors, would be a subset of the National Highway System. "Designation of the intermodal connectors to a national freight network would assure the consideration of trucks in the design of any improvements on the network," the study said.

- Consider intermodal connectors in federally funded port, aviation or roadway studies or projects. Here, federally funded studies or projects on federally funding intermodal terminals would include an evaluation of highway connectors to identify needed infrastructure and operations improvements.

"Such an assessment would encourage a closer linkage between transportation planning, land use planning, zoning and site development," the study said.

Inadequate Funding. Inadequate funding is another major problem. The study suggested that a full range of financing mechanisms be investigated over the next two years prior to congressional reauthorization. These include:

- A Federal credit program targeting smaller intermodal connector projects.
- Expanding the Railroad Rehabilitation and Improvement Financing credit program to include intermodal connector projects.
- Expanding or strengthening the State Infrastructure Banks program to allow for the capitalization of an intermodal freight connectors account with federal aid.
- Encouraging the creation of state-level credit programs or infrastructure funds for intermodal freight connector projects.
- Disbursing connector incentive grants to overcome problems encountered by states and local areas in funding freight improvements.
- Reducing the match required for federal funds where connectors under local ownership lack resources.
- Make a set-aside of National Highway System funds for intermodal connector projects.

Funding options will be discussed at the Office of Freight Management and Operation's first outreach meeting to be held in St. Louis April 29-May 1. Other workshops include a multistate workshop in June, a workshop on freight operations in Los Angeles in July, and a planning conference in Michigan and the Pacific Northwest in August. ■

Industry backs Bush's picks

Democrat Mineta gets nod for Transportation Secretary, Card nominated for Chief of Staff.

WASHINGTON

President Bush's decision to choose Democrat Norman Y. Mineta as the next Secretary of Transportation and former Secretary of Transportation Andy Card as White House Chief of Staff drew widespread transportation industry support.


Mineta

Mineta, who served as Secretary of Commerce during the last six months of the Clinton Administration, was first elected to Congress in 1974 to represent the Silicon Valley area of California. He became chairman of the House Committee on Public Works and Transportation, now known as the House Transportation and Infrastructure Committee.

During his service on Capitol Hill he was sometimes called the "Cal Ripken" of politics, and was known for consensus building among his colleagues and also for forging public-private partnerships.

He underscored his consensus-building approach to issues in a statement accepting Bush's nomination.

"The challenge before all of us ... regardless of party affiliation, is to find those areas where we can build bipartisan consensus on the policies and programs that are needed to move this nation forward," Mineta said. "I have always tried to build that kind of consensus.

Transportation policy provides "fertile ground" for building a bipartisan consensus, Mineta said.

"There are no Democratic or Republican highways, no such things as Republican or Democratic traffic congestion, and no such thing as Republican or Democratic aviation or highway safety, he said. "Cargo is not shipped by Republican or Democratic railroads, ships, barges or pipelines," he said.

Mineta indicated he would focus on transportation infrastructure improvements.

"It is no accident that in the areas of our nation where the economy has excelled, the number one issue is improving the transportation system," he said. "Inadequate infrastructure is one of the chief threats to a thriving economy."

U.S.-Flag Support. Mineta's and Card's appointments brought support from the American Maritime Congress, a lobbying group that lead legislative drives to establish the U.S. Maritime Security Program, which preserve cargo preference shipping for U.S.-flag vessels, and beat back numerous attempts to weaken or repeal the Jones Act.

"We are very pleased with President Bush's nomination (of Mineta) for Secretary of Transportation," said Gloria Cataneo Tosi, AMC president. "He had a most distinguished career in Congress, where his primary focus was on transportation. He is highly respected both in and out of government and by colleagues in both parties."

Mineta "clearly understands and supports the need for a strong U.S. Merchant Marine and has an impressive voting record spanning 20 years to prove it," Tosi said.

"With respect to our mainstay programs, such as the Jones Act, cargo preference, and the Maritime Security Program, they will get the kind of thoughtful attention and consideration that our industry needs under Mineta's leadership," Tosi said.

Tosi gave credit to Card for helping to get Congress on the right track for coming up with what eventually became the Maritime Security Program.

During his tenure as Secretary of Transportation in the first Bush Administration, Card spearheaded a wide-ranging maritime reform proposal that led to the MSP, Tosi said.

"I think it's fair to say that Mr. Card truly recognizes the importance of a viable U.S.-flag merchant marine and it will be a distinct pleasure to work with him again," Tosi said.

Port Support. The American Association of Port Authorities, the lobbying group for the nation's ports, also backed Mineta's selection.

"His experience as chairman of the House Public Works and Transportation Committee gave him an excellent perspective on all transportation issues," the AAPA said. "And certainly in his role as Secretary of Commerce, Mr. Mineta knows that an efficient marine transportation system is critical to increasing U.S. overseas trade."

Carriers. Former Federal Maritime Commission chairman Christopher Koch, who now heads the Washington, D.C.-based World Shipping Council, a recently established group representing the major liner companies from around the world, said Mineta and Card were excellent choices.

Of Mineta he said: "He knows transportation. He knows how government works. He will be an excellent Secretary of Transportation."

Of Card, Koch said, "Andy is an outstanding choice for Chief of Staff. He won't be spending much time on transportation issues, but when they do come up, it will be helpful to have someone there who understands these issues."

Koch, who knows the political ropes in Washington, does not expect to see any major changes in maritime policies under the Bush Administration. "Maritime and transportation issues are not partisan issues," he said.

IANA. Joanne F. Casey, president of the Intermodal Association of North America, said "Mineta is "an excellent choice to lead the DOT, given his wealth of knowledge and experience from his congressional tenure."

"And just as important are the relationships he built over the years," Casey said. "I look forward to working with him."

The appointment of Card to Chief of Staff, will "hopefully give transportation a much-needed front row seat at the White House," Casey said.

"Both these appointments are very important to the industry, as we move transportation forward as a system," the IANA president said.

Chao To Labor. Bush reached back for another former transportation official when he chose former FMC chairman and Deputy Secretary of Transportation Elaine Chao as Secretary of Labor.

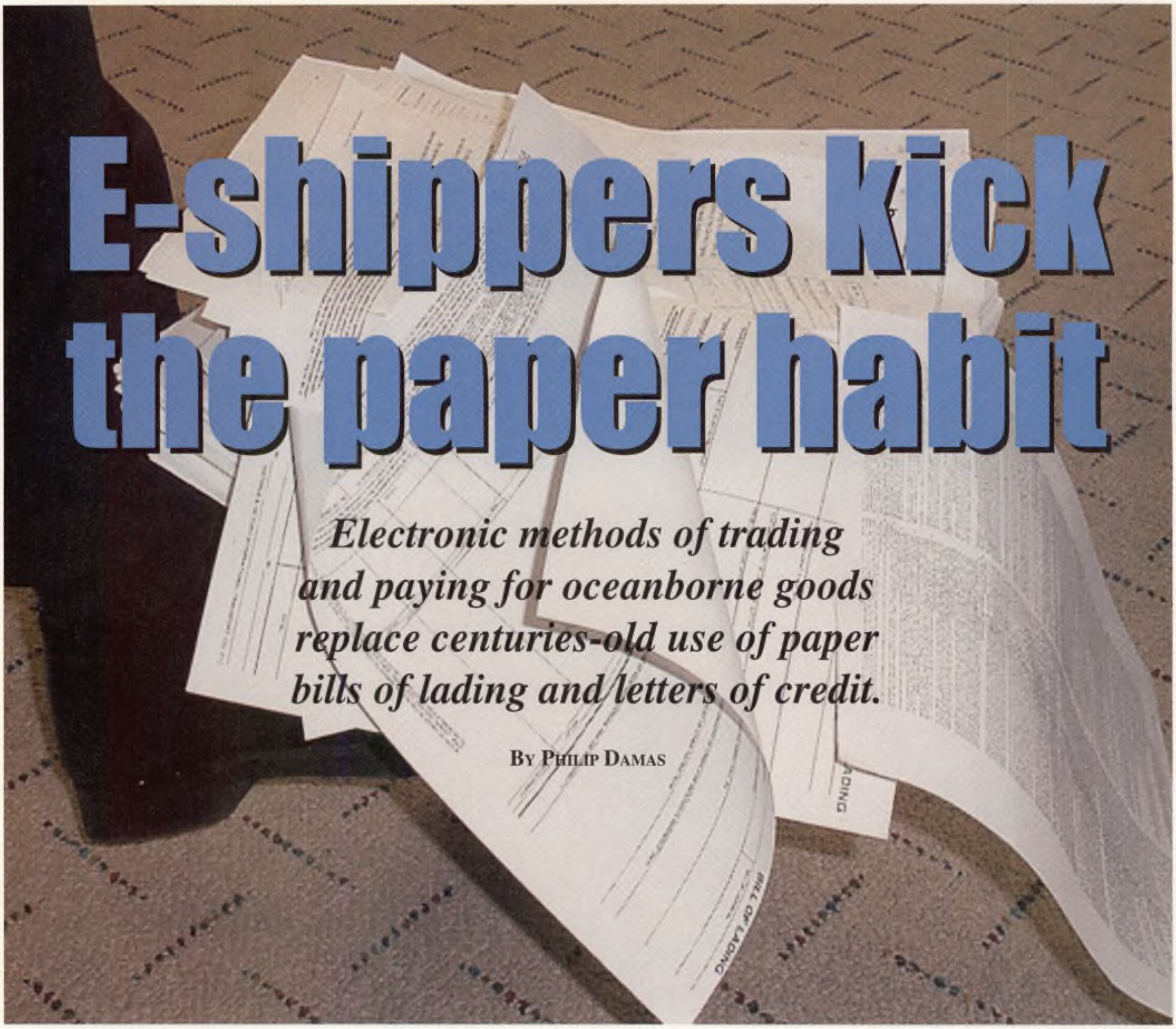
Chao, who is married to Republican Senator Mitch McConnell of Kentucky, came to Washington in 1986, after serving as vice president for syndications for Bank America's Capital Markets Group.

She began her Washington career in 1986 as deputy maritime administrator. At MarAd, Chao was instrumental in shoring up the agency's Title XI shipbuilding loan guarantee program which had suffered severe financial setbacks.

Chao served as FMC chairman from June 1988 to April 1989, then became Deputy Secretary of Transportation.

She is currently a distinguished fellow at the Heritage Foundation, a conservative think tank in Washington, D.C. ■


The only thing missing to ensure that your goods always reach their destination is our precision
Do you need high-performance logistics for your customers at home and abroad? Adding ABX LOGISTICS to your business is the best way to establish a reliable and competent partnership for road, rail, sea and air transport around the world. With ABX LOGISTICS, you benefit from the specialist services of more than 16,000 people who can deal with your company's logistics both smoothly and efficiently. Even better, you gain all the advantages of one-stop-shopping - a complete range of top class products and services all under one roof - consultancy, storage, distribution and more. You will save both time and money. The only thing missing is a mouse with which to click on www.abxlogistics.com.
ABX
ABX LOGISTICS
ABX LOGISTICS AND YOU - MULTIPLYING FORCES
EQUINOX



E-shippers kick the paper habit

Electronic methods of trading and paying for oceanborne goods replace centuries-old use of paper bills of lading and letters of credit.

BY PHILIP DAMAS

For many, holding onto an original paper document like a bill of lading or a letter of credit has been like clutching a security blanket.

Conventional wisdom was that bills of lading and documentary credit practices provided the safeguards that shippers needed to do business with, and ensure payment from, trade counterparts overseas.

But besides depleting forests around the world, paper-based processes are increasingly perceived as slow, cumbersome and error-prone.

Finding an electronic substitute that would still be acceptable to banks, insurers and shippers has become a priority. In fact, with commerce's added impetus, many companies involved in ocean shipping, including third parties such as trade facilitators, have looked for a new way of handling trade transactions and payments electronically.

John Leitner, president of California-based customs brokerage and forwarding company W.J. Byrnes, said he has seen "constant problems" with documentary credit. Banks reject the letter of credit if there is any discrepancy between the different documents, or they hold on to the documents, causing shipment delays.

"A lot of people blame the banks," he said, adding banks "do not know" the details of the export and import transactions.

While the documentary letter of credit, as a document of title, remains paper-based, all other documents can be converted into electronic messages. For a paperless bill of lading, traders would have to agree to use a document that is equivalent to a B/L, governed by special contract rules.

This paper B/L issue has led many in the shipping and banking sectors to say the B/L stands in the way of electronic progress.

Under the Uniform Customs and Practice for Documentary Credits 500 rules established by the International Chamber of Commerce, better known as the UCP500 rules, a letter of credit also requires the physical presentation of a bill of lading, or a non-negotiable sea waybill, to trigger the payment to the exporter by the importer's bank.

"Electronic commerce requires a faster speed," said Philippe Rapatout, adviser to the logistics division of chemical group Atofina and a member of several committees of the International Chamber of Commerce.

Current banking practices remain "a major obstacle" to the development of international commerce, particularly electronic commerce, Rapatout added.

Setting up an electronic marketplace on the Internet "is the easy part," said Peter Scott, commercial director of Bolero.net, an electronic document communications provider. Providing a secure network for communication is often missing from these Web sites.

Doing business electronically is also a requirement of shippers. "Increasingly, shippers want an electronic environment" to conduct transactions, Brian Moulton, global shipping director of Michelin, said at the recent Intermodal 2000 conference in Genoa.

But the question is: How can traders obtain the same level of security as letters of credit and B/Ls, without all the associated paper documents, and with e-commerce speed?

Different Approaches. Shippers, forwarders, customs brokers and banks say it's obvious that there is a need to solve the problem of the flow of data and money in international trade. Oceanborne goods create the additional burden associated with negotiable, paper-based bills of lading.

Electronic trade facilitators like Bolero.net, CCEWeb and TradeCard have been established in the last few years, offering electronic products they hope will replace paper-based processes. These companies specialize in one or several key areas: secure document transfers, document management, credit rating, trade financing and payments. Other third-party e-commerce firms specialize in electronic identification and digital signatures.

These new third-party e-commerce firms and others are trying to provide a common electronic platform to integrate trade, banking and transport processes and documents. But their approaches are very different, particularly in the way they integrate all the different facets of international trade and how their proposed electronic systems deviate from current practices.

Bolero.net. One of the early innovators in e-commerce for international trade and shipping, London-based e-commerce firm Bolero.net provides an electronic trade documents communications system.

The backbone of the Bolero.net system is a core messaging platform, which enables users to exchange electronic trade documents via the Internet, including negotiable electronic bills of lading. All messages and document transfers are encrypted and acknowledged. By providing what it calls a "title registry," Bolero.net replicates the function of a bill of lading as a document of title — in other words, ownership of the goods represented by the bill of lading can be electronically transferred between Bolero.net users.

Contrary to TradeCard and other international e-commerce systems, Bolero.net is based on the expectation that shippers will still require the use of bills of lading as a document of title. Others argue that it is time for ocean shipping and its users to switch to sea waybills, which are not documents of title.

"The entire Bolero system was created to maintain the current system of ocean bills of lading," said Rapatout, at Atofina.

Bolero.net has signed up major banks, shipping lines and forwarders and is perceived as a big system for large corporate users.

"The Rule Book is a contract under which, inter alia, the parties agree to treat any electronic message as the equivalent of the corresponding paper document. Therefore, when you combine the UCP500 rules with the Bolero Rule Book, the end result is that the parties are prepared to accept 'electronic B/Ls' for the purposes of the L/C process."

Ake Nilson
consultant

Can shippers use Bolero.net to use electronic letters of credit? "Essentially, the answer is that, in a Bolero L/C transaction, all parties are signatories to the Bolero Rule Book," said Ake Nilson, a consultant to Bolero.net.

"The Rule Book is a contract under which, inter alia, the parties agree to treat any electronic message as the equivalent of the corresponding paper document. Therefore, when you combine the UCP500 rules with the Bolero Rule Book, the end result is that the parties are prepared to accept 'electronic B/Ls' for the purposes of the L/C process," he explained. The documentary requirements for letters of credit are "pretty much the same" as in the paper world, he added.

CCEWeb. The Canadian e-commerce software firm has introduced an electronic letter of credit card and an Internet-based trade payment, trade processing and document management system.

The service, called @GlobalTrade, combines the functionality of a letter of credit with that of a credit card (November 2000 *American Shipper,* page 44).

The key component of the product is what CCEWeb calls its "documentary clearance center." The center functions much like a trade finance department of a bank. It centralizes and oversees all types of trade, transport, insurance and financial documents and effectively takes on part of the role of the bank that issues a letter of credit.

CCEWeb said its documentary clearance center processes all events relating to documentary letter of credit and provides trade processing services to the trade parties, the bank and all related parties in the trade cycle.

Letters of credit are payable through the documentary clearance center. The center will check documents presented by the beneficiary for compliance and complete the trade cycle by paying the beneficiary. More detailed information on how the integrated CCEWeb electronic system works is posted at www.cceweb.com.

Like Bolero.net, CCEWeb runs a secure electronic platform. However, CCEWeb does not operate a "title registry" to govern the ownership of goods between trade parties. It can work with paper bills of lading and with waybills. CCEWeb has written certain binding clauses in its waybills to provide to users some of the legal protection associated with bills of lading,

"Our system is able to handle both traditional bills of lading and the waybill, which bears three clauses which will offer protection to banks and carriers," said Arthur O. Thomas, senior vice president, business development at CCEWeb. "I don't think you can get away from the traditional bills of lading in all cases. But practice will reduce recourse to traditional bills of lading."

"The system that we have developed incorporates the possibility of the transport document required being a waybill, whilst retaining the security of payment inherent in the documentary credit process," he said.

CCEWeb said its @GlobalTrade product brings together all parties in a trade chain "to the same electronic page." This includes ocean and air carriers, freight forwarders, customs brokers, surveyors, third-party logistics providers, banks, chambers of commerce, insurance companies and financial institutions.

"@GlobalTrade is about evolution rather than revolution of trade processing," Thomas said. "Our solution is to work with customers at their speed of comfort, move into this new e-space bringing people along, allowing users to use the existing paper

(continued on page 24)

505127

Employee Number[s]: 1542, 1213, 915, 2012

IMPORT ✓ | EXPORT | IN 0725 | OUT 1542

DATE 15 | 99

VOYAGE 943

FOR OFFICE USE ONLY — Initials — Date

BOOKING NUMBER JK112 C B

THE YARD CREW

EMPLOYEE NAME[S]

Larry Polite, Julie Owens, Rick Herron, Keith Nell

ADDITIONAL NOTES

TOGETHER THEY SAVE HUNDREDS OF HOURS A YEAR. AND COUNTLESS GALLONS OF RED INK.

DETAIL OF ACTIVITY

You might not know their names, but chances are you've heard about them.

In a recent survey on the East Coast's most productive ports, one name was mentioned more than any other: the Port of Charleston.

Why? Our yard crews reflect a culture of productivity that drives us to keep improving. And our work ethic, combined with innovative equipment and technology, has cut turnaround time at most gates by more than half.

But our timesaving advantages don't stop in the yard. Our channels are deep and wide, our terminals are close to the open sea, and our crane operators are the most efficient in the business.

Here, everything adds up to faster turnaround time for ships and cargo. Which leads to more profits for your company.

To find out how the Port of Charleston is helping keep companies in the black, give us a call.

1-800-382-1721 www.port-of-charleston.com

THE PROS OF PRODUCTIVITY

I CERTIFY THAT THE INFORMATION SHOWN HEREON IS TRUE AND CORRECT, AND THAT IT STATES ONLY OFFICIAL BUSINESS AS CONDUCTED BY THE PORT OF CHARLESTON.

Employee's Signature — Date 12.15.99

PORTCHARLESTON

72-3201-9987V-W (R-119 01/00)

practices if they have to, going digital where they can."

CCEWeb employs staff that check all the documents for compliance manually, before authorizing payments to the seller.

Compared to the usual way of conducting trade transactions, Thomas said that @GlobalTrade makes the payment process faster, guarantees irrevocable funds availability, authenticates customers' and trade service providers' identities, and integrates invoices, transport documents and payments.

For users, CCEWeb has lower setup fees and annual fees than Bolero.net and transaction fees charged by CCEWeb "will be lower than what importers and exporters pay to their respective banks today," Thomas said. And, unlike Bolero.net, CCEWeb describes itself a complete end-to-end solution.

One key role of CCEWeb may be its ability to enable buyers and sellers, through the @GlobalTrade system, to finance trade deals over the Internet. A pilot to introduce @GlobalTrade began in November and CCEWeb plans to launch it commercially in the fall.

TradeCard. New York-based e-commerce firm TradeCard (www.tradecard.com) provides a trade document management and innovative financial settlement service that equates to an electronic letter of credit.

To use TradeCard's patented transaction system, buyers and sellers must first become approved TradeCard members. To begin a transaction, the buyer creates an electronic purchase order, either through the TradeCard system using its contract templates, via electronic file from a company's ERP system, or from an online marketplace. TradeCard then notifies the seller that there is a purchase order pending for review. The buyer and seller can further negotiate the purchase order online. Once they agree to the terms, both buyer and seller authorize the purchase order with digital signatures.

TradeCard's Internet-based database populates all the required trade and other documents, using data from the original information.

Once the packing list and invoice have been created and authenticated by the seller, an assurance of payment is attached to the purchase order, confirming the amount of coverage on the shipment, and ensuring that the seller will receive payment upon document compliance.

TradeCard's patented compliance engine then electronically compares the data from the electronically submitted shipping documents to the original purchase order. Once compliance is met, payment is transferred electronically from the buyer's financial institution to the seller's financial institution.

Like CCEWeb, TradeCard takes on part of the role of the trade finance department of a bank and integrates numerous trade, transport and other documents. TradeCard differs in that it has an automated compliance engine, is more electronic, and its financial settlement does not use letters of credit.

"TradeCard is an alternative to a letter of credit," said Kurt Cavano, chief executive officer of the company. "We do everything that a letter of credit does, but we do it without paper." Working with TradeCard, the credit rating and insurance firm Coface is responsible for rating new users of the system, who must apply for credit the same way they would deal with a bank.

Arthur O. Thomas
senior vice president, business development, CCEWeb

"The system that we have developed incorporates the possibility of the transport document required being a waybill, whilst retaining the security of payment inherent in the documentary credit process."

The TradeCard compliance system will check that the information on the purchase order, the proof of delivery (bills of lading are not used), the insurance certificate and other document match, before authorizing payment to the seller.

Cavano said that TradeCard is considerably cheaper than a traditional bank letter of credit, and it still guarantees payments. His company also provides supply chain visibility. "You cannot do that with a bank," he added. TradeCard users can keep their bank to do business via the electronic trade platform.

TradeCard can be used for oceanborne as well as for airborne goods.

E-payment. In the business-to-business e-commerce world, payment is often a missing link in online transactions. But overseas buyers and sellers doing business on the Internet often don't know each other, and this raises questions about security of payment.

In a recent report on "E-global logistics," the U.S. financial firm Stephens Inc. said that "traditional settlement methods are not suitable for Internet-based transactions."

This market gap explains some of the products introduced by TradeCard and CCEWeb.

Meanwhile, Bolero.net is planning to start an electronic settlement utility for managing finance. The planned product would incorporate aspects of existing settlement methods, such as document compliance checking and the Bolero electronic bill of lading.

Review Of L/C Rules. Under current rules of 1994 of the International Chamber of Commerce on letters of credit, an original paper bill of lading or sea waybill must be produced, for oceanborne shipments, before the bank will authorize payment.

The International Chamber of Commerce's Banking Commission is considering an "electronic supplement" to its rules on documentary credits.

The "eUCP," as it has been termed, would be attached to the ICC's universally recognized rules on letters of credit, UCP 500. "The market is looking to the ICC for guidance on how to deal with electronic documents," said Dan Taylor, vice president of the Banking Commission.

"New Web sites are sprouting all the time, claiming to provide all the tools to complete trade transactions online," a spokesman for the International Chamber of Commerce said. The ICC believes that these developments will accelerate. The trade body's Banking Commission has decided that it is in the best interests of the parties to have Uniform Customs and Practice for Documentary Credits rules flexible enough to handle e-commerce transactions.

"This amounts to nothing less than a revolution in trade finance," the ICC spokesman added.

"The ICC itself is currently reviewing the UCP500 rules with a view to producing an addendum to the UCP500, which will effectively 'legalize' the use of electronic documents even without the action of separate agreements, such as the Bolero Rule Book," said Nilson, at Bolero.net. The eUCP addendum is expected to be ready by May.

Knut Pontopiddan, the senior regulatory affairs executive of the A.P. Moller shipping group who chairs the Maritime Transport Commission of the International Chamber of Commerce, said he supports the electronic initiative on documentary credit.

The Maritime Transport Commission of

"TradeCard is an alternative to a letter of credit. We do everything that a letter of credit does, but we do it without paper."

Kurt Cavano
chief executive officer, TradeCard

the ICC will assist the trade body's banking commission and is putting together a group of experts to provide views on the proposed electronic letters of credit documentary changes, he said.

E-commerce trade facilitators that have thrived because of the inadequacy of current documentary credit banking rules believe they will survive the banking reform of the ICC concerning letters of credit.

"We plan to use the eUCP 500," said Thomas, at CCEWeb. "@Global Trade is compatible with the current UCP500 and will be fully compatible with current ICC initiatives regarding an eUCP and our legal team is drafting a User Agreement that all parties will sign online."

Carriers, Forwarders. Ocean carriers, forwarders and customs brokers should benefit from the new electronic products and from the move away from paper-based documents.

Carriers have wanted to get out of the business of producing negotiable paper bills of lading as documents of title for a long time.

The use of sea waybills removes the risk of documents being held up in the trade chain, causing delays to shipments.

"The move will be to electronic waybills," said Leitner. "Once the customers are comfortable with waybills, they'll be using them."

Many of the new electronic products and initiatives point to a greater use of electronic sea waybills or even simplified "proof of delivery messages."

For example, TradeCard uses air waybills as the proof of delivery of the goods for airborne cargoes. For ocean shipping, TradeCard allows forwarders to send, as the proof of delivery, an "856" EDI message. This message type contains some of the information found on a sea waybill.

"We try to make the impact (of our processes) on shipping lines and forwarders as easy as possible," said Cavano, at TradeCard. He said that simplified Internet documents are used.

For example, Cavano said that TradeCard sends invoice details from its system to Fritz Cos., saving the forwarder and customs broker a lot of re-keying of information.

Patrick Burrows, general manager of marketing systems, business systems division P&O Nedlloyd, said the use of the electronic system CCEWeb by shippers would lead to several benefits for shipping lines. He cited higher productivity for data entry into the carrier's internal system, encouraging users to switch from bills of lading to waybills, and automating the collection of freight revenues. CCEWeb can "reserve an amount" of the seller/buyer transaction to pay the carrier, Burrows said.

Leitner, an advisor to CCEWeb, said that a customs broker using the company's system can do a timely check of the description of goods on the commercial invoice of the exporter. This ensures that the description meets the requirements for Customs clearance.

For shippers and forwarders, many of the electronic trade facilitation systems and initiatives sound complex, and it is too early to say whether they will have the critical mass to make any system an industry standard. The likelihood is that there will be several systems that will run alongside the current paper-based systems.

"For quite some time you're going to have a combination of paper as well as the electronic data interchange," said Thomas, at CCEWeb.

However, the evidence suggests that the investment required to sign up and set up these electronic trade facilitation systems, for shippers and their providers, will pay off. Their successful implementation in international commerce could integrate, simplify and accelerate many international transactions. ■

Study: B2B supply chains face bottlenecks

BELLEVUE, Wash.

A recent study found that transportation companies are taking an average of half a year to set up an electronic trading process with their online partners and that online transactions represent a mere fraction of their overall business.

The study, conducted by Edifecs of about 400 electronic commerce managers and transportation providers, found that ramping up a single electronic trading process takes an average of 5.8 months.

"The single biggest bottleneck to widespread adoption of B2B e-commerce is enablement — the process of preparing a company, its internal systems and its trading partners to being conducting online transactions," Edifecs said. These functions are largely conducted manually — "faxing, telephoning, e-mailing and visual checking and re-checking of details — many of which must be repeated each time a company sets up a new electronic process with a trading partner.

The survey found that 46 percent of transportation companies conduct B2B operations with less than one-fourth of their trading partners. Seventy-seven percent conduct fewer than 15 processes electronically with their partners, while 46 percent exchange fewer than 5,000 electronic transactions a month.

Despite this bottleneck, the expectations are high. Nearly 70 percent of the survey's respondents expect to trade electronically with more than three-fourths of their partner base in the coming years. Nearly 40 percent plan to conduct more than 25 processes electronically and 58 percent expect to execute more than 50,000 transactions each month, Edifecs said.

The solution for these companies will be to automate their manual enablement problem, Edifecs said.

The survey warns, however, that extensible markup language, or XML, is not the perfect key to enablement, as many perceive it to be. Just over half of the companies in the survey that have used XML said it had either no impact on their enablement activities or actually made the process more difficult. ■

Internet boost for shippers, forwarders

HomePort, CargoSmart provide ocean shipment management tools that go beyond tracking and tracing.

BY PHILIP DAMAS

It's 7 p.m. and you need to know which of your shipments are held up in China, the status of expected inbound shipments and the number of containers waiting at a destination port overseas that are likely to cost you demurrage.

You have a few hours to prioritize shipments and make contingency plans before China and Hong Kong shut down for their Chinese New Year festivities.

These are the types of situations where new Internet-based cargo management systems can come to the aid of shippers and forwarders. User-specific shipment management information is available in real time, within seconds, and can be shared between the shipper, the consignee, the forwarder and other parties, via the Internet.

Progress. In the last few years, every ocean carrier, freight forwarder and consolidator have introduced basic database query systems. Internet-based tracking by container number or bill of lading has become a given.

But, in the fast-moving field of the Internet, a few ocean carriers have recently introduced much more powerful Web-based systems that can become allies for shippers and forwarders by helping them manage shipments proactively and focus on problematic exceptions.

Although the situation changes every month, the two carriers recognized to be at the forefront of Internet-based customized cargo management are APL and Orient Overseas Container Line.

APL introduced its HomePort portal several years ago, the first ocean carrier to identify the need of shippers to have a personalized, customized window into the carrier's information system. A new report-generation module, called QuickReport, was added to APL's HomePort portal at the end of 1999.

"We find that the biggest users are the small to medium companies that don't have in-house software."

Ivan Joens
director of customer service, APL (Europe)

OOCL recently set up a wholly owned subsidiary, called CargoSmart, which launched a cargo management portal in October that's being rolled out to OOCL's customers worldwide.

Other carriers and forwarders will undoubtedly follow, including INTTRA and GTN, the new multicarrier Internet portals.

The HomePort and CargoSmart systems are based on the belief that shippers and forwarders want faster, better data on their shipments in a format designed to fit their particular needs. Instead of calling the carriers by telephone on a routine basis, the shippers or forwarders want to have the information on their desktop and receive summarized progress reports.

This type of powerful management application has been offered only to the very large shippers, using electronic data interchange. But EDI requires costly setup software. By contrast, Internet portals like HomePort and CargoSmart portals can be set up within hours, not weeks, and APL and OOCL offer them to their customers at no extra charge.

For shippers and forwarders, electronic access to shipment data, combined with the ability to share information with vendors or customers, using the online cargo management systems, can reduce staff time spent on routine tasks and lower communication costs.

Customization. Each user of the HomePort and CargoSmart portals can customize the systems to meet their needs or preferred ways of working. The shipper or forwarder sets up the parameters for the scope of the information required, and how they want to receive it.

Both systems generate reports, such as a summary of all active shipments. The reports can be seen online, downloaded, or e-mailed to the shipper or forwarder, daily or weekly, as required.

"You can customize HomePort to see information for a particular trade route," said Ivan Joens, director of customer service at APL (Europe).

The user can also set up a pattern, or template, for shipping instructions that they send to APL via HomePort. This template is saved and is used again, avoiding re-keying by the shipper or forwarder.

"We find that the biggest users are the small to medium companies that don't have in-house software," Joens said.

The QuickReport facility of APL's portal allows users to receive customized reports on active shipments using 50 potential criteria. For example, a shipper may need a report on all shipments from Hong Kong expected to arrive at three named ports inbound in the next seven days, to be sent every Monday.

This facility is "the most-used feature of QuickReport," Joens said.

OOCL said CargoSmart is "a business-to-business portal providing customers with

a window into carriers' systems to view their own shipment activities or those of trade associates."

Like HomePort, CargoSmart allows customization and personalization. It provides active shipment reports, with ways to filter data that is important to the user, and shipment summaries.

Employees working for a shipper can select to use a common account to use CargoSmart, or they can have separate accounts.

Sharing Information. CargoSmart enables shippers to share information and "manage relationships" with trade associates, such as the forwarder, consignee or other parties (see "relationship manager").

This means that the shipper, for example, can nominate which companies can have access to which type of information, with a structured system to administer the access. This module, which CargoSmart described as unique to its system, works along the same principles as those of a network administrator managing access to a computer network within a company. The shipper can allow a party to have access to the online information system even if this party is not mentioned on the bill of lading.

The shipper who holds the CargoSmart account — called the relationship manager by CargoSmart — manages communication with the other companies and can stop access for a particular company if the commercial relationship is ended.

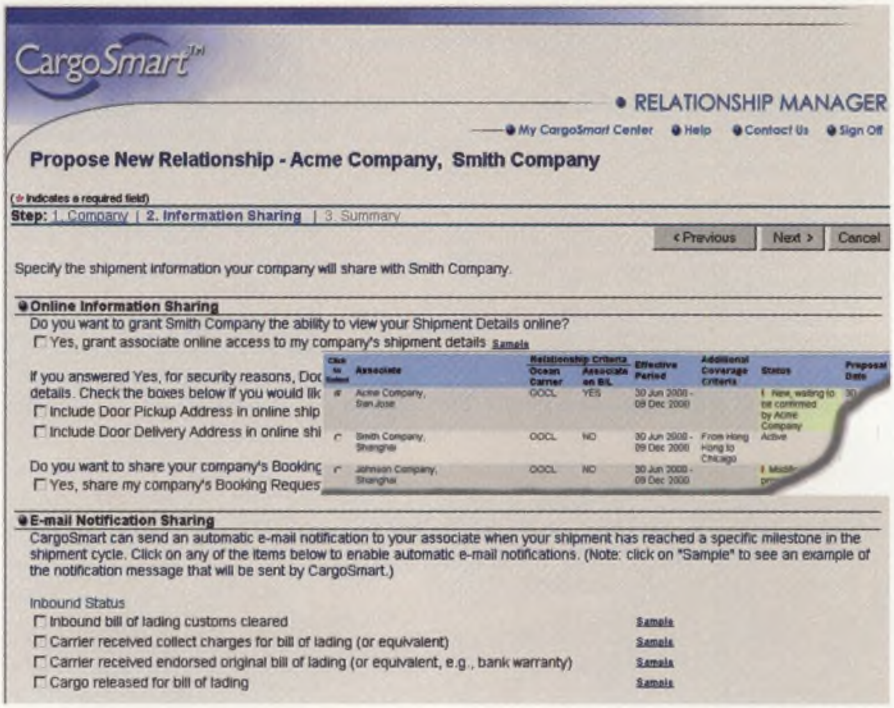
But there are cases where shippers or forwarders don't want to share information with their customers — particularly freight rates. CargoSmart said that, during user focus groups that it organized, users requested that freight charges should not be disclosed in the system.

The shipper can also automate the notification of certain shipment status events by e-mail to the various parties concerned.

Users of APL's HomePort system can copy the consignee or another party in reports that are sent by e-mail. However, access to bill of lading and shipment information is only permitted, under HomePort, if a company is mentioned as a party on the bill of lading.

Shipment Cycles. The portals address the needs of shippers and forwarders for supply chain visibility at every stage of the flow of goods.

CargoSmart tracks the progress of shipments across 12 "milestones," or events in the shipment cycle. The events are a new booking, empty container pickup, container received, loaded on board, booking changes, B/L instructions received, customs clearance, freight payment received, original B/L received, cargo release, container discharged and container picked up. By March, CargoSmart will also have data on three additional events: in-transit status, arrival at final delivery, and empty container return.



CargoSmart said that receiving e-mail notification and shipment alerts automatically enables shippers to "manage truckers, warehouses, brokers, and intermediaries."

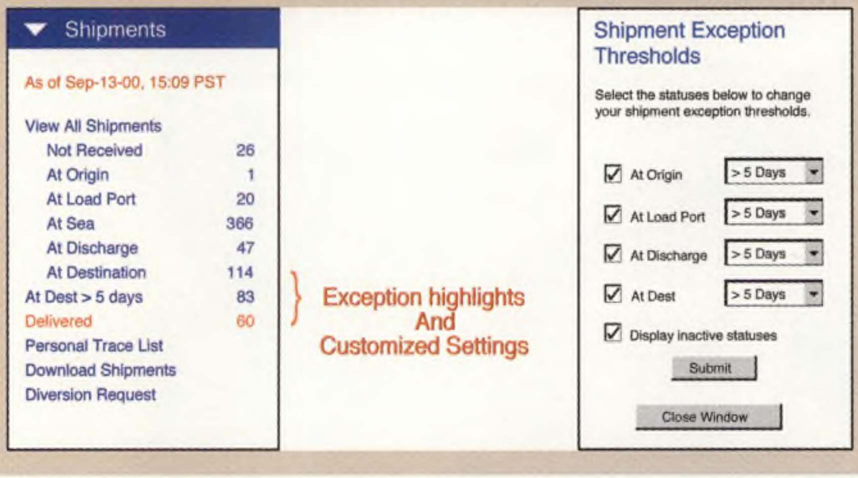
One benefit of the system is that users know if a shipment has missed a feeder connection, CargoSmart said.

HomePort uses a similar system of shipment cycle monitoring. Its main events in the cycle are new booking, loaded on ship, vessel departure, status vessel, transshipment, vessel arrival, discharged from vessel, and status delivered.

Using this information, HomePort can generate reports that highlight exceptions and delays (see "Exception highlights and customized settings").

Two months ago, APL introduced an exception alert service in HomePort. It alerts users "when your shipments have been at

HomePort affords port-to-port visibility of shipment status



certain statuses longer than a specified period of time." APL said. "For example, you can be alerted when any shipments have been at destination more than five days." It is known that ocean carriers charge shippers demurrage charges when containers wait to be collected at the arrival port beyond the agreed free period of time.

CargoSmart sends automatic e-mail notifications of the progress of shipments through the cycle, but has no exception report functionality. By July, though, it will introduce a system to allow users to receive shipment exception reports.

APL is considering adding more features to the exception management module of its cargo management system.

Exception reports are seen in the express parcel business and have been an influence on APL, said Paul Coxeter, manager, e-commerce at APL (Europe).

While large shippers generally have EDI links with APL, they use the Internet-based customized reports of the APL portal, Joens said.

In North America, APL and OOCL have shipment status information for the rail portion of intermodal movements, thanks to EDI links between the ocean carriers and the railroads. No such information is made available for European rail.

APL was the first ocean carrier to introduce an Internet track-and-trace system that can be accessed via mobile phone, using the wireless applications protocol. The carrier said that this feature is useful for people outside the office environment, such as warehouse staff and truckers.

Other Uses. The HomePort and CargoSmart portals provide a channel to allow users to conduct many types of commercial transaction with carriers from one Web site.

In addition to cargo management and reporting, the portals offer a tracking system, real-time schedules, a bill-of-lading printing facility via the Internet, and a booking facility.

Coxeter said that online bookings are booking requests that need to be confirmed by the carrier, rather than live bookings.

"It is a manual process," he said. "You need to make sure that the equipment is available, that the customer has negotiated a rate," he said.

Both CargoSmart and APL are working on ways to automate Web bookings. In addition to a system to provide instant confirmation of bookings online, CargoSmart plans to introduce this year an "auto-rating" feature, whereby bookings for repeat shipments would be priced automatically.

CargoSmart said it is an alternative to the INTTRA and GTN multicarrier Internet portals. CargoSmart said it is open to carriers other than OOCL and is already talking to other carriers.

"CargoSmart is designed to support multiple carriers," said Chris Holt, assistant general manager, marketing, at OOCL (Europe). There is space on the system's screens for a menu of schedules and active shipments carried by other participating carriers. "Carriers will connect to more than one portal because customers demand it," a spokesman for CargoSmart said.

APL is a member of the GTN portal, which is due to start providing online services early this year.

Product Enhancements. The two cargo management systems will be expanded through the addition of several news features in the next few months.

Both APL and CargoSmart plan to add to their online systems the facility of tracking shipments by purchase order — and not just by B/L number or container.

APL said that it will soon start providing to shippers, online, vessel certificates showing the age of the vessel and its classification, as required in letters of credit.

CargoSmart plans to introduce online invoices in April, and shipping instructions templates by mid-year. It also aims to bring insurance companies and banks into its online system this year. This would further widen the relationship management feature of the platform.

One of the transactions that neither CargoSmart nor APL can handle online is electronic payment. APL is believed to be close to announcing an electronic system to handle freight payments. APL said that payments were the main missing piece to complete the entire end-to-end business process with customers online.

User Problems. More and more transactions between shippers, forwarders and carriers can be conducted via the Internet, but there is some resistance among users.

Despite the boom in the use of the Internet, many companies still restrict access to the Internet for their employees, APL said. Internet use also varies widely between the different countries served by the big ocean carriers.

Many potential users feel more comfortable using the phone than using the Internet to talk to ocean carriers.

Joens, at APL, said the Internet was one of several channels provided to shippers to do business with the company. "Some think telephone is easier, some will say the desktop is easier," he said.

When a company restricts access to the Internet for its employees, APL will seek to convince that company's management of the benefits of switching to the Internet, Joens said.

Only a minority of bills of lading is downloaded via the Internet at APL and OOCL.

Joens said there is an issue of learning curve and cultural change with shippers and forwarders when dealing with the Internet for shipping.

The new Internet tools appear to be powerful and productive, but they may take time to be adopted by small or traditional shippers and forwarders, particularly those in countries where Internet access is less widespread.

However, APL reported an explosion in the use of the Internet-based HomePort tool by its customers. Worldwide, 180,000 actual transactions occurred through HomePort last November, up from 25,000 in January 1999. ■

Time isn't
just money.
It's your money.
We won't waste it.

Cast value

When we give you
a delivery time, we'll
do our best to stick to it.
Keeping our promises
is one way we can help
your business take off.

CAST

THE PEOPLE. THE SYSTEMS. THE DIFFERENCE.

www.cast.com

AMS: A tool of the trade

With automation, the manifest proves a durable Customs process for the times.

By Chris Gillis

As long as there's been a U.S. Customs Service, the shipping industry has had to produce manifests to bring its goods legally into the country.

The manifest lists the cargo that's transported by carriers, whether it's by ship, plane, railcar or truck. During the past 15 years, Customs and the industry have worked together to shift the process from one based on paper to computer transmissions through the Automated Manifest System. Today, AMS has become a useful tool for the agency to meet its enforcement requirements, while at the same time making it easier for transportation companies to file their shipment data to Customs.

More importantly, however, AMS allows Customs and transport providers to share in the data flows associated with intermodal cargo, and to a large degree, shapes the movement of imports throughout the United States.

Customs and the transportation industry remain actively involved in AMS. While the agency's current umbrella system, the Automated Commercial System, has been characterized as outdated, AMS, a component of that system, has demonstrated it can still stand muster to meeting manifest requirements and upgrades. AMS will continue to be an important component of Customs' future Automated Commercial Environment, when it's rolled out in four to five years.

Down the road, it's difficult to tell how the manifest will evolve, but the requirement for this information is not likely to disappear from the U.S. transportation scene.

"In terms of (drug and contraband) interdiction, we need a manifest," said Elizabeth Durant, executive director of Customs' Trade Programs. "We believe it's here to stay."

Data links in AMS

Manifest system lets ocean, rail carriers share data on intermodal container moves.

WASHINGTON

A U.S. Customs system to monitor the flow of ocean cargo entering the country has been turned into a useful tool for ocean and rail carriers to electronically exchange data on intermodal container moves.

The Automated Manifest System was first developed for ocean carriers about 15 years ago. A similar version, based on electronic-data-interchange standards, was created for the rail industry in 1995. During the past several years, a tighter AMS connection has drawn the two transport modes operationally closer together.

"Today, there are rail carriers reporting for ocean carriers and ocean carriers reporting for rail carriers," said Jerry Dunford, manager of customs for Canadian National Railways in Winnipeg, Monitoba. "This electronic reporting to Customs is a hallmark of the Customs AMS network, and this capability makes EDI intermodalism a reality of today and not some daydream of tomorrow."

"EDI messaging in AMS is wonderful," said Anna Marie Henwood, manager of import services in North America for Atlantic Container Line. "It's no longer like the old days when we used to send faxes through."

AMS also helps ocean carriers deliver containers more on a just-in-time basis to their customers, which in turn allows shippers to better plan their sales and manufacturing schedules. This saves both transportation providers and shippers millions of dollars a year in operations costs.

Customs and industry officials believe that consolidation of the rail sector in recent years and the continued drive by the intermodal sector to use automation to reduce operations costs should continue to push the development of AMS between rail and ocean carriers.

Intermodal Data Sharing. The link that brings the two transport sectors together in AMS is the "secondary notify" function. This allows a carrier to share shipment status advice with up to two other AMS carriers.

"This ability to share AMS shipment advice with secondary notify parties allows for the intermodal partner to be fully vested in the informational flow surrounding an AMS movement," Dunford said. "The AMS partner gets the same information in message content at the same time the primary railroad gets the information. This facilitates the movement of cargo and can lead to beneficial revenue recovery from reduced dwell time at interchange and destination points."

> ***"The AMS partner gets the same information in message content at the same time the primary railroad gets the information. This facilitates the movement of cargo and can lead to beneficial revenue recovery from reduced dwell time at interchange and destination points."***
>
> **Jerry Dunford**
> *manager of customs, Canadian National Railways*

This would not have been the case if the North American railroads and ocean carriers had not promoted the use of a EDI (ANSI X12) format, known as the TS-309, for cargo reporting.

The biggest progress in AMS data sharing far been experienced along the U.S./Canadian border. The reason is that many large ocean carriers use Canada's seaports as their gateways to U.S. hinterland consumer and manufacturing markets.

Prior to the use of secondary notify party in AMS, the Canadian railroads used their U.S. Internal Revenue Service numbers on in-transit bond shipments from the border to their railheads in Chicago and Detroit. Many of these containers needed to move to locations beyond the railheads, which meant delays while paper bonds were generated to move the containers to their final destination.

Many ocean carriers now allow the Canadian railroads to use their IRS numbers to bond the containers to the final destination on the rail bill of lading. In addition, ocean carriers are shown as secondary notify parties. Thus, Customs will send ocean carriers shipment status updates, allowing them to track and manage their bonds more efficiently. For the rail carriers, this method has reduced their liability because their bonds are no longer used.

In some cases, the Canadian rail carriers will allow ocean carriers which use secondary notify party to generate the rail bill number and the rail bond number. This permits the ocean carriers to "jump start" the customs clearance process by permitting them to transmit these numbers to the U.S. customs broker while the goods are still at sea.

Both railroads, Canadian National and Canadian Pacific, continue to invest heavily in their systems links to AMS.

Ocean carriers that are regularly sharing AMS data with the Canadian railroads are Orient Overseas Container Lines, ACL, Hapag Lloyd, Canada Maritime, Maersk Sealand, P&O Nedlloyd, Zim-American Israeli Shipping Co. and Evergreen America Corp.

Slower Development. Major U.S. railroads have been slower than their Canadian counterparts to implement AMS, but they're starting to catch up now that the consolidation frenzy has subsided.

Several years ago, Wisconsin Central, a big player in the U.S./Canada cross-border grain trade, became the first U.S. railroad to implement the system. Today, it uses AMS at its International Falls, Minn., border crossing.

Burlington Northern Santa Fe and Union Pacific started implementing AMS at their border crossings with Canada last year. BNSF has implemented AMS at Blaine and

"Beneficial event reporting is the next logical level to which AMS can be progressed with our trade partners in all modes of transport and all sectors of Customs business."

Kim G. Santos
group leader of field systems Customs' Office of Information and Technology

Sumas, Wash.; Noyes, Minn.; and Sweet Grass, Mont. UP added AMS to its border operations at Eastport, Idaho.

These carriers have also helped pave the way to implement AMS at ports along the U.S./Mexico border. These ports include Laredo, Brownsville, Eagle Pass, and El Paso, Texas; Nogales, Ariz.; and Calexico, Calif. Kansas City Southern plans to jointly implement AMS with UP at its crossing at Laredo early this year.

U.S. railroads are starting to experience the AMS benefits of faster customs clearances at the borders. BNSF has watched its dwell times at the border decrease from several hours to 10 minutes for most trains, said Rey Mendoza, manager of international and service support at BNSF in Topeka, Kan. The next step for U.S. railroads is to forge their own AMS links to the ocean carriers.

With more North American rail carriers on board with AMS, the ocean carriers should be able to further extend their AMS reach throughout the United States and Mexico. "We definitely need to move AMS to the next level," said Ken Lam, director of documentation service for OOCL in Oak Brook, Ill.

Terminal Benefits. Container terminals and freight stations have also benefited from AMS data. "We absolutely depend on AMS for our daily operations and rely on it to run our business," said Randy Rettig, senior programmer and analyst for Stevedoring Services of America in Seattle.

"In the past, the importer was required to submit manual documentation to Customs who reviewed it and stamped it before a trucker could be dispatched to our terminal to pick up the goods," Rettig said. "The process at our gates was much more awkward, time consuming, and subject to mistakes back then."

"With AMS, we can greatly decrease the time involved with fewer errors. There is no need to depend on manual review by gate clerks to determine the disposition of cargo released," he added. "When a trucker comes to pick up his goods, the computer knows whether they are eligible for release or not. This means fewer personnel are necessary and the bottom line is lower cost for us."

Customs brokers also interact with AMS through Customs' Automated Broker Interface module. AMS data alerts brokers of inbound cargo so they can begin the entry process while the goods are still at sea.

Enhancements. Customs plans to continue making improvements to AMS. The recent implementation of new MQ (message queuing) communications software in the system helped to improve the speed of information flow.

The agency also plans to enhance the "beneficial event reporting" component of the system. "Beneficial event reporting is the next logical level to which AMS can be progressed with our trade partners in all modes of transport and all sectors of Customs business," said Kim G. Santos, group leader of field systems at Customs' Office of Information and Technology in Newington, Va.

Beneficial event reporting occurs when a carrier initiates the electronic cargo report to Customs via AMS, and a secondary-notify partner reports electronically the arrival at or exported from its destination.

Here's an example of how beneficial event reporting works:

The railroad brings an ocean container into the United States via Detroit for ultimate delivery to Newark, N.J. The railroad opens the automated record with Customs via AMS and receives authorization to move the cargo through paperless in-bond procedures in AMS to Newark.

The ocean carrier that owns the container or the terminal operator to where the container is destined also receives copies of the AMS shipment status advice via the secondary-notify party capability of AMS.

When the container reaches Newark, it is not the importing railroad, but the ocean carrier or custodial entity that sends in the report of arrival to Customs via AMS.

If the container is export bound, the export carrier can report that event, including name of the exporting vessel and mode of transport, all at the same time in the same AMS transmission (TS-353), and thereby satisfy both Customs and Census reporting requirements via a single AMS transmission.

In addition, the Canadian railroads are exploring ways to use the Internet in their AMS programs. "We want to give carriers Internet access to our AMS applications and to be able to be more interactive with them," Dunford said.

Some rail executives fear that AMS, which is part of the 16-year-old Automated Commercial System, could suffer operationally as Customs turns its attention to developing its future system, the Automated Commercial Environment. But the agency continues to assure the industry that the viability of AMS will be maintained.

"AMS remains a dynamic and vital application that continues to meet the business requirements of our trade partners," Santos said.

AMS benefits to ocean carriers, railroads

- Shared EDI shipment status advice (secondary notify party).
- Improved equipment use.
- Beneficial event reporting via EDI.
- Reduced cargo dwell time and improved revenue recovery.
- Reduced exchange of paper documents.
- Improved internal tracking and audit controls.
- Reduced incidence of Customs penalties via EDI event reporting.
- Paperless cargo releases at land borders.
- Seamless custodial transfer between intermodal AMS carriers.

Source: U.S. Customs Service.


DETOUR

JFK proves Air AMS can be done

Customs, airlines develop paperless manifest operation, while rest of country struggles.

NEW YORK

While U.S. Customs and the nation's air-cargo industry struggle to implement an efficient automated manifest process, it should turn to JFK International Airport for lessons learned.

Customs' Air Automated Manifest System was started about 10 years ago to eliminate the need for paper manifests to monitor inbound air cargo and to ease the workload on both the agency and industry in handling this documentation. Except for JFK, the system has remained largely underused at many U.S. airports.

"Without AMS, we couldn't move half the freight that we do today," said Mohamed S. Rasheed, supervisory inspector for Customs at JFK. "Thanks to AMS technology and a commitment to use it, we have developed a fairly efficient process for managing manifest data."

Rasheed

JFK Customs estimates that AMS processes at least 90 percent of manifests, which contain about 5,000 air waybills daily. Sixty of the 110 AMS airlines at JFK actively use the system today.

"We only revert to paper if there's a systems problem," Rasheed said. "Otherwise, no one wants to go back to paper. The incentive is there to stay automated."

Getting the system started, however, took a little work on Customs' part. "We went out and sold it to the industry," said Irwin Gold, former supervisory Customs inspector who headed the AMS effort at JFK, and president of D'Log Consultants, based in Jamaica, N.Y.

Before AMS, inspectors were assigned to air-cargo stations. They would take paper copies of the manifest and match the information to individual import entries. The paper manifest would include flight details, air waybill numbers, pieces and weights of freight, cargo descriptions, and information about the shippers and consignees involved in these transactions. Inspectors used the manifest information to pull shipment samples for inspection.

"With AMS, we could account for line-by-line shipper and consignee data and do our reviews prior to the planes' arrival," Gold said. "We were also able to pull the inspectors out of the cargo rooms of the airlines and centralize them in one location."

Japan Airlines became the first carrier at JFK in October 1989 to join AMS. Others, such as Federal Express and Northwest Airlines, followed shortly.

"There were some problems with the system the first year, but we worked them out," said Michael Buckley, manager of cargo services in the U.S. Eastern region at JAL. "The goal for us was to get a leg up on the competition by moving our cargo faster through AMS."

Outside JFK. Despite JFK's success at using Air AMS, the system has evolved into a big headache for much of Customs and the airline industry.

First, the system stands alone from the rest of the agency's automated manifest processes, such as ocean and rail, which use interchangeable ANSI X12 electronic-data-interchange formats.

"Air AMS had a different childhood," said John B. Hill, director of applications development for the Automated Commercial System (ACS) at Customs' Office of Information and Technology in Newington, Va. "Many years ago, Customs made the decision to use the CargoIMP EDI format to accommodate the trade."

Air AMS is "more ambitious" than the rail and ocean AMS environments by requiring the system to drill down to the house waybill data level, said John Considine, director of commercial processes at Customs in Washington. Ocean and Rail AMS require data at the master bill of lading level. The problem with the house waybill numbers is a lack of standardization.

Air shipments are often split shipments — split up over multiple flights. Customs has traditionally required importers to file separate entries for each split shipment. This leads to confusion and extra work in the manifest process. Air AMS breaks down when it encounters split shipment data.

The agency at JFK fixed this problem about two years ago by allowing importers to make a single entry over multiple arrivals in AMS. But the concept has failed to catch on at Customs in other airports.

Another problem with Air AMS is its inability to allow air cargo operators, such as customs brokers and deconsolidators, to request the movement of in-bond shipments without the presentation of paper documents to Customs. Only airlines are able to do this in AMS. The input of duplicate air waybill numbers also trips up the system.

"The AMS system itself is not a simple system," said Lou Sakkestad, senior consultant of cargo terminal automation at American Airlines. "If you don't know what you're doing, you can get yourself into a lot of trouble with it."

Sakkestad

Staunch supporters of the system blame most of the system's problems on Customs headquarters. "Customs kept ripping apart Air AMS when the problems rested with ACS," Gold said. "They couldn't really get Air AMS back together again."

Frustrated, Customs began to give Air AMS less and less attention and resources. "They just walked away from it, while we at JFK kept it going," Gold said.

Miami Customs has increased its push into Air AMS in recent years by adding numerous airlines to the system. Other airports, such as Los Angeles, San Francisco and Chicago, also have airlines using the system. However, in most airports receiving international air cargo, the systems' use remains spotty at best.

The tendency today for inspectors at most airports is to ask for paper copies of manifests and avoid the use of AMS altogether. Customs said lack of resources and regular rotation of inspectors also drags down the use of Air AMS.

Big Step. During the past year, Customs has made a serious effort to correct some of the long-standing problems in Air AMS. "We're essentially having to fix a five- to six-year-old backlog of problems," Hill said.

Customs took a big step forward with Air AMS in January by initiating a test to receive manifest data at both the master and house waybill levels through AMS. The information must be supplied to the agency through the system at least an hour before arrival of the plane. Airlines arriving at 32 airports around the country will have the ability to conduct the test, the agency said.

To prepare for the test, Customs began holding classes last year to teach inspectors about how to use Air AMS in their fieldwork. At least three training sessions are budgeted for fiscal 2001, to be held at the Glynco, Ga.-based Federal Law Enforcement Training Center.

Customs also recently moved the system's support from a small AMS group at headquarters to Automated Customs System client representatives around the country to offer Air AMS support to industry.

The Air Transport Association of America, a powerful lobbying group for the U.S. airlines, believes Customs should continue to use JFK as its model for going forward with Air AMS. It will also do its part to get its airline members onboard the system throughout the country.

"Customs needs to incorporate what they've done at Kennedy in other ports," said Michael R. White, ATA's director of facilitation. "We're going to hold meetings around the country with Customs port directors and carriers' management up and down the chain to get them behind AMS."

The ATA plans to also do its part by proposing to air-cargo industry groups, such as the International Federation of Freight Forwarders Associations, the International Air Transport Association and Cargo Network Services, that they develop an international house waybill numbering standard.

"We have a standard on master air waybill numbers in IATA. Why not a standard for house waybills?" White said. The ATA believes that the changes could be made with minimal disruption to ACS and the airlines' AMS systems.

Meanwhile many airlines continue to invest in the development of their Air AMS systems. American, for instance, has installed its newest version of the system at its cargo stations in San Juan, Puerto Rico; JFK; Miami; Boston; and Los Angeles. The carrier will also use Air AMS at its cargo stations at Chicago; Dallas-Ft. Worth; Newark, N.J.; Seattle; Raleigh-Durham, N.C.; and San Jose, Calif. "By the end of 2001, we will have the system at all of American's international gateways," Sakkestad said.

CAFES gives truckers taste of AMS

2D barcodes link paper-burdened motor carrier sector with automation.

WASHINGTON

U.S. Customs' Automated Manifest System may be entrenched in the operations of the ocean and rail transport industries, but truckers remain largely out of the loop.

The agency wants to ease the processing of paperwork between itself and the cross-border trucking business by initiating a newly developed system in April, which partially automates the manifest information on in-bond forms.

The program, Customs Automated Forms Entry System or CAFES, will use a redesigned in-bond form with a two-dimensional barcode (PDF-417). The barcode, which resembles a checkerboard, is able to contain larger amounts of data than traditional vertical-lined barcodes used for land-border clearance documentation.

The plan is for shippers in Canada and Mexico to produce the in-bond forms (Customs Form 7512) with the 2-D barcodes. This could be done while shippers prepare other shipping documents for their U.S. inbound cargo, said Kim G. Santos, group leader for field systems at Customs' Office of Information and Technology in Newington, Va.

Truckers will carry these forms with them as they transport their shipments to the border. Customs plans to test the system initially at the land-border ports of Laredo, Texas, and Port Huron, Mich. When the driver arrives at one of these two border ports, he will present the CAFES documents to the inspector in the "primary" booth.

The inspector will use the existing computer hardware in the booth to scan the documents' 2-D barcodes. This scan will upload all the data required by Customs' Office of Field Operations and data to support all existing in-bond functionality of the Automated Manifest System and Automated Broker Interface applications of Customs' umbrella system, the Automated Commercial System, Santos said.

After a successful scan of the barcode, the inspector has the option to endorse the CAFES CF-7512 document with a "movement authorization" stamp from the a "slip printer." The slip printer is used to endorse the entry number on the invoice or other commercial documents used in the agency's Border Release Advanced Screening System (BRASS), formerly Line Release.

"Without one keystroke, Customs will have a comprehensive profile of the in-bond shipment loaded into the Customs database," Santos said. "The trade partner can secure 'in-bond movement authorization' from the primary booth without referral to the secondary processing location, which requires the truck to park and the driver to wait."

CAFES should reduce dwell times at the border for trucks resulting in faster release of imported goods and reduced document handling, Santos added.

Time is often of the essence among the land-border trades. "In such an environment, it is sometimes difficult to support the traditional full-scale EDI required by the ABI and AMS applications in ACS," Santos said. "With CAFES hosted among the shipper community, the in-bond document can be prepared way in advance of border arrival."

Another benefit to CAFES is that the documents still accompany the shipments to the border. "Since it is a document, it also provides it's own back-up system in the event of the CAFES scan and release system is down," Santos said.

Ultimately, CAFES will give truckers an ability to interact with AMS through ABI electronic-data-interchange formats for in-bonds, called QP/WP. QP is the application that creates the records, while WP is the application that allows the ABI filer to electronically report the arrival and export of in-bond cargo.

Customs broker Norman Jensen along the northern border is using QP to initiate in-bond cargo moves on behalf of Consolidated Freightways. The trucking company, however, uses AMS to report the arrival of these in-bond moves.

The first electronic in-bond entry filed in the United States was completed by Miami-based broker John Cassidy International in November 1999. Upwards of 40 brokers use QP to manage their in-bond shipments today. Truckers are still largely underrepresented in the system.

While slow to take off among the trucking industry, Customs hopes the system will eventually help to improve the efficiently of handling more than 4.5 million in-bonds a year. ■

Log-Net scores 'heads down'

Longtime software provider completes full-Web migration.

By Robert Mottley

The woods are full of 90-day wonders in e-software.

Fresh-faced providers, with a business plan in hand and venture capital behind them, set forth to seek clients in a lucrative logistics market.

One can follow their chase as in the English fox hunts of old: the tally-ho-ing of specially hired advance consultants, indicating a plausible target within range; the thunder of hooves as the charging e-provider steels its young troopers for a client attack; the exultant baying when they are actually invited into a boardroom to make a pitch.

"There are sources of software that are very clever in pitching their products, so you invite them in. But then you find that specific details in their presentations suddenly get fuzzy, so that you don't know what you're going to wind up with in the end," said Geoff Tice, a general manager of Hong Kong-based Kesco Container Line Inc.

Too often after such presentations (or not often enough, depending on one's views of learning through hard knocks), a nascent e-provider is shown the road. The theme changes from "Gladiator" to "Who Let The Dogs Out?"

"There are people very good at performing a siren song," said John Motley, president of Log-Net, based in Little Silver, N.J., a provider of supply chain execution software. "But today, users of third-party providers have become very wary.

"The first thing they ask when you come in their door is, 'do you have a product demo?' If you don't, they won't see you," Motley said.

"Users have been steadily burned from being sold 'get-with-it-packages' that have no engineering merit, proffered by purveyors who have not worked much in transportation," he said.

Bootstrap Heritage. Such wariness is not a new thing, and has actually sustained Log-Net over nearly a decade of business life.

"Part of Log-Net's heritage is that we are a bootstrap company," Motley said. "That's one of the reasons we are a survivor. We always had to make our way on the premise that if we didn't have an economically viable solution, one that would produce revenue streams, we'd go out of business.

"Our customers will drive us to go public, probably in the next two to three years. I would rather have customer capital than venture capital any day."

John Motley
president,
Log-Net

"We are considered 'old guys'," said Motley, who is 38. "That's just fine with our clients."

And indeed, users of Log-Net are not disturbed by the system's evolving pedigree — "That it has one at all in this market is astonishing enough," said one source.

Johan Nanninga, trade director for P&O Nedlloyd in London, said, "we use Log-Net as our product order management system. It is a very complementary software system, meaning that it perfectly matches the needs of our customers."

Asked if he really meant perfect, in the sense of being without glitches, Nanninga said that "the glitches period is long past. I am not given to making overstatements. We have worked with Log-Net for years, so that we've become comfortable with them, and their software does work seamlessly for us."

"We are a new client of Log-Net," Tice said. "It's too early for us to get the benefit of it, but we've had it long enough to know we love it. Their system is really a lifesaver.

"We explored other software options," he said. "With Log-Net, from day one, we could see the engineering expertise that went into the system."

Jodie Mendoza, Jones Apparel Group's vice president of corporate logistics, said, "we are very pleased with Log-Net's software. It has made my life much easier."

"We are really content with Log-Net's solution," said Charles Armstrong, senior vice president of Wards. "It's a very well-thought-out software, and has been used deep within our merchandising as a kind of IT bedrock for us."

After the recently announced bankruptcy and closing of Wards' parent company, 128-year old Montgomery Ward, "it looks like I'll have to find another job," Armstrong said. "Wherever I land, I'm taking Log-Net."

Quicker Data Entry. Motley wrote the initial Log-Net program himself in his basement in Little Silver, and retains the copyright. Amid other refinements, the product changed in its delivery platforms, from DOS client server to Windows client server in 1997, and then to an early Web-based version in 1998.

"We've just completed our full-Web migration," Motley said.

Log-Net takes its name from the company's core software. The most recent hot-button program comprises Web architecture to obtain a three-to-five-second response time in B2B order processing.

"We call that heads-down data entry, or HDDE," said Thomas Wyville, director of sales and marketing for Log-Net.

"If a client such as Toys R Us is working live on the Web, dealing with peak season orders, then having a three-to-five second maximum response time makes all of the difference to their operation," Wyville said.

"Most other systems out there use much slower architecture," he said.

"Slower systems, which can take 10 seconds or more to bring up a page of purchase orders, cannot satisfy heads-down data entry," Motley said. "They are really designed


SafBank
LINE LIMITED
BECOMES
Safmarine

for the traffic manager back at corporate headquarters who needs to go in and do a data search."

Core Blueprint. At 17, Motley had entered the U.S. Merchant Marine Academy, beginning an engineering-oriented career that eventually brought him to American President Lines for nine years.

"At APL, I was involved with container freight operations, equipment management, everything but systems, ending up as an account executive in the New York area," he said.

"I was in operations at APL, running container yards and inbound freight management, trying to track and trace cargo with rail, truck, and other shipping lines," he said.

"I was dealing daily with the problems of having to go through multiple systems to get the job done. There was a pretty glaring need for a better way." Studying finance at New York University, he thought that international freight offered a ripe area for improvement.

Since his high school days, Motley had been writing computer programs, hanging out with a group of AT&T programmers at the Bell Labs in Homedale, N.J., who were writing the "C" computer language.

Besides technical familiarity — thinking ahead of his fingers on the keyboard — Motley came to love designing computer codes.

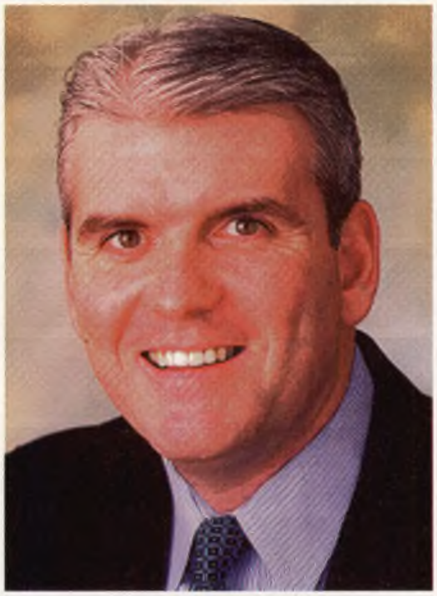
As computer languages matured, "it was possible to write an expandable blueprint. In addition to the core program, you could create extensions, so you wouldn't have to write custom applications for every single client. By configuring for each client, you would have a more powerful tool to use for massive software customization," he said.

In the real working world, "I had been a yard manager. The details were always first and foremost: how do you dispatch trucks, create bills of lading, and release freight? You have to understand the very basic nuts-and-bolts of that at a very detailed level to be able to offer useful logistics solutions."

Drawing from his daily experience at APL, Motley designed a software program that could handle back-office management of a freight forwarder, purchase order management, and distribution and warehouse management.

He decided to start a software venture "with the primary goal of offering international logistics solutions that would cover the entire purchasing process from the first day," he said.

In 1991-92, he was "fortunate enough to start with one client" to launch his company. The client was Cargo Management



"We call that heads-down data entry, or HDDE. If a client such as Toys R Us is working live on the Web, dealing with peak season orders, then having a three-to-five second maximum response time makes all of the difference to their operation."

Thomas Wyville
director of sales and marketing, Log-Net

Services, now part of Danzas-AEI.

"They covered our initial expenses. Specifically, we were their operational system, and still are today," he said.

"I was lucky in the timing. There were issues with Cargo Management Services' structure at the time that allowed me to stay independent."

Mike Johnson, director of global business for Danzas-AEI, said, "Log-Net has been one of our core systems for years. John Motley started with a knowledge of what transportation managers needed. His company's software has been on target from the beginning."

Motley's next clients were United States Consolidation, followed by P&O Nedlloyd. "The system then sold by word-of-mouth."

He called his venture Global Technology Services Inc., changing the name in 2000 to Log-Net. The company now has a payroll of 35 employees, who work at offices in Little Silver and Seattle.

Log-Net's corporate headquarters in Little Silver, near the Jersey shore, is "a block from home," he said. "Since we are international in our range of clients, we can be situated anywhere. We would see no economic benefit from having an office in New York City."

Wyville, also 38, joined Log-Net last summer. He had been Northeast regional sales manager for Mitsui Lines, having worked more than 12 years at Mitsui, and before that, at United States Lines.

"I had known of John," Wyville said, "by reputation and through mutual friends."

Revenue Sources. The architecture of Log-Net's systems is planned and executed in-house. Some of the company's staff are members of international standards committees for EDI and XML development. "You are not going to drive economic value without knowing the business inside out," Wyville said.

"Our focus has always been on the product itself, and the people who need to touch it. It may be the service provider, or the cargo principals."

The company earns money via licensed revenues from the purchase of its software, and revenues that come from hosting the software

"Either we'll host it, or our client will host it," Motley said. "If we host it, we charge a per-shipment fee roughly equivalent to a line item on a bill of lading.

"Here's the reason we separated it that way. The licensing fee pays us for our software developing expenses. The shipment fee pays us for the architectural requirements of the system," he explained.

"If you're shipping a lot of stuff, we need bigger servers, and a wider bandwidth on the Internet. There's a very direct correlation between our underlying costs and our customer's volume needs. If you use us less, you pay less, and vice versa."

Log-Net opened its Seattle office "because we had staff originally placed out there," Motley said. "We wanted to expand our geographic coverage, and have a site in that region for our back-up data center. Sixty percent of our clients are in Asia."

The Seattle office has two employees, but Log-Net plans to hire another 14. The company is also considering setting up a base in Hong Kong.

Venture Funding. "We've been approached by venture capitalists who are shocked, even amazed, that we started as a self-funded venture," Motley said. "In fact, we have gotten involved in venture capital, but on a very small basis. We did it to have exposure to the larger financial community."

"It's our first and only round, with a group called Edison Venture Capital, based in New Jersey. We wanted to have an outside party give us a seal of approval in terms of the due diligence processes they are going to go through. We've always done our own research and development, so the money will be used for marketing."

Log-Net has had its revenue streams grow by 30 to 80 percent each year that it has been in business. In 2000, Motley would say only that revenue had been in a seven-figure range.

"We have a low turnover in clients," he said simply, noting that Log-Net's rule-of-thumb in 2001 is to gain two new clients each quarter that will stick.

The company remains privately held, for the present. "Our customers will drive us to go public, probably in the next two to three years," Motley said. "I would rather have customer capital than venture capital any day." ■

Privratsky: A man of the field

Commander's management style is integral part of MTMC's creative reengineering.

By Chris Gillis

If you're looking for Maj. Gen. Kenneth Privratsky, you won't likely find him sitting around his office.

You'll have better luck locating him walking the floor of a shipper's warehouse in the Midwest, standing along a container terminal in a Southeast seaport, or meeting with an industry group in downtown Washington — constantly observing, listening and asking plenty of questions.

"I grew up in the field," said the 53-year-old commander of the U.S. Military Traffic Management Command, the surface transportation logistics provider for the armed forces. "That's where I gain much of my perspective."

Privratsky took command of MTMC a year and half ago. Aside from a combat tour in Vietnam, he spent most of his 30-year military career involved with logistics management of Defense Department cargo. He served as commander of the Defense Logistics Agency's distribution center operations in 1997. Before taking command of MTMC, Privratsky directed transportation, energy and troop support for the Army.

Already, MTMC is a different organization than it was 18 months ago. From headquarters to the field, Privratsky's changes have taken millions of dollars out of MTMC's operations budget.

But Privratsky is quick to give credit for these successful changes to the agency's staff. "You're only as good as your people, and how actively you involve them and take care of them," he said.

Privratsky would rather stimulate his employees to think about how to improve their role within MTMC than using a heavy hand to manage.

"From my perspective, a commander gets paid to facilitate vision and to inspire leadership in attaining that vision. You only apply discipline as needed to maintain focus along that path," he said.

In line with that management philosophy, the commander, who taught English literature at West Point, started a professional reading program at MTMC. Some of the books read by the employees are *Flight of the Buffalo, Reengineering the Corporation, The Leadership Challenge* and *The Goal.*

"The goal of the program is to create an understanding about why we need to change," Privratsky said.

Shaving Costs. The vision of Gen. Eric Shinseki, Army chief of staff, is to have the capability to deploy brigade combat teams to anywhere in the world within 96 hours, a division on the ground in 120 hours and five divisions within 30 days. MTMC plays a key role in meeting this objective.

To fulfill Shinseki's vision, MTMC has had to become more efficient, even in the face of leaner budgets and manpower.

Privratsky started his command at MTMC with the goal to reduce the agency's operations costs by $25 million in the first year. By the end of fiscal 2000, ending Sept. 30, MTMC saved taxpayers $57.6 million, a 5 percent reduction over the previous fiscal year. "This is a huge, huge amount," the commander said.

A large portion of the savings came from reorganizing and streamlining operations, which did not require MTMC to hire its full-authorized allocation of employees. "We are 320 employees below program. That is $20 million in savings," Privratsky said.

Some of its smallest, but hardest-working overseas units, such as the 831st Transportation Battalion in Bahrain and the 839th Transportation Battalion in Livorno, Italy, received staff increases, while others, such as the 596th Transportation Group in Beaumont, Texas, and the 842nd Transportation Battalion at Fort Monmouth, N.J., were scaled back.

By the end of last year, the agency's overall size at worldwide port locations declined by four officers, 36 soldiers, 94 civilians and 64 foreign nationals. More jobs may be affected this year. Privratsky emphasized that while the agency continues to reorganize its 2,400-employee work

(continued on page 46)

"We don't focus on profits like corporate CEOs. We focus on costs, which are ultimately reflected in the service to our customers. I relate costs to survival."

Maj. Gen Kenneth Privratsky
commander,
U.S. Military Traffic Management Command


CHICAGO
ST.LOUIS
LOUISVILLE
MEMPHIS
ATLANTA
HOUSTON
PORT
OF
SAVANNAH

SO MANY DESTINATIONS, SO LITTLE TIME.

ANNOUNCING OUR NEW INTERMODAL CONTAINER TRANSFER FACILITY.

EVER MET A SHIPPER WHO WAS IN NO HURRY TO MOVE CARGO? Neither have we. So when you want the fastest and most efficient rail service possible to Chicago, Memphis, Dallas, New Orleans, Houston and points beyond, you'll come to the Port of Savannah.

We're nearing completion on the James D. Mason Intermodal Container Transfer Facility, the only on-terminal ICTF of its kind on the U.S. East Coast. Located at the Garden City Terminal Containerport Facility, the new ICTF will slash transit times and reduce transportation costs. Forget unnecessary draying expenses and in-town marshaling. You'll gain seamless distribution via expedited unit trains in both directions that no other South Atlantic port can deliver. And, better cut-off times for vessels is a Savannah advantage.

No other port but Savannah could build a 153-acre ICTF. Unlike competing ports, Containerport's single-terminal design has the room and flexibility to expand even more. Plus, you have our commitment to meet your ever growing shipping challenges.

Soon, the Port of Savannah's ICTF will put the U.S. heartland at your fingertips...We're counting the minutes!

The James D. Mason Intermodal Container Transfer Facility, Phase 1 to open Spring 2001.

For details and a brochure, contact Byron X. Hock, Director of Trade Development, 800-GPA-9060 or 912-964-3180. Or, visit our web-site at www.gaports.com.

Port of Savannah
The Right Choice at the Right Time

force, it offers assistance, such as relocation payments and recommendations to other agencies, to displaced staff.

MTMC also moved its Virginia-based headquarters from Falls Church to Alexandria. The new, larger office building has room for 800 computer stations for the command's military and civilian work force. There are also 375 workstations for contractors.

The agency has generated other savings by tightening its belt on supplies and equipment. MTMC even cut its employee travel schedule last year in half to $5.35 million.

"We don't focus on profits like corporate CEOs," Privratsky said. "We focus on costs, which are ultimately reflected in the service to our customers. I relate costs to survival."

Benchmarks. In the agency's search for efficiency, Privratsky has promoted the development of contacts with commercial shippers and transportation providers.

"When I was at DLA, we did a lot of benchmarking with the industry," Privratsky said. The commander met with senior executives of companies such as L.L. Bean, Eddie Bauer and Caterpillar, to find ways to improve DLA's operations. The agency controls the movement of more than 4 million non-weapon materials, from notepads and pens to helmets and boots. "We reduced a three-to-eight-day processing time to less than a day," he said.

Privratsky added that he has learned the value of open relationships with industry. "We get better by learning from each other. I've never worked with an industry that says it has a secret and won't tell you."

"I'm meeting with Schneider, and they currently don't do business with MTMC. But I want to learn about how we can apply what this company has done to our operations," Privratsky added.

The commander has also met with management of the leading moving companies, such as Allied Van Line, United Van Lines and Unigroup Worldwide, to find ways to improve the handling of household goods of military personnel.

"It's one of our thorniest programs," Privratsky said. Many military families have had bad experiences with overseas moves. "I've walked the floors of these operations. I believe we can develop mutual, agreeable solutions."

The American Moving & Storage Association, which represents about 3,500 household goods carriers, is developing a new automated tariff system to replace the cumbersome paper-based Tariff 400-M. Automation of the 60-year-old tariff system should help reduce billing problems and customer confusion.

Soldier with 101st Airmobile Division (Air Assault) at Fort Campbell, Ky. assists car loading for training execise in California

"I hope we in MTMC have sense enough that if it is good enough for commercial shippers it should be good enough for us," Privratsky said. "We don't have to create a separate system."

MTMC also become savvier in its rate-setting negotiations with the ocean carriers. In this year's service contract with the carriers the agency saved about $35 million.

The agency will continue to bring its negotiated rate levels with carriers more in line with the large commercial shippers. MTMC released a solicitation for bids to the ocean carriers at the end of January. The new universal service contract should take effect on Sept. 1.

MTMC expects to ship more than 120,000 TEUs in 2000-2001, of which about 90,000 TEUs will be shipped as part of the new universal service contract. This contract will also include about 360,000 measurement tons of breakbulk cargo and 68,000 personal vehicles.

Two-Way Street. While MTMC seeks to improve its own position, Privratsky believes that gains should be a two-way street between the agency and carrier industry.

"We are often our own worst enemies," Privratsky said. "Let's say a customer wants to move a shipment from Norfolk, Va., to Antwerp. It generally takes in excess of 50 days to get the product from requester to consumer; it's our first reaction to beat up the transportation sector for irregularities. If nine-to-10-day transits are consistent in ocean shipping to Europe, where did the other 40 days go? We shouldn't be beating up on the ship operators. We should be beating up on ourselves. There's no good reason why it should take three to four weeks to get cargo out of the United States and on a ship."

The agency has made significant progress to improve its relationship with the commercial carriers. MTMC has eliminated many government and military documentation requirements and procedures to pattern itself more closely after the commercial sector.

During the past year, the agency has watched the use of government bills of lading by the commercial transportation providers decrease 97 percent, or from about 65,000 to 2,000. MTMC attributes the decrease to its use of Minneapolis-based USBank's PowerTrack system to pay for carrier services.

About 480 carriers, mostly in the trucking industry, receive freight payments through PowerTrack. By December, more than $335 million in freight bills were paid through the automated system, and 85 percent of these payments were made in three days. In the past, commercial carriers waited 30 to 60 days to be paid via the manual payment process of the Defense Finance and Accounting Service.

PowerTrack also provides monthly statements to shippers and carriers, reconciliation of bills and tracking of goods from origin to destination. Users of the system will also benefit from future enhancements made by USBank to the system.

Under MTMC's new freight payment

guidelines, most freight delivered by truck, ship, barge, railroad and pipeline must use PowerTrack to receive a contract to carry MTMC freight. The agency plans to increase the use of PowerTrack among its breakbulk ocean carriers and inbound container transporters this year.

In another effort to improve relationships with the commercial transportation sector, Privratsky spearheaded the development of an automatic fuel surcharge program for the trucking industry.

During a meeting of the National Defense Transportation Association last August, truckers expressed their concerns about receiving adequate compensation to cover rising fuel costs. Privratsky said he didn't want to see truckers refuse to carry MTMC cargo because of fuel price issues, which could threaten the agency's military readiness.

A joint MTMC-industry fuel board was formed on Nov. 30 and a plan was created to link the automatic surcharges paid by the agency directly to the price of diesel fuel. Privratsky placed Col. Clark Hall, his chief-of-staff, and Frank Galluzzo, director of the agency's Distribution Analysis Center, in charge of the fuel board's operations.

Fuel board members agreed to use the Energy Department's weekly fuel price as the governing national standard, and agreed to set a baseline fuel price, with a 10-cent-per-gallon margin. For example, if a baseline of $1.30 is established and the price of fuel goes above $1.40, truckers would be automatically entitled to a fuel surcharge.

Supply Chain Control. On the horizon, MTMC is developing a revolutionary logistics scheme to manage the military's domestic distribution of goods in the Southeast. The business will be placed under a one-year contract with a single commercial logistics provider. The agency hopes to award the contract by spring.

The initial contract, valued at $30 million, will cover the military's freight distribution in Florida, Georgia and Alabama. MTMC picked the region because it includes all the military branches and has a wide spectrum of cargo. There are 29 installations, including four DLA depots, in the Southeast region. These installations make an estimated 50,000 shipments a year.

The contract, however, will prohibit the logistics provider from handling classified goods, explosives and bulk fuel. But MTMC may extend the contract to cover these shipments over time.

The logistics provider will make all rail and truck transport arrangements and freight payments to the carriers, and serve as a single point of contact for any liability claims. The agency's contract will also require the logistics provider to have a small business plan, a concept of operations and a plan to meet surges in cargo volumes during a contingency.

In 1998, MTMC awarded a two-year, $394-million commercial logistics contract to American Auto Logistics of Woodcliff Lake, N.J., to manage its Global Privately Owned Vehicle Program. The Defense Department ships about 75,000 vehicles worldwide for military and civilian employees.

MTMC also joined its counterparts at the Defense Department in an effort to further modernize the movement of military and other defense cargo shippers. Privratsky is chairman of the surface committee of the Strategic Distribution Management Initiative, which began last year.

"This is true supply-chain management," Privratsky said. "We are moving supplies and transportation together."

In the past, trucks would routinely pick up depot freight at a fixed time of the day. Freight prepared for shipment after that time would have to wait for the next day's delivery. Under the Strategic Distribution Management Initiative, trucks are scheduled to arrive for their freight at the time the freight is ready for shipment. "This is an example of aligning our work force with our work flow to meet customer delivery expectations," Privratsky said.

The agency will focus on systems development this year to more efficiently manage its operations. MTMC's sister agency, DLA, has awarded a $389.8-million contract to Accenture (formerly Andersen Consulting) to head the three-year development of its new computer system.

Industry Observers. The proof of Privratsky's success at MTMC, however, is in the reviews of the agency's closest observers and clients.

"He's done a super job on what the command should be doing," said retired Lt. Gen. Edward Honor, president of the National Defense Transportation Association. "When there's clarity in a direction, the people will support it."

Honor, who has worked with Privratsky over the years, also held various senior-level positions at MTMC throughout the 1970s and 1980s.

"Privratsky has worked hard to get a consensus with his staff," said retired Gen. Johnnie Wilson, president and chief executive officer for Dimensions International, a Washington-based firm representing the interests of 500 minority logistics and information technology executives. "He's the kind of guy that can do it well."

John Reinhart, CEO of Maersk Line Ltd., the U.S.-flag operation of Maersk Sealand, and major carrier of MTMC freight, praised Privratsky for his strong leadership in creating change within the government. "He's results-oriented and focused on implementing technology and commercial practices where beneficial," he said.

Industry officials said Privratsky must continue to make the most of his time remaining as commander by implementing as many modern, business-like practices as possible. The goal would be to create an efficient "one-stop shop" for defense cargo shippers.

"In a command like that — where it's so big — there's always things that need to be done," Honor said. ■

One of two lighter craft mediums, or LCM, loaded at the port of Beaumont, Texas, by the 596th Transportatiion Group. The 67.5-ton vessels were trucked on giant trailers 850 miles from San Pedro, Calif. to be transshipped to Tunisia last fall.

'It fell off the back of the truck'

Cargo Shipping Transportation Analysts' Robert Caton tells how shippers can minimize cargo theft.

BY ROBERT MOTTLEY

2000 was the worst ever for inventory and cargo theft, causing a loss that cargo insurers reckon to be more than $40 billion in North America alone.

"These days, the phrase 'it fell off the back of the truck' means that someone pushed it and someone else was there to receive it," said logistics consultant Jeana Nordstrom.

"Many companies sweep their losses from inventory theft under the dock. They don't report thefts for fear of retribution from stockholders or upper management," she said.

"As if that multibillion-dollar headache wasn't bad enough, thieves using e-commerce have made the problem worse. The Internet has created a global black market, exponentially increasing the opportunities to sell stolen goods," Nordstrom said.

"We continuously hear now cargo theft is growing in the freight transportation industry, but very little is being done to penalize thieves once they are caught," said Robert F. Caton, president of Cargo Shipping Transportation Analysts, based in St. James, N.Y., on Long Island near JFK International Airport.

"Local authorities will not prosecute thieves unless the goods stolen are valued above $1,000. Before acting in such cases, the authorities look for that amount to be 10 times greater before they pursue a conviction," Caton said.

That has led criminals, who are intimately familiar with the system, to limit the value of what they steal, so that their wrongdoing "will fall under what is deemed prosecutable," he said.

If caught, "cargo thieves plea-bargain their offense down to a misdemeanor, and are back on the streets in no time, preparing to steal again."

"We continuously hear how cargo theft is growing in the freight transportation industry, but very little is being done to penalize thieves once they are caught."

Robert F. Caton
president,
Cargo Shipping Transportation Analysts

Patterns Of Loss. In Caton's view, the opportunities for the wrong hands picking up cargo seem higher at air cargo terminals than at ocean container terminals.

He bases that opinion on work done by his transportation consulting firm in the New York area. An ocean facility, such as Port Newark, will have only a few gated entrances, which means less risk of easy thieving. At JFK, only a handful of more than 30 cargo terminals have round-the-clock manned security gates.

"I am hired to go into a cargo facility, such as a warehouse, and look at what is being done, from the standpoint of improving security and performance," Caton said.

"My company is often summoned after the managers of such a facility have identified a persistent pattern of 'slippage' or 'shrinkage' in inventory."

After making an overall evaluation, Caton brings in a security firm to assess specific details. The groups he uses employ retired military personnel, as well as police who are either retired or moonlighting.

"In relating what I do, I believe you will find partial remedies for thefts that all shippers should insist that their freight forwarders follow," he said.

Caton's rounds begin in a corporate manager's office, where the usual sad story unfolds: certain shipments have been violated outright, or contain fewer pallets than expected.

Having been given details about the goods that suffered, and told how they were handled, Caton then goes to the cargo facility where the shipment was stored.

"The first thing I look for are signs of security: a guard at the door, or overhead cameras fixed on the entrances. Then I see how far I can go on the warehouse floor without being challenged," he said.

Often, Caton finds that what he has been told about practices in the facility bear no resemblance to what he sees afoot.

"Some managers haven't the vaguest notion of what is going on in their own warehouses," he said.

"If employees are spread out, that's good. It means they are working in all areas of a warehouse."

In air cargo terminals, the FAA has mandated that employees are supposed to challenge "anyone who walks in without an airport identification badge, a badge which requires a 10-year background check ... That's another story altogether," Caton noted grimly.

Anyone coming into a facility for air cargo "is supposed to be challenged before reaching a certain point, sometimes designated by a yellow line on the floor," he said.

"If I'm not challenged, that's not a good sign, whatever cargo is in the warehouse."

Timeline For Crime. Caton has found that a facility's employees may not count accurately. A shipment of 100 boxes may be checked as having 100 when only 99 are in hand. The miscounting can be either an innocent error, or quite deliberate. In one

incident he recalled, the contents of a carton of French perfume that was never listed probably went to the wives and girlfriends of warehouse employees.

Another problem is that some cargoes are too easily identified because the shipper has a logo on the box that advertises the value of the contents.

"Often, to save costs, shippers use display boxes as shipping boxes," Caton said. "The display boxes are clearly marked as video cameras, VCRs, or DVD players. Some computer manufacturers, such as Gateway, have distinctive swirls of colors on their boxes. You don't even have to see the name from 20 feet away to know what it is."

After his overview of a theft-plagued warehouse, Caton develops a timeline: when did the pilfered freight come into the facility? When was it broken down? Who was on duty when that happened? Who was working when the cargo left the warehouse?

"You look for a pattern of names in each time scenario. If the same name appears in each one, then you look again at exactly what that person was doing. For example, it might be the guy breaking down the freight who has found a reason to be everywhere in the facility within a certain period of time," he explained.

Timelines tend to vindicate themselves. "Once you've identified a pattern, it usually doesn't take long for an incident to recur. The next theft will confirm a long-term chain of events."

Caton, and the security team he will then bring in, only makes recommendations to the managers of a troubled facility.

"I'm an outside observer. The shipper, the carrier, or the facility operator is the one who has to make a complaint to the police — or not, as the case may be."

Fraudulent Bank Releases. In addition to what he has seen in his inspections, Caton is troubled by several nuts-and-bolts opportunities for cargo theft that shippers and transportation providers can easily avoid or mitigate.

"Banks have a tendency not to be too secure with the way they provide bank releases, or letters of credit between the shipper and consignee of goods sent by air. Before such a shipment is able to transit, a bank release is required authorizing the air carrier to deliver the goods.

"I've seen too many times where banks are not even using their own letterhead when sending a bank release. Instead, they use a computer-generated document that gives wide latitude for fraud, especially by customers who know the process," Caton said.

"There's no mechanism within the industry to improve this. At the very least, there should be a standard practice as to what constitutes an acceptable bank release. It should be on a bank's letterhead, with the bank's address, phone, and the name of whoever signed the release at the bank," he said.

Normally, bank releases "have someone's name on them," Caton said, "but no phone number to call to verify the identity of the signer."

More Fool-Proof ID. Another possibility for fraud occurs in the documentation and identification of persons picking up cargo. "Some ocean terminals are better at this than others," Caton said.

"I've seen too many times where banks are not even using their own letterhead when sending a bank release. Instead, they use a computer-generated document that gives wide latitude for fraud, especially by customers who know the process."

For example, at Port Newark, N.J., truck drivers have to show a specific identification issued by the Port Authority of New York and New Jersey. The consignee has to fax documents confirming the receiving driver's identity in advance, and the referenced driver has to be the one picking up a container.

At JFK, a trucker needs only to show a driver's license "and some supporting receipt," Caton said.

"Pick-up orders are notoriously generic," he explained. "You rarely see an original. They are usually faxes, or hard-to-read copies of copies." Sometimes, the same crumpled order is used several times.

Many air cargo terminals have a camera known as a Regiscope, which takes pictures of persons picking up cargo, and also images of the pick-up order. "What we need are sharper digital pictures and a standardized identification to pick up cargo — perhaps an identifying badge with a barcode on it carrying information about the bearer, as is found on New York state driver's licenses," Caton said.

'Clear-Tape' Scam. Shippers also put too much faith in security tape. "In any warehouse, you'll see high-value items that have security tape on the corners of their packaging," he explained.

"Unless you take the shrink wrap off and physically look at each carton in a shipment, there's no way of knowing if the boxes on the bottom have been pilfered.

"I've seen incidents when thieves had stretched clear tape over the pilfer-proof tape to make it look as if nothing had happened," he said.

"The problem is that you can peel off cheaper brands of security tape without ripping them, if you take sufficient pains. Once a box is opened and goods removed, the original tape can then be put back intact, and clear tape put over it. It looks like no one has ever touched it. That's a very common deception.

More expensive brands of security tape cannot be peeled off without ripping. "Torn tape is both a red flag to a shipper that a theft has occurred, and a deterrent to stealing because if thieves can't remove it without ripping it, they tend not to bother," Caton said. "The extra cost is worthwhile. Again, this is too often a mundane matter that a shipper will leave to a forwarder or NVO, which won't necessarily spend extra bucks for tape that could prevent thefts."

Ducking Blame. Many warehouse managers are fearful of filling out damage or loss reports. "If they see a box that appears to be open, they won't write it down, because the whole recording process is cumbersome," he explained.

"A typical OS&D — for 'overshortage and damage' — report take time to prepare. If the person at the shipping dock identifies the damage but doesn't report it, that may defer the immediate heat on him, but it doesn't absolve the warehouse operator of responsibility.

"The likelihood of that person losing his job is very slim," Caton explained, because subsequent litigation to recover losses by the cargo insurer "goes on well above his head."

If the person is confronted, usually days or weeks after an incident allegedly occurred, a common excuse is 'that may have happened after I accepted it.' Few people own up to fault through hindsight.

Nor are security guards always deterrents. Thieves who have actually been caught red-handed while removing goods from boxes claim they're merely retaping the freight.

Weight Loophole. Another surprising point is that air cargo carriers don't weigh all of their shipments. "They don't have time, especially when dealing with consolidation," Caton said. "If you are trying to identify which part of a consolidation is lighter than another — say, if you have 10 different house shipments, with 10 different weights — it's very difficult, unless you weigh each individual house shipment, to determine that one is lighter than the others.

An air waybill requires a weight to be given. "But freight forwarders produce the air waybill, based on what shippers tell them. An air carrier will generally accept those figures on faith.

"An actual verification of weight is more likely to occur on domestic shipments than in international transportation, where it less common for all or any part of a shipment to be weighed," he said.

That is an invitation for mischief. "If anything, shippers are the parties most lackadaisical about noticing whether cargo is light, or a particular box has been prized opened."

For general shipments and air cargo, if a shipper isn't concerned about the security of goods, then that's likely also to be the case with forwarders and freight handlers — until a pattern of thefts begin.

"There was a time when the theft of bonded cargo would demand a greater penalty, no matter what the value might be of the stolen goods," he said.

In 2001, "the attention of U.S. Customs is more focused on the smuggling in and out of contraband goods, instead of prosecuting an individual for stealing general cargo from a bonded facility."

"On the other hand," Caton said, "Customs has no problem fining the bonded warehouse operator for any shortage resulting from a theft."

Caton, 45, who has a degree in criminal justice, worked for freight forwarders and claims adjustors before starting Cargo Shipping Transportation Analysts. In addition to security, a sizable part of his company's revenue comes from technology integration.

"You have people who know operations, and others who understand technology. I talk both languages," he said. ■

FedEx, USPS sign service contracts

MEMPHIS

The U.S. Postal Service and FedEx have signed two seven-year service contracts that are expected to generate $7 billion for the integrated carrier over the next seven years.

Under the agreement, which will take effect in late August, USPS will pay FedEx about $6.3 billion to buy space on FedEx planes to transport Express Mail, Priority Mail and First-Class Mail

"With more than 650 aircraft, FedEx is one of the largest airlines in the world," USPS said. "This agreement will provide one integrated national air transportation system for the Postal Service."

FedEx will provide about 3.5 million pounds of airlift capacity daily, or the equivalent of about 30 widebody DC 10 aircraft.

The second contract gives FedEx the option to place a self-service drop box at every U.S. postal location. Described as a "non-exclusive retail agreement," this option begins with an operational test in February. FedEx will place more than 10,000 drop boxes throughout the U.S. in the next 18 months. The company expects approximately $900 million in increased drop box revenue over the seven-year contract.

FedEx said it will pay annual fees to the USPS for the drop-box placements. After initial implementation, the Postal Service may seek similar agreements with other shipping companies, FedEx said.

FedEx said it expects to invest $350 million to $400 million over the next seven years to provide services under the two agreements.

Under the non-exclusive agreement, the Postal Service will be permitted to continue to use carriers other than FedEx.

FedEx Earnings Up. As anticipated, FedEx reported double-digit earnings growth during its second quarter, as net income rose 13 percent to $194 million for the period ending Nov. 30.

The giant integrator said Dec. 14 that it is experiencing a softening in third-quarter volumes due to the economy and severe weather conditions.

For the second quarter, operating income rose 13 percent to $345 million on revenue of $4.9 billion, up 7 percent.

FedEx Express saw operating income jump 28 percent to $271 million on revenue of $4.0 billion, up 7 percent. FedEx International Priority, the fastest growing segment, saw revenue increase more than 16 percent compared to a robust year-earlier quarter. FedEx Express' U.S. domestic overnight box service rose 4 percent.

FedEx Ground, the small-package ground delivery service, saw operating income fall 13 percent to $57 million, despite a 12-percent increase in revenues, to $582 million. The operating income included a $13-million loss associated with the operation and expansion of the company's FedEx Home Delivery service and expenses associated with rebranding.

FedEx Home Delivery saw second-quarter daily volumes double over the first quarter. This helped FedEx Ground's daily volume rate improve by 7 percent, while yield increased 4 percent.

During the quarter, FedEx Corp. acquired regional motor carrier American Freightways Corp. for about $1.2 billion, including assumed debt, payable in cash and FedEx stock. The purchase expands into the next-day less-than-truckload freight market. Coupled with FedEx subsidiary Viking Freight, FedEx will be able to provide all-points coverage in 48 states.

The purchase of American Freightways is expected to be completed in the first quarter of 2001. ■

Online auction reports 40,000-TEU volume

HAMBURG

GloMaP.com, an electronic shipping marketplace provider based in Germany, said it has placed 40,000 TEUs worth of containerized shipments since its launch last June.

During the second half of 2000, the Hamburg-based online marketplace operator said it handled freight transactions of more than DM200 million ($96 million).

The marketplace covers the transatlantic, Asia/Europe and other main European trade routes. Its users are based in Germany, Korea and other countries.

The main cargoes placed through the online exchange are container, breakbulk, project and heavy-lift.

GloMaP.com reported that more than 2,500 customers signed up under www.glomap.com in the first six months of operation, and each cargo placed has received an average of two bids by carriers.

GloMap.com reported that more and more customers place cargoes on the market place for a long-term period, that is to say yearly contracts.

The company's reported volume follows the closure of several other online freight auctions in container shipping.

"Certainly there are difficulties with the general Internet situation, setbacks in the stock markets and consolidation in business-to-business transactions," said Markus Giesenkirchen, managing director of the German firm. "But GloMaP.com has a sound financial backing, works cost-consciously and produces a satisfying turnover," he added. ■

By Gerard Verhaar

OECD looks at cargo liability rules

Organization for Economic Cooperation and Development is considering valuable recommendations to adopt modern cargo liability rules.

It is no secret that the system of ratifications and adherence by governments concerning international maritime transport conventions is confusing — if not chaotic. This must be remedied as soon as possible.

One recent attempt has been made by the Consultative Shipping Group, an inter-government group comprising European maritime nations and Japan, and by the United States. The Consultative Shipping Group and the United States resolved to act but, unfortunately, the procedure it chose has been counterproductive.

At a meeting in early 1999, the United States and the CSG decided to address the decades-old and still deteriorating state of international cargo liability conventions. However, the rather irregular and rarely fruitful CSG/U.S. discussions have little official status and this platform is therefore not the right body to address the problem.

But the two parties belong to a wider and more formal body, which is the Maritime Transport Committee of the Organization for Economic Cooperation and Development.

In October 1999, the CSG and the United States requested that the Maritime Transport Committee of the OECD bring the widely differing national and international cargo liability regimes closer together.

In turn, the Maritime Transport Committee commissioned Roger Clarke, a British civil servant based in Brussels, to make recommendations on this issue.

Potential Outcome. The OECD's Maritime Transport Committee will discuss the recommendations and, if agreed, transmit them to the Comité Maritime International (CMI), the Antwerp-based federation of national maritime law or bar associations (The Comité preponderantly comprises the interests of carriers and their lawyers). CMI, as a non-governmental organization, can only make recommendations to governments. These recommendations will most probably take the form of a draft of some binding legal instrument, such as an international convention, which may then be negotiated and adopted by a diplomatic conference.

Talking realistically, this all means that it will take a very considerable time — at least one decade — for this to materialize. Meanwhile, the shipping and trading community will have to live with one more convention for many years to come.

Though the whole exercise, initially, was started to modernize and unify, it will not happen overnight.

Good Recommendations. The contents of the proposals in Clarke's report contains many interesting thoughts and proposals, a selection of which has been summarized hereafter:

- Delay in delivering the shipment carried is now outside the carriers' liability, unless a final date of delivery has been agreed in the contract of carriage. The recommendation is to adopt carriers' liability for loss from delay in delivery as a matter of principle, though neither a maximum period nor an amount are suggested.
- Carriers' liability following the Hague and Hague/Visby Rules applies only to contracts of carriage embodied in bills of lading. The proposal is that carriers' liability applies under any contract of carriage, except charters, as is the case under the Hamburg Rules.
- The issue of liability for live animals should be left to the directly interested parties. Whatever they will agree should be included in the new instrument.
- Support the CMI in bringing liability for deck cargo within a new regime, subject to appropriate clarification of rights and duties of shippers and carriers.
- Make the carriers' liability under the revised rules apply to a contract of carriage, other than a charter, if either the port of loading or the port of destination are in a country party to the new legal instrument, probably a convention. This is the rule of the Hamburg Rules, which extend compulsory application even further to include the case of the transport document being issued in a country party to the Hamburg Rules. Following the Hague and Hague/Visby Rules, these conventions apply only if the port of loading is in a country party to the conventions.
- The period of carriers' liability should be extended to the time before and/or after the time of the shipment being on board the ship, such as the period during which the cargo is in the custody of the carrier, unless the contract provides expressly otherwise.
- Several pages of the report address the nautical fault and all other classic defenses available to carriers in the Hague and Hague/Visby Rules. The conclusion of the writer is to discard the nautical error defense and the

Gerard J.M. Verhaar served with the European Shippers' Councils and the Dutch Shippers' Council for 30 years. During that time he participated as a shipper advocate in virtually all important political, regulatory and commercial developments that affected the transportation industry. He can be reached at Zwaluwplein 3, NL 2661 BT Bergschenhoek, Netherlands, Tel: 31-10-521-4627, E-mail: gverhaar@wxs.nl

17 other defenses of the Hague or Hague/Visby Rules in a new instrument, in line with what the Hamburg Rules have done.

The writer is very correct in saying that the nautical error defense is outdated given today's modern navigational technology and, and it conflicts with policies and rules formed by authorities to improve the safety of ships at sea. All the other classic defenses — except, perhaps the deviation to save life at sea — are judged as "force majeure" cases, which are valid defenses in ordinary contract law. If that is accepted, the contract of maritime carriage will lose its extraordinary, antiquated legal position.

Carriers have traditionally and vehemently been resisting every attempt to delete their defenses. Consequently, the proposal appears to be unrealistically optimistic. But, last year has shown several concessions offered by a few enlightened carrier voices, such as Knut Pontoppidan of A.P. Moller/Maersk Sealand at the United Nations Conference on International Trade Law/CMI Colloquium in July 2000 in Paris.

Clarke's study contains more proposals and recommendations, concerning, for example, multimodal transport contracts covering a sea leg. However, this article being a summary, it is restricted to the more important items.

COGSA Basis. Especially for shippers and shipowners in the United States, it is important to know that Clarke has based his proposals also on U.S. Carriage of Goods by Sea Act 1999, intended to replace COGSA 1936, in addition to all existing international regimes, such as the Hague and the Hague Visby Rules, the SDR Protocol, the Hamburg Rules, the Nordic Code (to slightly amend the Hamburg Rules for Scandinavian countries), the CMR (for international road transport) and CMNI (the new convention on the transport of cargoes by inland navigation).

Need For Uniformity. The need for uniformity of maritime transport law becomes clear when you consider that 60 states are parties to the 1924 Brussels Convention, known as the Hague Rules. In addition to these countries, several others have enacted most or all of the contents of this convention in their national legislation.

The Visby Protocol to amend the Hague Rules, better known as the Hague/Visby Rules, has 17 countries as signatories, whilst the SDR Protocol to amend the Visby Protocol has 18 countries as adherents. A particular problem is that 12 ratifying countries of the Visby Protocol have not yet denounced the unamended Hague Rules and are thereby parties to two conflicting conventions.

The Hamburg Rules of 1978, originally designed to replace the Hague and the Hague/Visby Rules, have so far attracted 25 parties, 12 of which were parties to the Hague Rules. Of those, 11 still are parties to the Hague Rules, therefore they are parties to conflicting conventions.

A number of countries add to the confusion by having enacted domestic legislation, copied partly from the Hague, Hague/Visby and the Hamburg Rules. Some also introduced national or regional innovations.

There is nothing wrong in saying that maritime transport law at a global level is chaos, mostly to the detriment of shippers and their cargo insurers. There are several international treaties, none of which are enjoying truly global support. These are supplemented by dozens of national laws of individual countries, including the United States with the COGSA law.

This situation has created over time the present legal chaos and thereby an expensive lawyers' paradise.

Finally, most of the rules contained in the current diversity of legal sources are very old and do not reflect the current modern technical possibilities of maritime navigation. ■

Shippers shift liability risk

Confidential service contracts broaden exposure for marine insurers.

NEW YORK

Shippers with clout are using confidential service contracts to acquire concessions from carriers that shift greater exposure of liability to carriers and their insurers.

As a result, several protection and indemnity (P&I) clubs have advised their carrier clients that there are limits to the risks they are willing to cover.

For example, if an ocean carrier lets a shipper out of a general average agreement — meaning the shipper won't be assessed proportionate costs along with other cargo owners if a vessel is lost or severely damaged — then that carrier has to assume the obligation for which it relieved the shipper.

Unwilling to shoulder such burdens, P&I clubs are urging carriers to arrange extra insurance to cover cargo liability under wide-ranging contracts. Carriers that do so expect shippers to pay at least part of the higher premiums.

"The question for shippers is whether it makes sense to rely on the carrier as your source of insurance," said Richard DeSimone, president of Global Marine, part of The St. Paul Cos. Inc. "That's a decision that more people are going to have to make, but we have not seen the full impact of that in the cargo market."

"We're talking about a supplemental liability agreement between a carrier and a shipper, and the extent to which their liability will vary on a case to case basis."

When a shipper buys all-risk cargo insurance, "he knows exactly what he has. If the cargo is stolen in transit, he'll be paid for his loss," said DeSimone, who works from The St. Paul's New York offices.

DeSimone is also president of the 125-year-old International Union of Marine Insurance (IUMI), based in the United Kingdom, and the first American to hold that post. He has been chairman of the American Institute of Marine Underwriters (AIMU).

"The question for shippers is whether it makes sense to rely on the carrier as your source of insurance."

Richard DeSimone
president,
Global Marine

Extra Protection. If a claim is submitted for cargo lost or damaged under a confidential service contract, "when there's enough money involved, it will be left up to the attorneys to decide where the liability rests," he said.

"The clear benefit of a shipper having insurance in that situation is that his loss will be paid upon receipt of a claim, regardless of the rationale used by attorneys to determine who may be legally liable for what."

Courts regard a bill of lading as the contractual point of origin for stipulations governing a shipment of cargo. Some insurers fear that a confidential service contract may eventually rule as a legal determinator, downgrading a bill of lading to the status of a receipt.

"That would dramatically change a cogent system of liabilities that evolved over hundreds of years. At the least, it opens up a whole new area for litigation," DeSimone said.

Speaking hypothetically, he noted that "insurers would have to review what their rights of recovery might be from a steamship company on a case by case basis."

"The marine insurance business is truly a marketplace where you have supply and demand influences on pricing and the availability of coverage," DeSimone said.

"I wish the rates wouldn't go down as much as they do when the market is competitive and soft, and I wish they wouldn't go up as much as they have to go up when things change. There will always be a level of capacity competitiveness in the market."

The market has been soft for the last five years, "but we are seeing signs of a change," he said.

Rising reinsurance rates is one indication of that. When insurers have to pay more for reinsurance, they generally raise their premiums for customers.

"If we don't, we cut into our profit margins," DeSimone said. "When enough of us are in that situation, that's why rates for customers go up."

Another sign of change, he noted, "is that we are seeing more consolidations of underwriting operations."

In the last several months, "at least four such operations have ceased writing business in U.S.," DeSimone said.

In London, there have also been consolidations, spreading nervousness through the underwriting market.

On The Rebound. Global Marine itself, as shown in The St. Paul Cos.' last annual report, suffered a sizable loss in 1999. "The primary reason for that was that we were involved with a brownwater shipping insurance operation in the Midwest called Neare Gibbs," DeSimone explained.

"It was a managing general agency writing riverhull and P&I business that had been around for a long time. St. Paul had owned Neare Gibbs for more than a decade, but shut it down last year after a period of losses."

Global is now the only marine insurer in The St. Paul Cos. DeSimone said his subsidiary was expected to be profitable in 2000.

St. Paul, through Global Marine, offers a broad line of marine insurance: cargo and project cargo business, marine liabilities, as well as cover for charter, legal and stevedore liability. Global underwrites bluewater hull insurance through the American Hull Insurance Syndicate.

Each year, Global Marine receives more than $100 million in gross revenue from premiums. It buys its own reinsurance from A-plus rated marine reinsurers, in the United States and in the United Kingdom.

Problem Areas. DeSimone is as troubled as other underwriters have been by burgeoning fraud. "Marine insurers have the misfortune of having to deal with more than one kind of cheating.

"In the case of auto theft, for example, you can throw a lot of targeted resources at that one area and work successfully toward minimizing it," he said.

"Yet maritime fraud can be anything from claims for cargo that never existed to the fraudulent registering of a vessel, changing its name after cargo is loaded. Such a ship then is usually reported as missing, but it turns up weeks later in another port with the cargo long gone.

"Any underwriter can be burned, despite the most prudent precautions," DeSimone said.

Shippers themselves have been guilty of less than full disclosure about their cargo. "That may not quite be fraud, but the results can be unfortunate," he said.

Not long ago, a manufacturer of copper concentrate misdeclared a shipment of concentrate as being something other than it was, allegedly with the complicity of the master of the vessel involved.

Copper concentrate requires careful handling and stowage, which meant extra expense. In this case, the vessel sailed in record time for a fraction of the shipper's usual loading cost.

Out at sea, the ship made a sharp turn. As it maneuvered, the cargo of copper concentrate, which had a high level of water content, shifted enough to capsize the vessel.

Do insurers pay in such circumstances? "That's an interesting gray area," he said. "Hypothetically, if a shipper stated what the cargo really was at the time of insuring it, the insurer probably would be bound even if the shipper went on to misdeclare the cargo."

In the event of a capsized vessel, "you'd likely have a general average situation that, if the shipper's cargo was shown to have caused the capsizing, would almost certainly result in litigation," he said.

Multiple Skills. DeSimone, 51, has worked in marine insurance for 25 years. Born in the Bronx, he grew up on the grounds of the State University of New York's Maritime College, where his father was a professor. "I was weaned into the maritime industry, in a way," he recalled.

After serving as an officer in the U.S. Navy, he went into marine insurance "because it seemed to be the only job in the maritime industry that required a broad mix of skills. To be an effective underwriter, you have to know geography, math, communications, history — and be savvy about ships." ■

CPSC cracks down on hazardous goods sold abroad

WASHINGTON

U.S. Consumer Product Safety Commission has tightened its interpretation of rules for shippers to report their knowledge of potentially hazardous products sold outside the country.

Section 15(b) of the Consumer Product Safety Act imposes specific reporting obligations on manufacturers, importers, distributors and retailers of consumer products distributed in commerce.

The CPSC has received more reports in recent years of dangerous products sold outside the U.S. market. More firms are obtaining this type of information, but are unfamiliar with the reporting requirements.

The agency wants to receive as much information as possible in advance to evaluate them. The CPSC will also share data when necessary with other governments.

Shippers may comment on the CPSC's reporting policy statement by March 5. For more information, contact Schoem at (301) 504-0608, ext. 1365. ■

Barry Horowitz

General Manager - Europe, Danzas-AEI Cargo Management Services 11011 SW 29th Ct. Portland, Ore. 97219

Looking back, looking ahead

Thirty years. Three decades. It seems impossible; and when I say, it feels as if I must be talking about someone else. But, in fact, it really has been 30 years since I began my career in the international transportation business. Of course, in January 1971, it was just transportation, no one referred to it as "logistics," or "supply chain management." It was just shipping.

Amazingly, the work was very the much the same: Cargo of various types was moved from place to place by ships and planes and trucks and trains. Our job then, and our job now, was to ensure that it arrived where it was supposed to, when it was expected. Essentially we managed the exceptions, just as we do today. Communicating was slower by telex (no faxes, no computers) and you had to ask for permission to make an overseas call (no mobile phones either). The Post Office was the primary mover of documents; no FedEx, no DHL, just the Post Office, and no Express Mail either.

In a way, there was romance to the international shipping business. The mystery of the ocean and all those foreign places that hardly anyone could find on the map, let alone travel to. Ships were smaller and slower, transit times longer, and there was often even time to visit on board a ship and maybe even have a party now and again.

My career began in Montreal, Canada, with one of the first diversified international transportation services companies, a division of Canadian Pacific. We provided ocean freight services as a shipping agency (US Lines amongst others), freight forwarding and non-vessel-operating common carrier services; customs house brokerage; warehousing; and other assorted services. It was a great training ground and without the benefit of a formal European-type apprenticeship program, I had the opportunity to learn all the different functions and business areas during my first few years. Over the years, I worked for ocean carriers, shipping agencies, forwarders and brokers, and one very small and one very large product shipper.

This industry is everywhere the same and, yet, everywhere different. The basic concepts work the same in Finland and France and Florida, but each place has its own very special way of adding their unique twist and we must smooth out these twists and make them straight. Over the years, I've developed my own little theory about what those of us working in this business actually do, when all but the bare essentials have been stripped away. Our job is to make the entire set of processes of our work transparent to consumers. When they go into a shop, the product they are looking for must be waiting for them. It is our first job to make sure this happens. However, because the world is an imperfect place, our second job is to fix what goes wrong, because at some point, it will go wrong.

In a sense, these first 30 years have somehow just been the introduction to what comes next for me. For the next three years, I will be living in London, as the European general manager for my small division of the world's largest transportation and logistics services company. I hope to contribute to this magazine about this experience. That is, to take my experience and apply it to what I discover here in Europe and compare it to what I think I know about our business in America. To try to look behind what has changed in this industry and what is the same. To engage the readers in some introspection about the role we all play in the world economy. To write about what we do and how we do it and why we do it differently based upon where we are.

I have found this business to be endlessly fascinating. Everyday has brought new challenges and experiences. While I never even knew it existed before I got started, it seems impossible now to imagine not being part of this industry. My enthusiasm for my work has grown over the years and I sincerely hope this will show in these monthly contributions to the *American Shipper.*

The coming year will be filled with many new experiences as my European education begins in earnest. I look forward to sharing my thoughts with you. Your comments will be appreciated.

Barry Horowitz joins American Shipper *as a columnist on shipping, forwarding and logistics. Horowitz, a senior executive with Danzas AEI, has worked for Direct Line Cargo Management Services, Nike and two ocean carriers, among others.*

Shippers' Case Law

Abstracts by Robert Mottley, rmottley@shippers.com

Dueling invoices

Warner-Lambert Co. (now Pfizer) and Sankyo Co. Ltd., of Japan, agreed in 1991 that Warner-Lambert would distribute and market in North America a drug known as Troglitazone, which Sankyo was developing for the treatment of diabetes. Warner-Lambert was to pay Sankyo 150,000 Japanese yen per kilogram of the drug, subject to adjustment for exchange rate fluctuations. The parties further agreed that during the first three years after the launch of the drug, Sankyo would supply Troglitazone at no charge for use in commercial samples.

In the spring of 1997, Warner-Lambert issued ordered 4,600 kilograms of Troglitazone, which was to be its third and final shipment of commercial samples. In July, Sankyo advised Warner-Lambert that the samples would be consolidated with a shipment of the drug that was to be used for retail product. According to an accompanying invoice, the entire shipment was valued at 1.22 billion yen, or $10.32 million.

Sankyo tendered the shipment to Nippon Express, which delivered it to Federal Express's facility at the Tokyo airport. During that handover, Sankyo faxed a revised invoice with a letter of apology to Warner-Lambert, charging 608.2 million yen or $5.2 million for 4,600 kilograms of Troglitazone and noting that the remaining 4,600 kilograms were "free of charge."

The Federal Express cargo plane carrying the shipment crashed upon landing at Newark International Airport on July 31, 1997, resulting in total destruction of the Troglitazone. On Aug. 1, Warner-Lambert notified its insurer, Arkwright Mutual Insurance Co., and gave Arkwright copies of both invoices. Warner-Lambert had a one-year policy in effect with Arkwright, stipulating that the limit for any one loss was $10 million. The shipper had paid a flat annual premium of $785,000 for the policy.

Warner-Lambert contended that the loss should be valued in accordance with the first invoice, for $10.32 million, which had physically accompanied the shipment and reflected the value of the destroyed cargo. Arkwright, while not disputing the actual value of the loss, calculated the amount due under the valuation provisions of Warner-Lambert's policy based upon the second invoice, and only paid Warner-Lambert $5.67 million — the amount shown for the destroyed Troglitazone that was to be used for retail purposes. The insurer refused to pay for the lost commercial samples.

Warner-Lambert accepted Arkwright's payment, without prejudice to its rights to pursue payment according to the first invoice. The shipper said it had been required to obtain a replacement shipment for the 4,600 kilograms of commercial samples destroyed — since it could not longer obtain them free of charge under the terms of its original contract with Sankyo — and that the value of the lost commercial samples should have been covered by its policy with Arkwright. Sankyo did ship that amount of Troglitazone to Warner-Lambert on Aug. 29, 1997, at a cost of $5.02 million, calculated at the prevailing exchange rate a month after the crash.

In a federal district court in New Jersey, Arkwright began a declaratory judgment action against Warner-Lambert, seeking a judicial ruling that it had satisfied its obligations to Warner-Lambert by the $5.67 million payment pursuant to the second invoice. Warner-Lambert subsequently counterclaimed for breach of contract, citing the insurance policy limit of $10 million, and seeking an additional $4.33 million for compensation pursuant to the first invoice.

U.S. District Judge William H. Wallis granted Arkwright's motion for summary judgment and denied Warner-Lambert's motion on its counterclaim. Wallis wrote in his ruling that Sankyo's letter of apology to Warner-Lambert accompanying the second invoice "clearly indicates that the second supersedes the first, and that the first invoice is to be ignored. The cargo was shipped under the second invoice and the accident occurred later." Warner-Lambert subsequently appealed that decision to the U.S. Court of Appeals for the Third Circuit.

In a recent ruling, the Third Circuit appellate panel wrote that "essentially, Warner-Lambert invites us to announce a new 'bright-line' rule that would establish the principle that property can be shipped under only one invoice, that which accompanied the shipment, and that subsequently issued invoices or other documents are irrelevant.

"We disagree with Warner-Lambert for several reasons," the appeals court continued. "Although it cites two cases which it claims form the foundation of its proposed rule, neither case comes close to bolstering Warner-Lambert's argument."

Anchor Line v. Jackson [9F.2d 543, 545 (Second Circuit 1925)], suggested — in Warner-Lambert's view — that only an invoice issued at the time of shipping can be considered in determining value of lost cargo. The appeals court noted that case "involved neither a cargo insurance policy nor conflicting invoices... the issues that arise from the 'dueling invoices' here are quite different."

Warner-Lambert also cited *Groban v. S.S. Pegu [331 F. Supp. 883 (Second Circuit 1972)],* for the notion that whenever two invoices apply to the same shipment, then value is always determined by the invoice reflecting value of the goods to the insured. The Third Circuit appeals court wrote that, in *Groban,* goods were specifically insured for a subsequent retail price because that coverage had been expressly requested by the insured and declared to the insurer. "This does not support the blanket proposition Warner-Lambert urges us to accept," the appellate panel said, noting that "Warner-Lambert did not obtain, or pay for, a policy insuring *actual* value of the shipment."

The appeals court wrote that "if Warner-Lambert wanted the Troglitazone to be insured for actual value, rather than an 'amount at invoice,' it could have bargained for such coverage with Arkwright, and paid a premium commensurate with that level of risk."

Finally, Warner-Lambert had argued on appeal that the maxim of "uberrimae fidei," or "utmost good faith" between parties to a marine insurance contract, "demands that its loss be measured by the first invoice," the appellate judges said. "Warner-Lambert claims that Arkwright demonstrated bad faith by using the second invoice as the measure of damages. However, Arkwright did not arbitrarily decline total coverage. On the contrary, it tendered $5.67 million to Warner-Lambert because it correctly believed that the second invoice superseded the first. That belief ... is not indicative of bad faith," the appeals court concluded.

In unanimously upholding the district court's decision, the appellate panel said "it would defy common sense to adopt Warner-Lambert's 'bright-line' test where there are two invoices, and where the company issuing both invoices notified Warner-Lambert that the first invoice had been revised."

[Arkwright Mutual Insurance Co. v. Warner-Lambert Co.; U.S. Court of Appeals, Third Circuit, from appeal of Civ. No. 97-cv-05190; docket number for Third Circuit: 99-5759; date of opinion: Oct. 13]

By Chris Gillis, cgillis@shippers.com

Reinsch warns against turning back

It was a good run for William Reinsch at the U.S. Commerce Department's Bureau of Export Administration, but a new administration means finding work outside the agency.

The former undersecretary leaves a legacy of thoughtful, often passionate, defense of high-tech manufacturers' goal to become stronger in export markets. He warns that the industry should be on guard for attempts to roll back the progress during the Bush Administration.

Reinsch

Much headway has been made during the past two years to open trade with China. "I don't expect any major changes there, but there are those (in Congress) anxious to turn China into the enemy," he said. "They're already circling like vultures."

There are also exporters, once under the Commerce Department's jurisdiction, that are suffering under the licensing regime of the State Department. Some of these companies' goods, such as night vision goggles and commercial satellite equipment, are struggling to remain competitive in the international market.

"We're finding many commercial applications for historically military applications," Reinsch said. Night vision equipment is wanted by fishermen to night fish and by firemen to battle smoky fires.

"Manufacturing is becoming fungible — everything is made everywhere," he said. "Controlling the know-how of manufacturing is becoming more difficult to do." There are some Congressmen who want to clamp down on the flow of manufacturing information.

The Export Administration Act is also once again on the horizon, but Congress hasn't been able to pass revised legislation. "Maybe it will finally move this year," said Reinsch, who pushed for a new EAA during his time at the Export Administration. "It needs to happen."

ERP talks move cautiously forward

As U.S. Customs and the industry move into the second of three meetings in Washington on Feb. 13-14 to develop a modern import entry process, the mood is cautiously optimistic.

The agency had proposed revising the import entry process in December 1999. A third draft of the Entry Revision Project was released to the industry for feedback on Nov. 30 at Customs Trade Symposium in Washington, and three meetings were scheduled to review the proposal this spring.

"We started by reviewing the macro-level concepts behind the (ERP) package," said John A. Durant, director of Customs' Commercial Rulings Division, and principal author of the ERP proposal. "It was an honest dialogue. There were no lines in the sand."

"It was very helpful to get into the detail of ERP and to learn about Customs' reasoning behind this proposal, along with the industry's reactions," said Jon Kent, Washington representative for the National Customs Brokers and Forwarders Association of America. "It will now take some soul searching to determine what's important to each party."

Also attending the meeting were representatives from the American Association of Exporters and Importers, Joint Industry Group, Business Alliance for Customs Modernization, Customs & International Trade Bar Association, U.S. Association of Importers of Textiles & Apparel, American Electronics Association, American Surety Association of America, Air Courier Conference of America, Customs Surety Association, Surety Association of America, National Association of Foreign Trade Zones, National Retailers Federation, American Bar Association - International Trade Section, Association of International Automobile Manufacturers and Alliance of Automobile Manufacturers.

ERP had a rocky start, because Customs and industry disagreed on the level and types of changes to the entry process. Continued meetings between the agency and industry are expected to settle any differences and eventually provide a platform to program Customs' future Automated Commercial Environment.

Durant said Customs and industry will begin to "drill down into the macro issues" at the next meeting.

But the industry warned that the playing field between the agency and itself must remain balanced. "Industry will not accept a government-driven policy agenda that doesn't take into account the business environment in which they operate," said James P. Finnegan, director of international trade and compliance at Sony Corp., and chairman of the BACM.

Baish joins Internet ranks

After 31 years at U.S. Customs, Peter J. Baish, former outbound program director in charge of Automated Export System development, has left to join ClearCross, an Internet management technology firm, based in Reston, Va. He will be the company's director of product management.

Canada Customs "new approach"

Canada Customs has released detailed plans for improving importer compliance in 2001.

The agency called its Compliance Improvement Plan 2000-2001 a "new approach" to deal with the import industry.

"We do not want customs to stand in the way of normal, market-driven business decisions," said Denis Lefebvre, assistant commissioner for Canada Customs. "As a result, a fundamental objective of our Customs Action Plan is to promote the efficient, unfettered flow of low-risk goods and people, while fulfilling a vital role that customs plays in protecting the safety and security of Canadians, and our economy."

The action plan covers three areas:

- Border management. Customs will manage the border by determining risk posed to people and goods before they arrive at the border.
- Post-verification. Customs will first focus on commodities where there are historic patterns of non-compliance, such as steel, textiles/apparel, footwear, and tariff rate quota (such as milk protein and certain chickens). Also included are imports subject to the Special Import Measures Act, which covers damage that dumped and subsidized imports cause Canadian producers.
- Client services. Customs will develop a national approach to outreach and education with the trade. There will also be a drive to increase the role of automation in the agency's interaction with industry.

"Such a plan will allow us to more effectively target non-compliance and improve our response through a balance of client service and responsible enforcement," Lefebvre said.

Customs plans to continue its interaction with the trade as it pursues modernization. "It's a key element in building trust between Customs and the trade," said Oryst Dydynsky, president of Dydynsky and Associates, an Ottawa-based Canadian Custom logistics consulting firm. "It's the way to go."

Bumpy road to customs reform

CLADEC keeps pressure on Latin America's governments to improve express clearance processes.

By Chris Gillis

Latin America may be notorious for its bureaucratic customs clearance processes, but governments in the region are beginning to respond to the industry's cry for change.

Leading the charge for customs reform in Latin America is the Conferecia Latino Americana de Companias Express, an association representing the express carrier industry in the region. This group continues to educate Latin American lawmakers about the need to change their customs operations.

"Customs can be a major stumbling block," said Francisco X. Santeiro, FedEx's managing director of global services in Latin America and the Caribbean and chairman of the customs committee of CLADEC. "Reform is necessary if we are to move on successfully in these markets."


Santiero

During the past 15 years, express carriers have built their businesses on the promise to deliver shippers' freight quickly to market. This service ability has set them apart from traditional air-cargo operators. But problems with customs agencies can easily break down that service.

In 1996, CLADEC presented its case at a meeting of 17 Latin American customs directors in Cancun, Mexico. The result was the creation of the Cancun Accord.

This accord calls for expedited clearance procedures based on the World Customs Organization's guidelines. It also recommends the elimination of outdated size, weight and value restrictions; supports the use of automation to increase control and transparency when moving express shipments; and calls for Latin American customs agencies to handle higher volumes of package shipments without adding inspectors.

The Cancun Accord caught the interest of the Free Trade Area of the Americas, which was started as a result of the Summit of the Americas in 1994. The goal of the FTAA, which includes 34 American countries, is to liberalize and standardize trade procedures from Canada to Argentina.

In November 1999, government officials attending an FTAA ministerial meeting in Toronto approved eight customs-related business facilitation measures, which included special provisions for the express transportation sector. The measures covered:

- Temporary imports.
- Express shipments.
- Simplified procedures for low-valued shipments.
- Compatible electronic-data-interchange systems and common data elements.
- Harmonized commodity descriptions and coding system.
- Customs information dissemination/hemispheric guide on customs processes.
- Codes of conduct for customs officials.
- Risk analysis/targeting procedures.

At the meeting, the trade ministers also agreed to implement the measures by April 2001.

The Organization of American States held a workshop in Miami in December on the implementation of the FTAA. Both government and industry officials presented report cards on the status of the customs-related measures.

Under the chairmanship of Argentina, a group of customs experts reported that 83 percent of the measures have been either completely or partially implemented by the FTAA members. All countries have also implemented at least one measure. Technical assistance was requested for 37 percent of the measures. The customs information dissemination/hemispheric guide on customs procedures was the most fully implemented to date, OAS said.

Express carriers have already experienced change in several major Latin American markets. Brazil and Colombia, for example, have raised their value limits for imports. Argentine Customs has begun to use selective sampling to inspect express shipments, as opposed to the old way of inspecting every express shipment. Many countries have also started to automate their customs processes.

The Guatemalan government recently implemented new customs regulations, which take into account the original Cancun Accord. Express carriers are hopeful that other Latin American countries will follow.

"These governments can set policy, but unless there's an educational component down to the front line inspectors, then the policies are no good," said Randall C. Rowan, UPS's customs affairs manager for Latin America and the Caribbean.


Rowan

According to several industry studies, express carriers still face unpredictable customs regulations and delays; "a veritable thicket" of rules for air-cargo flights; post office protectionism in the markets; and burdensome noise and night flight restrictions.

The express carriers realize that change to customs processes is also a two-way street. "True reform implies responsibilities on both sides — us and them," Santeiro said. The industry, for example, has adopted strict codes of conduct to avoid paying bribes to customs officials.

CLADEC understands that customs processes generate substantial revenues for many Latin American countries. These agencies also have missions to protect the public welfare from illegal or dangerous goods. "We must establish confidence in them that we can provide correct documentation to do their jobs," Santeiro said.

Express carriers could provide technical assistance to customs agencies, if needed. "We could help them with improvements to risk assessment and suggest software tools to get them away from 100 percent inspections of cargo," Rowan said.

While most of the customs reform measures should cost these governments minimal investment to implement, international financial assistance is available. The International Development Bank's Multilateral Investment Fund officials said they would provide $3 million in grant funds to implement FTAA customs-related facilitation measures in Latin America. The International Monetary Fund and World Customs Organization also offered assistance.

"Customs officials are working on how to present their perceived needs in the form requested to access the funds," OAS said. "New mechanisms are being developed to facilitate the IDB funds through the Caribbean Development Bank to non-IDB member countries in the Caribbean."

Financial assistance requires that Latin American countries have specific customs reform plans in place. "They must have accountability rules in place. Otherwise, you're

FTAA - Business Facilitation Measure - Express Shipments

Country	Simplified clearance process	Weight limits	Deminimus*	Random inspections	Selective inspections	Percentage of shipments inspected	Clearance prior to payment of duties & taxes (under bond)	Advanced manifest procedures	Customs hours of operation	Express clearance specifically identified in legislation/ regulation
Argentina	√ $3,000 imports, exports	50 Kgs.				10%			0900-1800 M-F (overtime holiday serv. available)	√
Bolivia	√ up to $1,000	40 Kgs.				100%			0900-1600 M-F	√
Brazil	√ $3,000 imports, exports				√	10%		√	24 hrs.	√
Barbados					√	30-40%	√	√	0815-1630 M-F	
Chile	√ $500			√	√	20%		√	24 hr, 7 days	√
Colombia	√ $1,000	20 Kgs.				100%			24 hr, 7 days	
Costa Rica	√ $1,000			√	√	50%	24 hrs.	√	0600-1530 M-F	√
Dominican Republic	√	70 Lbs	$100			Variable, up to 100%			0900-1500 M-F 0900-1200 Sat	√
Ecuador	√ $200	2 Kgs.		√	√	35%	√		0800-2200 M-F	√
El Salvador			√	√	√	20%	30 days		0600-1800 M-F	√
Guatemala	√ up to $1,000		√ commercial shipments $50, personal shipments $500	√ only formal entries	√ only formal entries	100% (informal and Deminimus*)			0800-1700 M-F	√
Honduras				√	√	100% no documents			0800-1500	√
Jamaica	√ up to $1000					100%			0900-1700 M-F	
Mexico	√ $1,000				√	10% (Note: but it is necessary to make revision of all shipments 100%)			0800-1900 M-F	√
Nicaragua	√ $50			√		100%			0800-1730 M-F 0800-1200 Sat.	√
Panama				√		100% by law, 70% by practice	√	√	0800-1600 M-F	√
Paraquay				√		40%			0730-1700 M-F	√
Uruguay			$50	√		100%			0700-1700 M-F	
Venezuela	√		$100		√	10 to 25%	√		0800-1630 M-F	√

Note: Value at which the cost for customs agencies to collect duties and taxes on a shipment are more than the duties and taxes themselves. Measurements were based on the specific recommendations of the World Customs Organization's Guidelines for Express Clearance and Cancun Accord.

Source: Conferecia Latino Americana de Companias Express.

just throwing away money," Rowan said.

Over time, the express industry believes the move to a global economy will sweep Latin America along. "The fear is getting left out of the global economy," Rowan said.

The express carriers also said what they're doing in Latin American will benefit other types of industry operators in the trade, such as ocean carriers, airlines, customs brokers and freight forwarders.

Meanwhile, CLADEC members will keep the pressure on Latin American countries to implement the FTAA customs-related facilitation provisions. "Much of the future of the FTAA depends on how these measures are carried out," Santeiro said. ■

Confreight's quiet expansion

Belgian consolidator continues traditional LCL focus.

By Chris Gillis

Ambition and open-mindedness were the two ingredients that Roger Claessens and his business partner Francis Tirard used to start Confreight Group more than 15 years ago.

Today, the Antwerp-based non-vessel-operating common carrier is one of Europe's largest operators in the neutral less-than-containerload business.

But that's not exactly how Confreight began. The company's founders had planned to build an operation exclusively on trucked groupage cargo in Europe. In the first two years, the company created a trucking network from Antwerp to Portugal, France, the United Kingdom and the Benelux countries.

"Trucking was our background," said Claessens, president of Confreight. "I guess you could say we entered the LCL business by accident."

Confreight received its first LCL shipment from Cypress-based Atteshlis Shipping. The company had groupage cargo that it needed to move from Antwerp to Cypress, but it lacked a Belgian agent.

"Prior to that, neither Francis nor I had seen the inside of a container," Claessens said. "We had no idea that it would become such a big part of our business."

Confreight handled the shipment to Cypress without a problem. Today the NVO moves more than 50 TEUs of groupage cargo a month to Cypress.

To further understand the ocean freight business, Claessens, 45, who assumed the management of the emerging LCL business, took a trip to the Far East to see these types of operations in action.

"I wasn't looking for freight," he said. "I just wanted to learn, and I must say that I had some good teachers in Asia."

Since its first LCL shipments, Confreight has opened 35 offices abroad, which includes 12 in Europe, five in South Africa and three in Canada. It also has numerous agency agreements with other neutral NVOs worldwide.

"When we started the operation, we established the policy to begin a new service every three months," Claessens said. "So far, we've hit the main ports as well as other destinations that others don't offer at all."

Roger Claessens
president, Confreight

"When we started the operation, we established the policy to begin a new service every three months. So far, we've hit the main ports as well as other destinations that others don't offer at all."

The company has become a specialist in handling groupage cargo to Eastern Europe, South America and Africa.

Confreight serves about 150 ports directly, and another 450 ports via gateways. Many destinations are served on a weekly or twice weekly basis. "We try to minimize our use of gateways as much as possible by shipping the cargo direct to destination," Claessens said.

Last year, Confreight handled more than 37,000 TEUs of consolidated cargo, a 10-percent increase over 1999 volumes. In previous years, the company had seen its container volumes rise by 20 percent annually, but a shift toward more high-cube containers in 2000 has reduced the actual number of containers loaded.

Unlike other NVOs in recent years, Confreight has opted to stay out of the full-containerload business, unless customers request it, Claessens said.

"We have to stick with what we're good at," he added. "If we think it's wrong for the carriers to handle LCL, then why shouldn't the carriers believe that it's wrong for NVOs to handle full containers?"

But Claessens admits that increased competition and lower freight rates has squeezed the company's bottom line during the past two years.

Four years after Confreight started, another operation with a similar strategy started in Antwerp under the name of Ecu-Line. Today, both firms are considered by industry analysts to be arch rivals in the port and around the world. There's also the increased competition from other multinational neutral and freight forwarder-affiliated NVOs and the numerous niche operators.

Confreight may have no interest in entering the forwarder's business, but the company has seized upon many new opportunities to handle groupage cargo more efficiently.

Confreight's services include handling customs forms for others, cargo loading and unloading, and storage. The NVO routinely consolidates automobiles into containers between the United States, Europe and the Mideast. It also developed special foam packaging to transport chocolates.

Confreight continues to expand into other groupage cargo modes of transport.

The NVO offers extensive less-than-trailer-load truck services to all major western and eastern European countries daily.

Confreight owns and operates a fleet of 19 trucks. "It's not necessary to have several hundred trucks in Europe, but it helps to have a few of your own on hand," Claessens said.

The company has expanded its bonded warehouse capacity throughout Europe. These facilities are located in Antwerp, Brussels, Rotterdam, Milano, Le Havre, Marseilles, Warsaw and Budapest, and amount to about 55,000 square meters of capacity. Claessens said. Confreight expected to add another 20 percent of warehouse capacity to its operation by the start of 2001.

Six years ago, the company also started an air freight consolidation service at Brussels airport under the name Confreight Air Ltd. Other air freight offices are at Amsterdam Schiphol, Paris' Roissy CDG and Lyon Satolas and Johannesburg airport. It also launched Confreight Small Parcel Service to transport small parcels by air.

Confreight's policy is to control as much of the cargo handling process as possible. "It helps to guarantee door-to-door controlled movement and avoids any possible delay in delivery," Claessens said.

The company has begun exploring new information technology to back up its physical handling of freight consolidations. Special attention has been given to barcodes to streamline the modes of transportation and to reduce delays within the various stages of its operations.

Confreight has also started testing a new Internet-based cargo booking system with its customers in Italy. "We chose a medium-sized cargo market to give this system a good test before we roll it out to the rest of our offices across Europe," Claessens said. ■

Export licensing goes automated

Defense Department-sponsored program promotes data sharing between licensing agencies.

WASHINGTON

As long as there have been export controls in the United States, the government has imposed rigorous paperwork requirements on shippers of closely monitored goods.

However, the U.S. Export Systems Interagency Program Management Office, a newly launched operation under the Defense Department, will take a crack at reducing or even eliminating some of the paperwork required to process export licenses among as many as six government agencies.

"The program will build a piece of middleware that overlays all these systems for data sharing and analysis to make better informed decisions in approving exports," said Lothar Harris, program manager of the U.S. Export Systems Interagency Program Management Office. "This should help industry meet its global business goals as well as the country's national security needs."

The Clinton administration has come under attack by Congress and the industry in recent years for its inefficient license application screening techniques, most of which date back to the height of the Cold War in the 1970s.

In 1998, the inspector generals of Defense, Commerce, Energy, State, Treasury and the Central Intelligence Agency issued a report calling for a major overhaul of the export licensing process. It often takes a license application 40 to 60 days, and some cases much longer, to run the gamut of agencies that require reviews and approvals of licensable exports.

"As the military market moves in the direction of the commercial industry, which includes both just-in-time inventories and rapid deliveries, the current licensing system and administration can't keep up," said Joel Johnson, vice president of international affairs at the Aerospace Industries Association. "The defense industry used to just accept the slowness of the process, but the tolerance isn't there anymore."

Leading officials at the Defense Department were the first to consider developing a program to make the export licensing process more efficient. In an internal study, the Defense Department determined that, by making basic non-automated improvements alone, it could shave as much as 40 days off the export licensing process.

Last year, the Defense Department sought authorization from Congress to develop an interagency program to automate the export licensing process. Congress approved the appropriation of $30 million in the fiscal 2001 budget to fund the program over the next three years.

"We're a fully funded program," Harris said. "There's nothing on the horizon to prevent this effort from going forward."

The U.S. Export Systems Interagency Program Management Office hired systems contractor SRA International to provide support to the program and guide the initial integration effort between the agencies.

SRA, in turn, has hired subcontractor FGM to assist in the in-depth review of the country's licensing process. FGM has been involved in the development of a State Department software package, Tracker, to help developing countries monitor exports of goods that could possibly be used by terrorists (March 1999 *American Shipper,* page 46).

"We will take a high-level look at the U.S. export license community and build a framework around it," Harris said.

The program office recently completed a test with Commerce's Bureau of Export Administration and a handful of shippers to handle transmissions of basic electronic export license applications and supporting documents. The test of the so-called Electronic Supporting Documentation (ESD) System involved the use of Internet PDF file formats. A review of the test results will be finished in March.

The program office recently introduced ESD to State Department licensing officials. Harris said the program office hopes to partner with the State Department in this endeavor.

Since licensing officials are used to handling paperwork, the program office wants to make the transition to automation for them as easy as possible. In cases when licensing officials need to refer to both classified and non-classified data, the program office plans to use National Security Agency-approved technology from Trusted Computing Systems to allow licensing officials to review both types of data at once on the screen.

The program office has also explored the use of "data-mining" techniques developed by the Defense Advance Research Program Agency for complex information management.

The prototype will be rolled out in increments. "We're not waiting to the third year to deliver," Harris said. "We will deliver products as quickly as they're produced and tested."

During the development phase, the program office will be in regular contact with key Defense-related industry groups, such as the Society for International Affairs, Defense Trade Advisory Group, Aerospace Industries Association, National Defense Industries Association and Electronic Industries Association.

"We recognize that there's a high level of interest, but not everyone can participate," Harris said. While the program office will take comments and feedback from all parties interested in the system's development, it will directly interact with a select group of associations. ■

Saudi embassy starts export verification service

WASHINGTON

The Saudi Arabian Commercial Office has announced the availability of its new automated Export Information Sheet, or EIS program.

EIS is an Web-based service that allows U.S. companies, or their documentation agents, exporting to Saudi Arabia to file the required EIS form through the Internet.

EIS is managed, run and supported by the Commercial Office of the Embassy of Saudi Arabia in Washington. It was developed and is maintained by Flagship Customs Services, a provider of international trade Internet application services.

Irrespective of value of shipment or mode of transportation, all U.S. exporters to Saudi Arabia are required to file a completed EIS paper form 1048-595, with one of the Saudi Consulates in the United States as a prerequisite for the certification of shipping documents for their commercial shipments to Saudi Arabia. The EIS form is the equivalent of the Shipper's Export Declaration form of the U.S. Census Bureau.

EIS is made available on the Web free of charge. All U.S. exporters to Saudi Arabia are strongly encouraged to register and begin using the new system immediately, the Saudi government said. This can be done through the Saudi Arabian Commercial Office Web site at www.saudicommercialoffice.com by selecting the EIS option at the bottom of the page, and clicking on the "Register for EIS" option in the EIS home page.

For more information, contact the Commercial Office of the Saudi Arabian Embassy at (202) 333-8220. More information about FCS is available on the Web site: www.tradegate2000.com. ■

In brief . . .

FMC REVOKES OTI LICENSES. The U.S. Federal Maritime Commission has revoked the licenses of nine ocean transportation intermediaries for failing to maintain a valid security bond. The companies are Amex International Inc., Washington, D.C.; MSD Line Inc., Compton, Calif.; Nippon Concept (USA) Inc., Hackettstown, N.J.; Omega Shipping (CA) Inc., Los Angeles; Pike Shipping Co. Inc., Harvey, La.; ABA Forwarding, North Plainfield, N.J.; SDV Logistics (Texas) Inc., Houston; Stallion Freight USA LLC, Los Angeles; and Visawood Container Line, Jamaica, N.Y.

CHINESE GROUP JOINS FIATA. China International Freight Forwarders Association, the Beijing-based forwarders association created last September, has become a national association member of the International Federation of Freight Forwarders Associations. The mainland China organization replaced the company Sinotrans as the Chinese member of FIATA, the Zurich-based federation said. China International Freight Forwarders Association's first president is Luo Kaifu, the chief executive officer of Sinotrans. FIATA, which helped found the China International Freight Forwarders Association, said that the secretariat of the new association is also handled by Sinotrans. The setting up of a Chinese forwarders group follows the liberalization of the previously state-dominated Chinese forwarding business. The Chinese association has many forwarders in its association other than Sinotrans.

U.S. CUSTOMS SEIZES $5.5 MILLION. U.S. Customs said that it has seized more than $5.5 million in cash generated from illegal activities before leaving the country. "Operation Pressure Point," an ani-money laundering strategy to thwart drug dealers from smuggling their illegal profits out of the country, involved 163 currency seizures and 30 individual arrests. Because of the strict reporting requirements at U.S. banks, criminals face difficulties depositing large sums of cash. There is no limit on how much money a person can legally transport when entering or leaving the United States. However, federal law requires that anyone entering or leaving the country with more than $10,000 in U.S. currency or monetary instruments to file a Currency and Monetary Instruments Report with Customs. For criminals, the alternative is to stash the money in freight, baggage and on persons to get it out of the country. Customs inspectors have been using specially trained dogs and X-ray technology to assist in their search for smuggled currency inside cargo and ocean containers. Since 1996, Customs has stopped more than $300 million in illegal currency from going overseas.

AES APPLICATION FOR ISPs. Flagship Customs Services, an Internet applications service developer and software provider, has developed a new application that gives Internet service providers better connections to U.S. Customs' Automated Export System. The application, Export2000NetLink, allows these service providers "to configure their Internet/Intranet service, or application to exchange export transactions with the AES system without the major investment in time, cost and expert staff necessary to develop and maintain this type of service independently," said Robert Foley, president of FCS. Foley said another key feature of Export2000NetLink is the ability of FCS to customize each installation. Silver Spring, Md.-based FCS developed Export 2000 several years ago as a service center technology for filing shipper's export declarations electronically to Customs through AES. The company was also the developer of the Census Bureau's AESDirect, a free online link to AES.

Transport / Ocean

By Philip Damas, pdamas@shippers.com

Ocean carriers define limits of portals

The ocean carriers who set up the INTTRA and Global Transportation Network multicarrier portals have defined the scope of their cooperative agreements in their submissions for approval made to the U.S. Federal Maritime Commission.

The submissions, obtained by *American Shipper,* show the extent to which the carriers are trying to narrow their agreements to technical areas. The scope of the authority of the agreements specifically excludes areas related to freight rates and sensitive commercial data.

The INTTRA group filed the "Common Ocean Carrier Platform Agreement" in November. The INTTRA carriers and stockholders are A.P. Moller-Maersk Sealand, CMA CGM, Hamburg-Sud, Mediterranean Shipping Co. and P&O Nedlloyd. The group intends to "discuss and agree upon all aspects of the development, utilization, operation, modification, maintenance and repair and marketing of an electronic system designed to facilitate a common set of transactions between customers and ocean common carriers and to make it easier for customers to obtain ocean transportation services."

According to the filing, the portal "shall not contain individual rate or service contract information, but shall instead provide an individual hyperlink for each of the parties and other users to a Web site where this information may be obtained."

So, this will provide a "one-stop-shopping" Internet window of a kind, but INTTRA won't deal with shippers as a negotiating commercial entity.

The INTTRA filing added that nothing in the agreement authorizes any agreement party to discuss or agree upon the terms and conditions under which the party provides ocean transportation services to its customers.

The INTTRA agreement also contains clauses that aim to protect its carrier stockholders if one of them is taken over by an outside company. The exception mentioned in the agreement is that the P&O group or the Royal Nedlloyd group, the 50-50 owners of P&O Nedlloyd, can agree to buy out the other in the venture without triggering the control clause.

The filing of the Global Transportation Network Agreement, made in December, said that its carriers are authorized to "discuss, agree upon, and perform all aspects of the development, operation, modification, maintenance, repair and marketing of the portal and all aspects of the portal's use for transactions and exchanges of information and documentation between the parties and their respective customers and vendors."

APL, CP Ships, Crowley Maritime Corp., Hanjin Shipping, Hyundai Merchant Marine, "K" Line, Mitsui O.S.K. Lines, Senator Lines, Yangming Marine Transport and Zim Israel Navigation are not authorized, under the agreement, "to agree upon rates, terms or conditions in any tariff or service contract subject to the (U.S.) Shipping Act."

The GTN agreement does not allow, either, its carriers to share among them confidential customer information, including confidential rate and service contract information.

No doubt, commercial information will flow through the portals. But, to live up to their promises, the portals will need strong internal walls to prevent the exchange of commercial data about shippers between its member carriers.

Calmer seas for liner shipping

The number of mergers and takeovers among liner shipping companies decreased from nine in 1999 to six in 2000, as the carrier industry returned to a more stable and profitable environment.

The key event of 1999 was the purchase of Sea-Land Service by Maersk, but the Hamburg-Sud group, Compania Sud Americana de Vapores and other carriers also swooped down on several smaller and weaker shipping lines.

Last year, there were fewer carrier takeovers and they were on a smaller scale, according to data compiled by *American Shipper.* The only major carrier purchase in liner shipping was that of Norasia by Compania Sud Americana de Vapores. The other five ocean carrier takeovers were CP Ships buying full control of TMM Lines/Americana, CP Ships acquiring CCAL, P&O Nedlloyd taking over Farrell and Harrison's liner activities, OPDR buying Fred Olsen's liner business and Crowley Maritime Corp. taking over Marine Transport.

This trend is closely linked to the relative supply/demand balance for containership space and better carrier profit results.

Rates rise on east/west routes

With the upswing in the shipping cycle come higher freight rates.

With the notable exception of the weak containerized export trades from the United States, shippers have been warned by carriers to expect fairly large increases on the major east/west routes this year.

Transatlantic: The Trans-Atlantic Conference Agreement has announced a plan to increase westbound transatlantic freight rates twice this year, in April and in October.

For shipments to or via U.S. Atlantic and Gulf coast ports, rates will go up by $240 per 20-foot container on April 1 and by another $240 on Oct. 1. Rates for 40-foot and 45-foot boxes will increase by $300 on April 1 and by another $300 on Oct. 1.

There are no planned rate increases eastbound, where traffic volumes have been weak.

Transpacific: Shipping lines of the Transpacific Stabilization Agreement plan to increase eastbound transpacific freight rates for the next shipping season, effective May 1, and introduce a new chassis charge.

The Transpacific Stabilization Agreement recommended, for the coming May 2001-April 2002 contract period:

- A $525 increase per 40-foot container from Asia to U.S. West Coast ports.
- A $600-per-FEU increase for shipments to points throughout the U.S. West Coast states of California, Oregon and Washington.
- A $600-per-FEU increase to East Coast ports via all-water or mini-landbridge service.
- A $750-per-FEU increase for containers moved inland intermodally via West Coast or East Coast ports.

The transpacific westbound trade is a different story.

Ocean carriers of the Westbound Transpacific Stabilization Agreement have just postponed and scaled down a previously announced rate increase on westbound shipments of vegetables.

Asia/Europe: The shipping lines of the Far Eastern Freight Conference's Asia Westbound Rate Agreement plan to increase rates from Asia to North Europe twice this year, in April and in August. The price rises will be $150 per TEU, effective April 1, and $250 per TEU, effective August 1.

The FEFC carriers increased westbound freight rates last August by about $350 per TEU.

Ship agents face computer age

Software developer hopes to give industry the automation it needs.

By Chris Gillis

Louis Swartz doesn't consider himself a rebel.

But new software that he has recently developed may turn the U.S. steamship agency business upside down by giving it a type of automated capability that it has never had before. Steamship agents are considered to be one of the last bastions of paperwork in ocean shipping.

Swartz, the 36-year-old founder and chief executive officer of Oceanus Software Co., said his software, QuikDOCK, should save the industry time and money by automating all agency duties and related services needed to enter and clear a cargo ship in U.S. ports.

"This business is tough enough without having to deal with outdated practices," Swartz said. "QuikDOCK is a management tool for the future — a thinking program."

Steamship agents take care of everything associated with managing a ship, from alerting government authorities of arrival to providing food and medical attention to the crew.

These companies must deal with more than 100 documents to clear vessels, cargo and crew. These documents range from communications with shipowners to government requirements for Customs, Immigration and Naturalization Service, Coast Guard and Department of Agriculture.

Some large steamship agents have developed internal systems to help manage paperwork production. These systems most often use generic templates to generate paper documents off laser printers. They are also usually stand-alone units, which don't communicate with other systems.

Typewriters still rule the day in most mom-and-pop steamship agencies. "There's a lot of people in this industry that need to learn how to use a computer," Swartz said. "That's incredible in this day and age."

The steamship agencies have become embarrassingly aware that they have quickly fallen behind the computer technology curve, which has permeated much of the international shipping business today.

"All the companies that do business with us, such as vessel charterers and surveyors, use systems to communicate," said Richard Dubin, Swartz's brother-in-law and president of Miami-based Ameritrade Terminals. "One surveyor with whom I do a lot of business once laughed at me when I couldn't open his e-mail."

"Frankly, coming up with an idea is the easy part. Sticking with it to fruition is a different story."

Louis Swartz
founder and CEO, Oceanus Software Co.

"The faster we get the information, the faster we can get to work," said Bob Weihe, owner of Miami-based Commercial Diving, which does salvage work and surveying for steamship agents. "There are times when the divers are standing on the dock waiting for the paperwork, and they get paid whether they're working or not."

Win Thurber, owner of Mobile, Ala.-based Strachan Shipping Agency, once told *American Shipper* that he envisions a day when all his field staff will carry laptops which link back to a headquarters system. His wish may soon come true.

Strachan Shipping was one of the first steamship agents to put QuikDOCK to the test this winter and is ready to roll out the system across the entire company.

Humble Start. Swartz got a taste of this document-intense business a decade ago while clearing and entering vessels for his brother-in-law's firm on the Miami River.

"I couldn't believe how much paperwork was involved in this industry," Swartz said. "I thought to myself there's got to be an easier way to do things."

Swartz set out on his own two years ago to find a way to automate the steamship agency business. He quickly learned that the task of taking complex, long-entrenched paperwork requirements and translating them into an automated program would prove daunting.

"Frankly, coming up with an idea is the easy part," Swartz said. "Sticking with it to fruition is a different story. I just took this project one day at a time."

Swartz also pursued his goal without the luxury of venture capital or other major funding sources to back him. He admits that the financial strain also seemed overwhelming at times.

Along the way, however, he aligned himself with three executives who believed in his product. They are Robert Walsh, former bank systems developer and owner of Spectrum Software Designs; Marshall Langer, an investment banker; and steamship agency executive Chris Dalton.

Swartz estimates that in time and personal resources of himself and his partners, QuikDOCK cost more than $350,000 to develop.

Paper To Data. With QuikDOCK, submissions of all entry and clearance documentation, calculation of port fees and tariffs, automatic filing of license and permit renewal applications, and scheduling will be streamlined by the computer.

The software guides steamship agents with prompts and pop-up menus through the entire entry and clearance process, and automatically notifies the user of omissions.

The level of capability that QuikDOCK offers has surprised long-time industry veterans such as Paul Walsh, port manager for Strachan Shipping in Miami.

"At first I thought it was going to be just another template program, which would not have interested me," Walsh said. "QuikDOCK actually helps to automate the process. I wish we had something like this 25 years ago."

Dubin has used an early test version of QuikDOCK for about a year and a half, and even in its more primitive state the software has decreased his company's vessel processing time by 70 percent. "I had used typewriters up until two years ago," he said. "With this software, I've taken what was a two-person job and turned it into a one-person job."

Ameritrade processes about 18 ships a month, mostly in the U.S./Haitian trade, in addition to operating a small terminal on the Miami River.

Another benefit of the software is that it will allow multi-office steamship agents to link their business to a single database. Many steamship agencies suffer from lack of continuity in the way that they conduct business between their port offices.

"This should end the faxing of information between offices for vessels making multiple U.S. port calls," Dubin said.

However, the biggest benefit of QuikDOCK is the ability for the ship agent to operate its business from laptop computer technology. "This gives ship agents the ability to access their home system from wherever they are," Swartz said.

Steamship agency executives familiar with QuikDOCK believe that it will take off in the industry as large players make it a part of their operations.

"I think it will revolutionize a lot of the industry," Walsh said. "It will be like a one-stop shop."

The only difficult part to the system is that the database must be built up over time. Once that's done, routine information about vessel operations, such as ship registries and crew lists, can be automatically merged with new voyage data.

Initially, Swartz expects some steamship agents to find the software threatening to their existing way of business.

"Change is always difficult, but I want to teach the industry that there's a better way of doing things," Swartz said. "I believe that QuikDOCK is going to make these companies even more money as they become more efficient."

QuikDOCK won't make the steamship agency business automatically paperless. But Swartz believes that it's a system that's right for the time. "It works in today's world, and it will be there to accommodate tomorrow's standards when the industry is ready," he said.

By this summer, Oceanus Software, with offices in Miami and New York, plan to add more functionality to QuikDOCK by linking steamship agencies' operations to their accounting procedures.

"Linking to the billing side of the house will be a big boost," Walsh said. "That's a manager's headache today."

The company will also develop an onboard ship version of the software to tie vessels electronically to landside steamship agents.

The difficulty for Oceanus Software will be to stay ahead of other software developers hoping to get a piece of the action. "There will be copycats," Dubin said. "But with large firms already using QuikDOCK the company will have a big leg up in the market."

Government Link. In addition to Quikdock's impact on the industry's operations, Swartz and initial users of the software say there's potential to automate exchanges of data between steamship agencies and federal regulators.

"The goal is to get a large portion of the industry on the software to generate enough standardization and influence to create an electronic interface with Customs."

"The goal is to get a large portion of the industry on the software to generate enough standardization and influence to create an electronic interface with Customs," Swartz said.

Last year, Customs said that it would only board vessels to make sure that carriers are following the rules. It used to be common practice for the agency's inspectors to board arriving vessels to review their documentation, but Customs has had to change the way it manages its scarce resources in the field.

The 1993 Customs Modernization Act included a provision to eliminate the mandatory requirement for Customs to board every arriving vessel. Instead the agency could develop a policy of boarding a sufficient number of ships each year to ensure that carriers follow the rules.

According to Customs' studies several years ago, the agency discovered wide variations in how the rules were applied from port to port. Some agency port directors ordered more thorough boardings than others. Customs believes its new policy instills more uniformity.

The new rules also permit steamship agents to bring vessel documentation to Customs' port offices. These documents include the entrance and clearance statement (CF1300), ship stores declaration (CF1303), and crew effects declaration (CF1304). Other documentation such as the surety bond (CF3171) must be delivered prior to arrival and vessel manifest (CF1302) must be filed to Customs at the time the vessel arrives in port.

But Customs has made it clear to the industry that it's not backing down on compliance.

"The industry risks steep fines and penalties for non-compliance," Swartz said. "QuikDOCK should help to eliminate many discrepancies associated with the paper-based system."

The new Customs boarding rules don't impact other government agencies that board vessels, such as the INS and Department of Agriculture's Animal and Plant Health Inspection Service and Plant Protection and Quarantine.

As a database program, QuikDOCK allows steamship agents to store documents and reproduce them instantaneously at the request of federal agencies during audits.

Going Abroad. Meanwhile, Swartz and his partners don't plan to confine themselves to the steamship agency business in the United States. They're also considering ways to use the basic principles of the software to help agents in overseas markets.

"I look at the United States as one major port with one set of rules and operations," Swartz said. "Other countries are just other ports."

Oceanus Software has already received calls from steamship agents in Ireland, United Kingdom and Malaysia with an interest in acquiring similar software.

The company has also been asked to speak about its product at a March conference in New York of the Multiport Ship Agencies Network. The network is well aware of the changes that are coming down upon the steamship agency industry.

"As the 20th century draws to a close, our industry finds itself in a state of constant uncertainty and change," said James Baldwin, chairman of the London-based network. "I think we have all forgotten the days when our industry was stable, profitable for everyone concerned, and offered guaranteed long-term career rewards to those who worked hard ... Shakespeare said, 'as flies to wanton boys are we to the gods, they kill us for their sport.' Ship agents often feel like these flies. We are always at the mercy of events and the decisions of our principals." ■

Clarkson: Hubs vs. speed

Martin Stopford makes a case for creating an oceanborne urgent container shipping service.

BY PHILIP DAMAS

Container shipping is facing a conflict between volume and speed, as shipping lines continue to follow the "big-ship philosophy," according to Martin Stopford, research director of the London-based shipbrokering group Clarkson.

In a paper prepared for the recent International Transportation Symposium organized by the U.S. Department of Transportation, Stopford said that "containership operators are on the 'bottom cargo' treadmill that hounded liner operators for a century."

"To fill the ship you need to win more low-value cargoes, but to get the unit costs low enough to attract this cargo, and meet the capacity demands of shippers, you need even bigger ships," Stopford said.

"Unfortunately, the bigger the ships get, the more operators are locked into arterial (transshipment) hubs.

"However efficient you are, this slows the transit time, especially for the unfortunates located at the extremes of the feeder network.

"That is fine for the lower value cargoes, but it will not suit the 'cluster' cargoes that would happily pay for speed and certainty," he said.

"There will be too much premium cargo around for it to spend the next 25 years locked into the same transport system."

Martin Stopford
research director, Clarkson

'Premium Container' Service. "That cannot be right," Stopford stressed. "There will be too much premium cargo around for it to spend the next 25 years locked into the same transport system."

Stopford believes that the challenge for transport providers is to offer a premium service that is worth paying for. Air freight does this already, "but it is prohibitively expensive and volumes are tiny."

"My vision for 2025 is of a liner business where consumers who want speed and guaranteed delivery across the seas, and are prepared to pay for it, will be able to buy that service," he said. "Something between the cheap and cheerful service offered by the existing container lines and the very expensive air freight. This applies to both short sea and deep sea transport."

"Service providers may take a completely different approach to the transport operation, perhaps using smaller ships and local ports.

"As long as it provides the premium service, who cares how the cargo travels?" he asked.

Stopford's case for a fast, premium container service is already being followed by Express Container Service, a new German shipping line that operates small but fast 1,400-TEU vessels on the Hong Kong/Trieste corridor (August *American Shipper,* page 66). It is similar to the business model proposed by the FastShip transatlantic project, a venture that would use specialized 38-knot water-jet vessels to connect Philadelphia and Cherbourg, France, in three-and-a-half days.

Market Gap. Stopford believes that there is a gap in the market for fast services for intermediate cargoes (see graph).

"We have bulk shipping to carry the very big price-sensitive parcels ... the container business offering very cheap transport of small parcels ... and air freight, which offers very fast transport," he said.

"But there is no business offering a direct service for shippers requiring speed and reliability. That is the service that is missing today," he added.

Stopford admitted that shipping lines already do this to a degree, "but they are restricted in what they can guarantee, especially for small parcels relying on feeder services."

"Delivery times are still very slow compared with the time it takes the ship to cross the sea," Stopford said.

"How about 'Anywhere in Europe to anywhere in South America in under 15 days, guaranteed' as a marketing slogan?

"Of course, it sounds impossible, but it's the language businesses understand," he said.

The research analyst argued that this type of premium container service is not available today because the strategy adopted by big carriers has made the liner product homogeneous. "Shippers, quite rightly, argue that everyone gets the same service, on the same ships, to the same terminals," Stopford said. "With no service differentiation, everyone pays the same."

"The reason container operators cannot charge a premium rate for high-value cargoes is that they cannot provide a premium service," he said.

"They are locked into a system built around ever bigger ships. So far they have got up to 8,000 TEU, but I keep reading about 15,000-TEU container ships."

Reasons. Stopford listed five reasons why a premium container service will become easier to supply:

- Growing trade volumes, which will create "sufficient volume on many secondary routes to operate a direct service with reasonable sized ships." he said that most studies "do not rate the benefits of big ships very highly" and small ship are an option, even on deep sea routes.
- Information technology will allow niche carrier to offer door-to-door services without heavy overheads.
- A large pool of containerships, including on the charter market, that small operators can tap into to set up services.

• Many small ports are keen to attract new services and hub port costs are comparatively high.

• There will be pressure from the public and the environmental lobby "to divert distribution of containers by land to a waterborne option where this is available."

Stopford would not predict who would provide these premium services in future. But it may be possible for somebody from outside container shipping to force the pace, he suggested.

"Remember who initiated containerization? It was a trucker," he said. ■

Malacca-max: the 18,000-TEU ship

Study says future ultra large containerships will raise port productivity, feeder network.

LONDON

By 2010, the conditions will be right to introduce "Malacca-max" containerships — or giant vessels with the maximum draft to get through the Strait of Malacca in Southeast Asia — according to Dutch academic Niko Wijnolst and associates from Delft University.

In a new book, *Malacca-max (2) — Container Shipping Network Economy,* Wijnolst assessed the economic and technical feasibility of operating such large vessels.

With a total carrying capacity of 18,154 TEUs, the Malacca-max ships would be too deep to transit the Suez Canal now (see chart). The study points out that the Suez Canal would have been dredged to 21 meters by 2010, removing the current "Suez-max" limit for vessels on the Asia/Europe route.

Cost Advantage. "Malacca-max ships will not be there tomorrow, but the conditions for their introduction will become more favorable every year," Wijnolst said. "The most critical factor is market volume and growth."

According to the study, the economy of scale on the carriage of containers from port to port is not decisive for the introduction of these ships.

The Malacca-max would still be less expensive to operate when measured on a per-TEU basis on the deepsea leg. The study estimates that the deepsea slot cost per TEU from Rotterdam to Singapore, including bunker and canal dues costs, would be about $150. This compares with about $180 per TEU for an "S-class" vessel of Maersk Sealand, and with about $220 per TEU for a Panamax-size vessel of about 4,800-TEU capacity.

"The bigger the size, the bigger the saving in fuel consumption and canal dues per TEU," the study said.

The Malacca-max ship has a 30-percent cost advantage over a Panamax ship operated today, but this comparison is only part of the total picture.

"The relatively modest economy of scale benefit of a Malacca-max carrier's deepsea leg may not be enough to compensate for the increase in the container handling costs and feeder costs," the study said.

Very large containerships calling at few ports will require substantial feeder and transshipment activities, and the economics of feedering is a negative when compared to direct calls, the study said. Today, containerships tend to have a direct "multiporting" vessel rotation, whereas the larger Malacca-max would have to call at fewer direct ports. The study envisions a northern Europe/Asia rotation with calls only at Rotterdam and at Singapore, feedering the rest of the regions over those two hubs.

According to the study, the hub-feeder model implied by the operation of Malacca-max vessels can only be competitive if there is a substantial percentage of the containers on the deepsea vessel that are not feedered to other ports.

One argument put forward by the study is that, for the hub-feeder model to become cost competitive against the direct-call multiporting model, the cost per container move of feedering must decrease 10 to 20 percent. Although this aspect may undermine the economics of using Malacca-max ships, the study said that operating very large feeder ships on multiport loops, to and from the megahubs called by the motherships, would lower total costs.

Wijnolst and his team are working on a follow-up study to assess the economics of hub-feedering, using real-life data.

Another key cost factor will be the inland transport of containers to and from the ports.

Port Restrictions. To be operated on the Asia/Europe route, Malacca-max ships will have to wait for the Suez Canal to be dredged from the current 17.5 meters to 21 meters.

In addition, they will need suitable port infrastructures and access channels.

According to the study, this means relatively little work to the access channels of the ports of Rotterdam and Singapore. But if Hong Kong and Shanghai are included in the ships' rotation, it will mean "a major capital dredging project."

Special quay container cranes will also be necessary to handle the large ships. The study cited a crane design with an outreach of 74 meters, capable of handling the 24-wide containers on deck. With the Malacca-max vessels, containers will be stowed 20-wide below deck and 24-wide above deck.

The 60-meter (197-foot)-wide Malacca-max 18,000-TEU ships would be considerably wider than the Panamax 4,800-TEU vessels, which have a breath of 32.2 meters (106 feet).

Priorities. The study suggests that the priority of container shipping lines will not be to reduce costs on the sea leg.

"Their first priority is to increase the number of sailings to five a week, corresponding with the number of working days of most of their clients," the study said.

Malacca-max design characteristics

Ship	Malacca-max (project)	Suez-max (project)	Sovereign Maersk (in operation)
TEU capacity	18,154	11,989	8,400
Length (meters)	400.0	400.0	348.0
Breadth (meters)	60	50	42.8
Draught (meters)	21	17.04	14
Depth (meters)	35	30	24.1
Displacement (tonnes)	313,371	212,194	142,500
Deadweight (tonnes)	243,600	157,935	105,000
Light ship weight	70,771	54,259	37,500
Vessel speed (knots)	25	25	25
Engine power (kW)	116,588	91,537	61,000

Source: Malacca-max (2), Container Shipping Network Economy, published 2000.

Therefore, Malacca-max services will have to be introduced, initially, alongside existing services with smaller ships.

In fact, the study said there will be "only a few lines" that will have the volume and the financial means to introduce the ultra large container ships.

The study mentions the possibility of running Malacca-max ships on a near round-the-world rotation, from the U.S. East Coast to Europe, the Mideast, Asia and the U.S. West Coast, feedering north/south ports over seven megahubs located along the east/west route. However, the study said that volumes on the transatlantic route are too small to justify the operation of 18,000-TEU vessels.

Asked about the likelihood of Malacca-max ships calling at U.S. ports, Wijnolst told *American Shipper:* "Briefly, there are physical constraints. Megaships with 19-meter draught — Malacca-max is between 19 and 21 meters, depending on the empty container ratio that you assume — cannot access the U.S. ports."

"This is one of the reasons why — as in the oil trades or bulk trades — U.S. ports are not suitable for megacontainerships," he added. "Direct calls are not possible, only indirect like Freeport."

And volumes on the Atlantic are not sufficient to fill megavessels with a high sailing frequency, he said. Therefore near-round-the-world services with megaships "will not be feasible in the next 10 to 20 years."

Transit Times. Using the transit times database run by ComPairData (www.compairschedules.com) as a reference, the study calculated that Malacca-max transit times between the megahubs they would serve on the Asia/Europe route would be roughly the same as today's transit times. However, for ports served by feeder by the Malacca-max ships, transit times would be slower than those of today's direct-call services.

The study predicts that the introduction of the hub-feeder concept will split ports into new categories.

"Very few ports will have the opportunity to become megahubs, while most of the ports will be reduced on the main container routes to a secondary or feeder status," it said.

It is known that several major carriers are considering building containerships of 8,000 to 10,000 TEUs. But the Dutch academic group believes that much larger containerships will follow.

The 149-page book can be ordered from Dynamar, which can be contacted by e-mail at consult@dynamar.com. ■

HUAL's ro/ro niche

Carrier goes out of the way to help auto and mobile equipment shippers in need.

By Chris Gillis and Philip Damas

HUAL transports the type of cargo that moves on its own.

The ocean carrier has spent the past 30 years developing a strong niche in the transportation of automobiles and other wheeled equipment.

"We have chosen to focus on our core business, which is vehicles only," said James E. Butcher, president of HUAL North America, based in Jericho, N.Y. "We don't take boxes."

The carrier has developed one of the industry's most modern fleets of roll-on/roll-off vessels. HUAL recently completed a six-vessel building program started three years ago.

In December, the Scandinavian carrier took delivery of the HUAL Europe from Korean shipyard Daewoo and the HUAL Trove from Japan's Tsuneishi Shipbuilding, the last two in the series of new ships.

The six new pure-car-truck-carriers are nearly identical and each has a capacity of 6,200 standard-size cars, or a mix of cars, trucks and high or heavy ro/ro cargo.

With the latest vessel deliveries, HUAL now has a core fleet of 25 deep-sea vessels and four short-sea vessels, in addition to chartered tonnage on an as-needed basis. The total owned and chartered fleet reaches as much as 50 vessels depending on market conditions.

During the past three years, the com-

"We have chosen to focus on our core business, which is vehicles only. We don't take boxes."

James E. Butcher
president,
HUAL North America

pany continues to concentrate its efforts on the car-carrying business. In 1998, it sold its multipurpose vessel business, Hoegh Lines, to the Oldendorff group.

Lief Hoegh & Co., HUAL's parent, reported a net loss of $36 million for 1999, compared to a net profit of $50 million the previous year.

The HUAL car-carrying business was the most profitable unit of the company last year, with an operating profit of $37 million. Most of the losses were blamed on money-losing businesses such as the Pacific Commerce Line, which transports forest products, and the tanker operation, Bona Shipholding.

Industry analysts viewed 2000 as a healthy year for auto transport sector. The latest financial figures for HUAL are expected soon.

Consolidated Ownership. HUAL, formerly Autoliners, also spent most of last year transitioning to a consolidated ownership under Leif Hoegh & Co., based in Oslo. Leif Hoegh bought the outstanding 50-percent shareholding in HUAL from the Ugland Group in March 2000.

"With HUAL representing about 70 percent of Leif Hoegh & Co.'s business, it has been decided to implement a new organizational structure and integrate HUAL more closely with Leif Hoegh & Co.," the Norwegian shipping group said.

The HUAL brand name was left unchanged and the business activities have continued unchanged.

Leif Hoegh & Co. also appointed a new management team at HUAL's head corporate office last year:

- Karl Terjesen was named president of HUAL and a member of Leif Hoegh & Co.'s group management.
- Per-Gustav Lyngas was appointed executive vice president in charge of marketing, traffic and operation for all deep-sea trades.
- Niels Ronald Bugge was named executive vice president in charge of strategy/business development, chartering, maritime services, information systems and quality assurance.

Knut Hundhammer, formerly senior vice president of financial and maritime services, left HUAL at the end of the year. He had worked closely with Bugge to ensure a smooth transition, and oversaw the completion of a number of projects he initiated, the company said. Karl Kr. Hauger, senior advisor, is expected to leave the shipping firm in March.

HUAL North America's senior management, which has largely been in place since the 1970s, remains intact.

Roy I. Winograd
vice president of marketing, HUAL North America

New Business. HUAL has been a big player in the auto transport business to the Mideast for three decades.

In the early 1970s, it started service to Beirut, Lebanon, which acted as gateway for U.S. cars to the region. When war broke out in the country, HUAL shifted its vehicle deliveries to ports in Saudi Arabia and the Persian Gulf.

Some of HUAL's biggest customers to the Mideast are General Motors, Ford and DaimlerChrysler. The carrier also transports large volumes of used cars to the region.

HUAL has recently established direct ro/ro service from the United States to West and South Africa. This is a big step for a ro/ro carrier in a market that has traditionally been served on inducement or transshipment via North Europe, said Roy I. Winograd, vice president of marketing for HUAL North America.

"When our load factors from the United States to Europe and on-carriage to West and South Africa continued to grow, HUAL made the decision to enter this trade routes on a direct call basis, eliminating the longer transits required by the European leg," Butcher added.

HUAL started the service in July. The vessels originate in the Far East and transit the Panama Canal. The service calls Houston and the Dominican Republic, before making direct calls at the U.S. East Coast ports of Jacksonville, Fla.; Savannah, Ga.; New York and Baltimore. From there the service sails to Abidjan, Ivory Coast; Tema, Ghana; and East London and Durban, South Africa. Service is also available to other West and South African ports, such as Lagos, Nigeria and Cotonou, Benin, via transshipment by HUAL's Europe/Africa service.

The carrier is transporting mostly used cars, trucks and equipment into West Africa, while the South African market is receiving new vehicles and road building and construction equipment.

For HUAL North America, the West/South African service fits well with the carrier's round-the-world service, Winograd said.

The ships also pick up right-hand-drive cars made by Mercedes and BMW in Georgia and South Africa en route to markets in the Far East.

HUAL is also exploring new markets opportunities in the Caribbean and South America. The carrier has developed a transshipment feeder service in the Caribbean via Puerto Rico and the Dominican Republic.

Flexible Schedules. While HUAL is a scheduled liner ro/ro service, the carrier is not averse to making adjustments to accommodate shippers.

"We try to cater to the market without damaging our existing service," Butcher said.

Auto shippers praise HUAL for its efforts to help them out in a pinch.

"They're extremely flexible and reliable carrier that understands its niche," said Vince Avila, manager of international logistics at General Motors.

The automaker uses HUAL primarily for its shipments to the Mideast. GM ships about 20,000 Suburbans and Tahoes a year to this market.

"They're always willing to go the extra mile," said Steve Emmons, export traffic manager for Ford. Last fall, the automaker had to ship 5,000 Crown Victorias from Wilmington, Del., to the Mideast over a month and half. "HUAL made space on their vessels to accommodate us."

Emmons said that automakers must strive to offer carriers such as HUAL better forecasts about how many vehicles they intend ship out of U.S. ports.

"Otherwise, they can't load their vessels properly," he said.

Competition is fierce among carriers in the ro/ro trades. In the world fleet, it's estimated that about 400 vessels handle ro/ro cargo.

About 80 percent of HUAL's cargo is supplied by 20 companies. The rest is from smaller, occasional or specialized ro/ro shippers. Last year, HUAL moved about 1 million car equivalent units.

"It's been a stable business for us," Winograd said. "We've been able to carve out a piece of a good niche market." ■

(800) 874-6422, FAX (904) 791-8836, e-mail gburrows@shippers.com

Airbus strikes deals with FedEx, UPS

How does Airbus Industrie top a 60-plane order from United Parcel Service? By one week later signing an agreement to sell 10 of its new super jumbo A380-800 freighters to Federal Express, UPS's arch competitor.

Atlanta-based UPS placed a firm order on Jan. 10 for 60 additional A300-600 freighters from Airbus Industrie to meet long-term growth expected in UPS's global air operations.

The deal, valued at $6 billion, and included options on an additional 50 aircraft, represents the largest single aircraft deal in UPS's history.

UPS had placed a firm order for 30 A300-600 freighters in late 1998 for service within the United States. The first seven of those planes were delivered last fall and another 13 are scheduled for delivery this year.

The new order supersedes options for 30 aircraft taken in 1998.

The 60 aircraft will be delivered over a nine-year period. The A300-600s have the capacity to carry 22 containers on its upper deck and seven containers in the lower cargo compartments. The aircraft has a payload of nearly 58 tons and a range of 2,500 miles.

The order addresses a forecasted need for more widebody, shorter-haul jet freighters that can operate on a variety of regional routes outside of the United States.

"Whether it's Europe, Asia or Latin America, we need to be prepared to deploy a modern jet freighter that's flexible enough to operate anywhere," said Bob Lekites, vice president, UPS Airlines Operations. "This order for the A300-600 provides us that long-term capability and fits our specific needs."

For FedEx, Airbus's A380-800 freighters are a perfect fit as a long-term replacement for the integrated carrier's MD-11 freighters.

At a press conference in Washington Jan. 16, Frederick W. Smith, chairman, president and chief executive officer of FedEx Corp. called the deal with the European aircraft builder "a very strategic and important acquisition" for the carrier. Financial terms of the deal were not disclosed.

The first two A380-800 freighters are expected to enter the FedEx international fleet in 2008, with two more in both 2009 and 2010. The last freighter will join the fleet in 2011. FedEx is considered the official launch customer of the cargo airlines to use the new planes.

Alan B. Graf Jr. executive vice president and chief financial officer of FedEx, said the company studied a variety of aircraft, even the Boeing stretch version of the 747 freighter, before picking the A380-800. "This was clearly the winner," he said.

The A380-800 is expected to fit efficiently into FedEx's global operation, which is based on its existing fleet of MD-11 freighters. However, the A380-800 can carry up to 165 tons of cargo or 66 containers, compared to 90 tons or 33 containers in the MD-11. As the A380-800 enters the fleet, Smith said he expects to phase more of the MD-11s into the domestic fleet.

The triple-deck, super jumbo freighter will also use FedEx's current cargo equipment. The plane is expected to load and unload in 20 to 23 minutes, about the same tiime it takes the MD-11, said David Bronczek, president and CEO of FedEx.

Another advantage to the A380-800 is that it will meet the tighter slot-time requirements of the world's airports, and is cleaner and quieter to operate. "It's a friendly green giant," said Noel Forgaerd, CEO of Airbus.

Panalpina rejoins Cargo 2000

Panalpina Group, Europe's largest air forwarder, has rejoined Cargo 2000, the organization of airlines and freight forwarders, after withdrawing from the group nearly one year ago, citing lack of progress.

The goal of the organization, formed in 1997 within the International Air Transport Association, has been to identify a common procedure and communications protocol for the traditional air freight industry.

Cargo 2000 last year began implementing its master operating plan, or MOP, which is designed to enable air forwarders and carriers to offer worldwide time-definite delivery services to shippers.

Robert Frei, Panalpina's chief operating office, said "the processes defined as part of the master operating plan are to be certified upon request by auditors who have a vested interest in seeing the MOP implemented efficiently."

Panalpina credited Cargo 2000's management with having "defined a clear, process-oriented strategy and enforced a visible distinction between processes and transactions." In addition, the company noted that transactions are now evaluated by five providers in parallel and each member of the group may determine which partner with which to cooperate.

The forwarder, upon its departure last year, had also criticized Cargo 2000's intention to open the group to new members. The move, however, "did not, as Panalpina had feared, lead to stagnation, because the entry criteria were set at a high level," Frei acknowledged. "We have full confidence in the management of Cargo 2000 and now believe that both parties have much to gain from Panalpina's re-entry into the group."

Frei added that the forwarder would "continue to contribute constructive criticism to Cargo 2000, while pursuing our objectives with selected partners within the proven key account and business partnership programs."

Ron Cesana, project director of Cargo 2000, said "Panalpina's decision reflected the progress being made by our airline and forwarding members and, most importantly, sends out a strong signal to shippers of the group's commitment to implement a new quality management system for the air cargo industry."

Consumer group urges moratorium on airline mergers

Taking a cue from the U.S. Surface Transportation Board, the Business Travel Coalition is urging Congress to consider legislation that would set a one-year moratorium on airline mergers.

BTC chairman Kevin P. Mitchell said that studies conducted by the U.S. Department of Transportation show that airlines possess market and pricing power to and from hubs where they are not faced with low-fare competitors and that they are strongly inclined to protect their market power by eliminating new entrants.

The studies "unequivocally substantiate" that the DOT has the authority to act against anticompetitive practices, but that U.S. antitrust laws alone are inadequate to safeguard airline competition and consumers, Mitchell said.

"Any combination among the six largest airlines should be frozen, including the United Airlines-US Airways transaction," to give the incoming Bush Administration time "to understand complex competitive problems" identified in the DOT study, Mitchell said.

The U.S. railroad industry has been under a moratorium imposed by the STB, while that agency draws up new rules to govern future mergers.

Satish Jindel

E-mail: satish@jindel.com

DHL wants to change U.S. express market

DHL's majority ownership by Deutsche Post World Net (DPWN) has some major implications for the global and U.S. domestic express and parcel industry:

- DHL will simplify its operating units into one company and brand name.

While DHL is a well-recognized brand in the express industry worldwide, the company providing the service could be one of many DHL companies. DPWN has initiated integration of these operations under one corporate entity and brand name. Last month, DPWN announced several high level management changes to facilitate expansion of U.S. operations and integration of all DHL operations into DHL Worldwide Express Inc.

- DHL will expand its domestic network in the U.S. market.

DHL has been present in the U.S. market since 1969 when its founders created DHL to handle express shipping between the West Coast and Hawaii. During the 1980s, FedEx Corp. and United Parcel Service not only expanded the U.S. domestic network, but also started investing in the highly profitable international express business. While UPS and FedEx were becoming a major competitor of DHL in its core international market, DHL was unable to respond to the opportunities in the U.S. market as a result of several factors:

- Ownership structure of DHL companies.
- Claims from the several heirs of Larry Hillblom (who had 65-percent ownership of the U.S. operating entity) with his death in 1995.
- Transfer pricing litigation with the IRS.
- DHL management's willingness to overlook importance of the domestic U.S. market to growth in international sector.

DPWN's aggressive growth plans for DHL will bring new focus on the domestic U.S. market. That is already being felt with the changes in DHL leadership. The changes are accompanied by DHL's intent to seek approval from the U.S. Department of Transportation to split the U.S. based company so the airline unit can continue to operate as a U.S.-flag carrier while DPWN makes significant investments in expanding the domestic operation.

There are several industry developments that favor DHL's move to expand its presence in the U.S. domestic market.

The U.S. domestic express/parcel industry, with more than $30 billion in annual revenue, has only three large private carriers for express service (UPS, FedEx Express and Airborne Express) and two nationwide ground parcel carriers (UPS and FedEx Ground). Moreover, there are only a handful of very small regional carriers.

In spite of USPS's role during the Teamsters strike at UPS during August 1997, there are questions being raised as to the relevance of USPS competing with private carriers in the parcel-express market. DHL's entry will provide more support to those opposed to USPS offering parcel services.

The heavy-freight or less-than-truckload industry, with annual revenues of $20 billion, has five large nationwide carriers and some 30 regional carriers with several exceeding $500 million in annual revenue.

The domestic passenger airline industry with $75 billion in annual revenue has 10 large national carriers and many regional carriers generating more than $200 million in annual revenue.

DHL also has strong name recognition among business-to-business shipping and a reputation for excellent service on international packages.

Deutsche Post will bundle various services of its operating companies on a global scale.

DP will link its logistics and air freight forwarding services with DHL to bundle logistics, air freight and express services on a global scale.

The importance of UPS's bundling of its express and parcel services has not been limited to FedEx and Airborne Express in the domestic market. The concept has global potential, and its importance has not been lost on DPWN and its operating and affiliated companies. With Danzas AEI and DHL, DPWN can offer a suite of services that includes fully integrated logistics, air freight forwarding, ocean freight forwarding, customers clearance, express parcel and document delivery, public warehousing on a global scale that few competitors can match.

The expansion of DHL's network in the U.S. domestic market will further enhance the capabilities of this group of operating companies to become a major competitor to UPS and FedEx in the world's largest express/parcel market.

What are implications for the express industry?

DHL's recent executive changes have particular importance for the U.S. market, as does DHL's filing with the DOT to split its U.S. operations.

This split may be viewed as an attempt to circumvent the U.S. aviation laws, which limit foreign companies from owning more than 25 percent of a U.S.-flag airline. However, the limitation of foreign ownership appears to have been established to keep foreign entity from controlling passenger airlines since there were no all-cargo airlines 50 years ago. Retaining this limitation has many implications.

Why should the ownership limitation apply to air cargo carriers and not other carriers that move cargo, whether via air, ground or water?

Some may argue that express carriers are more important to the economy than ground carriers because they handle more time-sensitive and life-dependent products. This position is not sustainable as most express shipments of UPS and FedEx may never travel on an aircraft, even though they may be labeled as such.

Protecting U.S. air cargo from foreign ownership would justify other nations in doing the same, which would limit UPS and FedEx with the flexibility they enjoy with their air express operations in Europe.

DHL's entry into the domestic U.S. market will dramatically impact the express-parcel industry and will change the options for the shipping public and affect future offerings and services from the existing carriers. A look at what RPS's entry into the ground parcel business did for UPS and the shipping public is one example of how competition will enhance the prospects of all participants.

Finally, USPS's role in the parcel industry may be questioned once there are sufficient competitors. Considering the extent of rivalry between UPS and USPS, UPS should welcome DHL and Airborne entry in the ground parcel market so that USPS can be limited from subsidizing its parcel services with its protected first class business.

Satish Jindel is a principal of SJ Consulting Group. Inc. During his 18 years in the transportation industry, Jindel has played a significant role in the start-up and expansion of RPS (FedEx Ground) and lead numerous strategic assignments for SCJ Clients.

Giving deconsolidators a competitive edge

Micro Software Services automates an air-cargo business where pennies count.

By Chris Gillis

In a gritty industrial area along the northeastern parameter of JFK International Airport where a strong back and quick thinking still count for success, a software developer has carved out its niche.

Micro Software Services has spent the past 10 years converting a bulk of the airport's rough-and-tumble deconsolidation industry to users of its Automated Manifest System software.

"These operators know what their customers want," said Steven R. Graham, vice president of Micro Software Services, based in Miami. "We're simply providing them with the tools to sharpen their edge."

Deconsolidators, also known as container freight stations, operate as middlemen between overseas cargo consolidators and U.S. customs brokers and importers. They spend their days picking up containers and pallets of shipments from the airlines, breaking them down and loading them onto trucks for delivery.

"They run tough businesses on low margins," Graham said. "They're not interested in becoming computer programmers or super high-tech operations. They simply want to move cargo."

But with the increasing cargo volumes at JFK in the early 1990s, the traditional, paper-based methods of dealing with the Customs Service and airlines for cargo releases were becoming too cumbersome and costly for the deconsolidators.

Micro Software, already a seasoned provider of Automated Broker Interface software to brokers at the time, saw an opportunity to offer deconsolidators a way to use Customs' Automated Manifest System to improve their operations. The company developed its first PC version of AMS by late 1990.

It wasn't easy to sell the deconsolidators on AMS at first. "I remember in one office that I walked into the owner opened a desk drawer to make sure I saw his pistol," Graham said. "He told me that he wasn't taking any crap from a salesman."

However, the company's persistence and personal meetings with the deconsolidators eventually won out. Micro Software sold its first AMS packages to Port Brokers and Break Bulk Agency (formerly Lione Express Container Station) in April 1991.

"Deconsolidators aren't ones for fancy offices," Graham said. "One of our earliest users' office had a light bulb dangling from the ceiling and not even a typewriter to prepare its paperwork. We installed our AMS software into a PC and within a month the company was receiving electronic transfers and releases of cargo."

Today, Micro Software provides its AMS software to about 75 percent of the deconsolidation industry at JFK.

House Waybills. Micro Software was created in the garage of banking executive Victor Steeb during the early 1980s. Together with his wife, Toni, Steeb developed some of the first software to automate the import paperwork of brokers.

Their first version of the broker software worked off an Apple IIe computer. The program did not use hard drives, just floppy disks as its operational base. About 30 brokers used the early version of software. The company eventually converted the program to operate off the IBM PC by the mid-1980s, and added Automated Broker Interface functionality to it.

Graham joined Micro Software in 1988 after 12 years as a licensed broker with former Carl Matusek Inc., a Miami-based broker and freight forwarder. "I had used the original Apple IIe version of Micro Software's ABI program as a broker," he said.

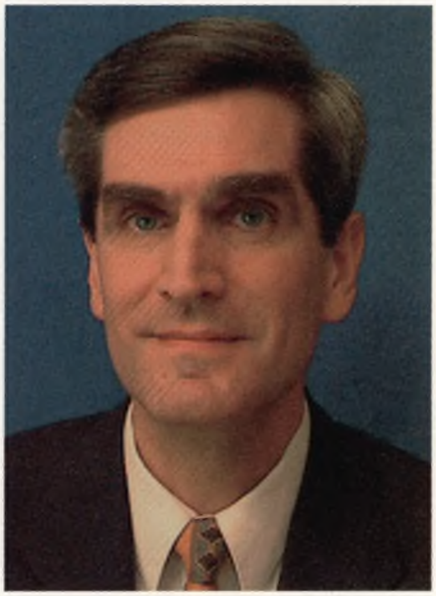
Micro Software flourished on its ABI software, but by the late 1980s, it began to explore ways to develop other Customs-related software applications for the industry.

In 1989, the company unveiled its first AMS software for the ocean transportation business. It sold one package to Page & Jones Inc. in Mobile, Ala., and shelved it by the following year.

"We discovered that the ocean side consisted mostly of big businesses that did their own programming on mainframes," Graham said. "We would have had a difficult time fitting into that picture."

Another hurdle for its AMS software was general lack of interest by forwarders and non-vessel-operating common carriers in linking to Customs' Ocean AMS system because the system does not drill down to the house bill of lading level, which is vital to the industry. Ocean AMS only concerns itself with the carriers' master bills of lading.

That's why Micro Software changed its



"When one of our customers first used our AMS software to process quota merchandise, the importer refused to accept its freight at first. The importer couldn't believe that it had been released correctly because the delivery was made so quickly."

Steven R. Graham
vice president,
Micro Software Services

direction for AMS software to the air-transport sector. "When we saw that Air AMS was going to recognize house waybills and have multiple representation from the industry, our efforts went in that direction," Graham said.

Under the EDITRADE product banner, Micro Software now provides AMS to about 100 customers, which includes numerous airlines, such as Continental, Challenge Air Cargo, Lan Chile and Asiana, in addition to service centers, couriers and air forwarders. The company's ABI software, however, is still its primary bread-and-butter with about 500 customers. Micro Software has also recently developed duty drawback and reconciliation software.

Green Light. The biggest selling points of Micro Software's Air AMS program to deconsolidators are its ease of use and its inexpensive installation, ranging from $5,000 to $8,000.

"Our software wasn't developed for the large mainframe-based companies," Graham said. "It was initially created with the small PC-based operators in mind."

This is how the Micro Software Air AMS program works for deconsolidators:

The deconsolidator transmits a manifest with both the master and house waybill data to Customs, and requests a local transfer at the master waybill level.

Customs' AMS system immediately responds to the deconsolidator with a local transfer authorization, or 1F. This electronically replaces the need for an inspector's signature on a paper container transfer document. With this go-ahead, the deconsolidator simply sends a trucker to the airline's cargo facility to pick up the freight.

Since the deconsolidators operate bonded facilities, they can hold individual shipments from consolidations for Customs inspection. But most shipments require no inspections.

To make the program visually easy to use, Micro Software has developed green and red light symbols on the screen to let deconsolidators know what freight may or may not be released. "The system helps the deconsolidator stay compliant with Customs strict rules regarding release of cargo," Graham said. "These companies can scarcely afford to absorb hefty fines and penalties from Customs."

Another big benefit of AMS has been the ability for deconsolidators to more efficiently stage freight at their facilities.

"Before, you required a larger warehouse," Graham said. "But with AMS, you don't need as much space. The proof is in all

Deconsolidators' margins shrink

NEW YORK

The deconsolidator industry at JFK International Airport used to be tightly controlled by a limited number of mostly family-owned operations, which emerged about 25 years ago.

To operate, deconsolidators obtained "custodial" bonds from Customs. Inspectors would be assigned to these operations to oversee the cargo movements.

This method for managing the deconcolidator business became a drain on manpower at Customs. The agency eventually put a freeze on the number of deconsolidators it would allow to operate at JFK. About 10 years ago, the agency pulled its inspectors out of these operations and placed them in one location at the airport. Customs also opened up the business to other deconsolidators.

Within a year, the number of deconsolidators jumped from about a dozen operators to almost 40. Customs estimates that there are about 80 deconsolidators serving the JFK market today. Also adding to the increase in operators is the airlines' push to get out of the business of handling deconsolidations themselves.

Today, the competition among the deconsolidators is fierce. "The character of the industry has changed from one that sells on service to price," said Martin J. Kelly III, president of FIFO Container Station. "But you still must have a level of service that surpasses the price."

Industry rates at JFK have fallen from a high of 12 cents per kilo of cargo 10 years ago to 7-to-5 cents per kilo today. At the same time, the deconsolidator's overhead costs, such as warehouse rent, fuel and other utilities, continue to rise.

Martin J. Kelly III
president,
FIFO Container Station

"The character of the industry has changed from one that sells on service to price. But you still must have a level of service that surpasses the price."

"I don't know how much longer the industry can keep the rates down," Kelly said. "In the long run, this type of pricing hurts this business, because it reduces the amount of available growth money, and if you don't have growth, you're done."

Some deconsolidators are service subsidiaries of larger forwarder and broker operations. Exclusive deconsolidators, such as FIFO, have shifted from general deconsolidations to specialized work to raise revenues.

"We don't want to sell a service that 80 other companies sell," Kelly said, whose company handles about 8.5 million kilos of cargo a year. "We've acquired specialized equipment to handle garment shipments."

Break Bulk Agency has been successful by exclusively handling the deconsolidation work of three large Italian forwarders: Savitransport, Albatrans and Savinodelbene. That equates to about 6 million kilos of freight a year, said Anthony Gambino, the deconsolidator's office manager.

Many deconsolidators have roots in the local trucking business. "If I didn't become a CFS (container freight station), my business wouldn't have gone further," said Vincent Martella, president of Starlite Cargo Express.

V Trucking Co. opened a CFS three years ago. John Vuolo, vice president of the company, said his company's fleet of 24 trucks allows it to quickly move cargo from airline pallet to truck.

About 90 percent of the deconsolidation business at JFK is located in close proximity to the airport. Because of the limited availability of warehouse space and congestion, some deconsolidators have moved their operations to the "Five Towns" area of Nassau County, N.Y., about a 20-minute drive from the airport.

However, most do not want to leave the hustle and bustle of the airport. "I'm in the heart of the competition, and that's what I need to be competitive," Martella said.

It wasn't easy to sell the deconsolidators on AMS at first. "I remember in one office that I walked into the owner opened a desk drawer to make sure I saw his pistol. He told me that he wasn't taking any crap from a salesman."

the tiny warehouse operations of the deconsolidators at JFK."

Micro Software's AMS package has helped deconsolidators more quickly process quota/visa merchandise, such as clothing imports. In the manual process, it could easily take several days to move these types of shipments. With AMS, Customs can release these goods in minutes.

"When one of our customers first used our AMS software to process quota merchandise, the importer refused to accept its freight at first," Graham said. "The importer couldn't believe that it had been released correctly because the delivery was made so quickly."

"It's user friendly," said Sid Rosario, president of logistics for Wen-Parker Distributions, and user of Micro Software's AMS program. "I've had other companies call me up and ask about it."

Because of the faster movement of cargo through the airport via AMS, both deconsolidators and airlines have also seen a significant decrease in the amount of pilferage.

"Many importers and brokers are refusing to use deconsolidators unless they are on AMS," said Irwin Gold, former supervisory Customs inspector at JFK and president of D'Log Consultants, which regularly works with Micro Software.

The few deconsolidators that aren't on AMS handle only occasional deconsolidations. For these operators, automation is a lower priority.

AMS Upgrade. Micro Software knows that it must also continue to evolve its AMS software to service the future deconsolidation business. Other software providers of AMS to deconsolidators in the JFK area are CIMCO and Franks Group, but they command only a small portion of the operators.

The company has found it more difficult to sell Air AMS software to deconsolidators outside of JFK. In Miami, airlines still break down many consolidations. Los Angeles deconsolidators have tried the software, but a general lack of Customs and industry support has hindered its use.

That may change as Customs begins to build its new umbrella computer system, the Automated Commercial Environment, which promises to be more flexible and easier to use for the agency and industry. But ACE is at most five years off in the future, and Micro Software will move ahead with Air AMS upgrades of its own.

"We're studying how to apply the Internet to our AMS software," Graham said. The company also plans to develop capabilities for deconsolidators to electronically capture data from their consolidator customers overseas to eliminate re-keying of information.

Other changes will hinge on Customs' own upgrades to Air AMS, such as the ability for deconsolidators and forwarders to request in-bond moves in AMS, known as Project 323. Currently, only airlines can make these requests in AMS.

"This is one of the most paper-intense Customs processes today," Graham said. "About 90 percent of air freight moves by truck to the interior of the country. We can't perform that efficiently through Air AMS without the completion of Project 323."

Customs has indicated it plans to start programming certain aspects of Project 323 in the current system, the Automated Commercial System. "We're closer than we've ever been with Customs on this point," Graham said. ■

Airborne anticipates loss, rate hikes

SEATTLE

Airborne Inc., the holding company of Airborne Express, said it anticipates reporting a fourth-quarter loss, due to higher operating costs and poorer than expected results from its core domestic product.

The company expects to report a loss of 23 to 33 cents per share for the period ending Dec. 31, said Robert Cline, chairman and chief executive officer. The company anticipates net operating earnings of 21 to 31 cents per share when final fourth-quarter and year-end results are reported Jan. 31.

Domestic shipments grew 3.5 percent over the year-earlier quarter, due to solid growth in its airborne@home product, which exceeded management's goal of an average 65,000 shipments per day.

"However, due to the greater than anticipated volume, we incurred additional costs in fulfilling the service requirements of customers, leading to increased operating costs in the quarter," said Lanny Michael, Airborne's chief financial officer.

The company said it saw a drop in its core domestic product due to the slowing economy. It also blamed weather-related expenses and higher fuel costs — up 49 percent over the year-earlier quarter — for increased operating costs.

Airborne will announce a rate increase in the next few weeks, which will include a rate hike affecting one-third of its domestic business, to take effect Feb. 15.

Additional rate increases covering "most of the remainder of the domestic business over the next several quarters," said Carl Donaway, president and chief operating officer. "Additionally, we intend to refine the pricing of our @home product to more accurately match the service levels involved in the delivery of that business."

Airborne said Jan. 4 that it had completed $200 million in accounts-receivable-backed financing, to be used for paying down loans under its bank credit facilities.

Blue Ridge Asset Funding Corp., a commercial paper funding vehicle administered by Wachovia Bank N.A. provided the three-year financing facility. Wachovia Bank also provided a backup financing facility on a committed basis. ■

Forward Air buys Expedited Delivery Services

GREENVILLE, Tenn.

Forward Air Corp., the contract time-definite service provider, said it has reached an agreement to acquire the assets of Expedited Delivery Services Inc., a provider of truckload and less-than-truckload surface transportation for the air cargo industry.

Expedited, a subsidiary of WorldPoint Logistics Inc. of Bellevue, Wash., is focused primarily in the central and southeastern United States. Upon completion of the transaction, Expedited's air freight operations will be integrated into Forward Air Inc., a subsidiary of Forward Air Corp.

"Expedited's operations and customer base will be a strategic fit with our Forward Air operations allowing us to provide a more comprehensive level of service to our existing customers," said Bruce A. Campbell, president of Forward Air. "We expect to leverage our existing operations in the central and southeastern markets."

Don Berger, president of Expedited, said his customers will "benefit from a broader network of services provided by the Forward Air system." ■

Beyond four walls

Air cargo facilities begin to get a second look by airlines and airport developers.

BY CHRIS GILLIS

Air cargo facility design has traditionally been a low priority for airlines and airport developers. But that's starting to change as these companies seek to improve efficiency across their entire operations.

The Air Transport Association of America, a Washington-based group that represents many U.S. airlines, has recently created a guide, which provides carriers and airports with what they need to know to build modern cargo-handling facilities.

"While air cargo has traditionally been the poor stepchild of airports, their growing importance in the global economy will require more careful integration into transportation infrastructures than in the past," the ATA said.

It used to be that an old hangar or warehouse sufficed for air-cargo operations. Cargo-handling equipment would then be squeezed into these mismatched structures.

"The older buildings were just mostly shells," said Michael R. White, the ATA's director of facilitation. "You have to incorporate so much more technology into these structures today."

Airport managers with aging infrastructures are under pressure to upgrade or replace these facilities, or risk losing business to competitors.

"If you consider the air-cargo forecasts for the next five years, we're not going to have enough facilities out there," said Don Minnis, director of airport planning and development for the ATA.

The U.S. Federal Aviation Administration expects air-cargo volumes to triple during the next 20 years, surpassing the number of air travel passengers.

A recent study by the Memphis International Airport found that $9.7 billion of its $12.7 billion in annual revenues was generated from the express and standard air-cargo business.

"Most of the recent, dramatic changes in the world economy — from expanded global trade to the rise of e-commerce, just-in-time production and supply chain management — converge on air cargo business," the ATA said.

"We got the users involved at the beginning. We can design the best system and the vendor can sell it. But if no one knows how to properly use it, the system is worthless."

Ali Solaksubasi
director of the aviation group,
McClier Corp.

"While a consumer may order an Amazon.com book with a computer, it is overnight delivery that makes e-commerce convenient. Likewise, Dell Computer's customized PCs would not have a competitive advantage in the marketplace without the computer component logistics market, made possible by air cargo," the airline group added.

Today, the international air-cargo business generates about $41 billion annually. The logistics services sector managing the industry's cargo flows has become $205-billion-a-year business. "With the expected 6.5 percent annual growth in air cargo, business and government leaders see tremendous opportunities," the ATA said.

The ATA became interested in the cargo facilities study after interest was expressed by some of its airline members. The study began when the ATA coordinated a meeting at Chicago O'Hare last July.

The meeting included a diverse attendance of airlines, architects, consultants, third-party handlers and equipment developers. They were ACEquipment Transact, ACI-North America, Acme Scale Systems, Aerotec Consulting, Continental Airlines, CDG Cargo Systems, Delta Airlines, Emery Worldwide Airlines, Federal Express, FMC, HNTB Corp., J.B. Webb, Lodige USA, Mensi, Northwest Airlines, Rapistan Systems, United Airlines, United Parcel Service and Walsh Brothers. The task of creating the study report was given to Chicago-based architecture and consulting firm McClier Corp.

"We got the users involved at the beginning," said Ali Solaksubasi, director of the aviation group at McClier. "We can design the best system and the vendor can sell it. But if no one knows how to properly use it, the system is worthless."

The study group had to consider the future requirements of air-cargo facilities and lay them out in a simplified, easy-to-read guide. It covers everything from employee parking and trailer restraints to heating and cooling systems and cargo-handling equipment.

Modern air cargo facilities must be diverse operations to process a variety of shipment requirements, such as transfers and storage of assorted-sized freight. There must be room to prepare cargo for air and over-the-road transport. Facilities must also account for different types of plane operations, such as freighters, passenger and express.

"Facilities should be designed with future expansion in mind — and these expansions should be possible without causing major operation shutdowns," the ATA said. "Furthermore, the air cargo operations site should be in close proximity to railways and seaports (where applicable) to provide multimodal transportation opportunities."

In addition, the study group considered the impact of future air cargo facilities on the logistics sector, such as freight forwarders and deconsolidators.

"We know what the ultimate end-users want from these operators," Solaksubasi said. "We're aware of new trends in logis

"While many airlines provide their own cargo facilities, a growing number of airports are contracting for common cargo facilities and would benefit from the airline thinking beyond what generic space third-party providers would put up."

Gary Lantner
director of facility planning and engineering, United Airlines

tics that have an impact on cargo facility designs."

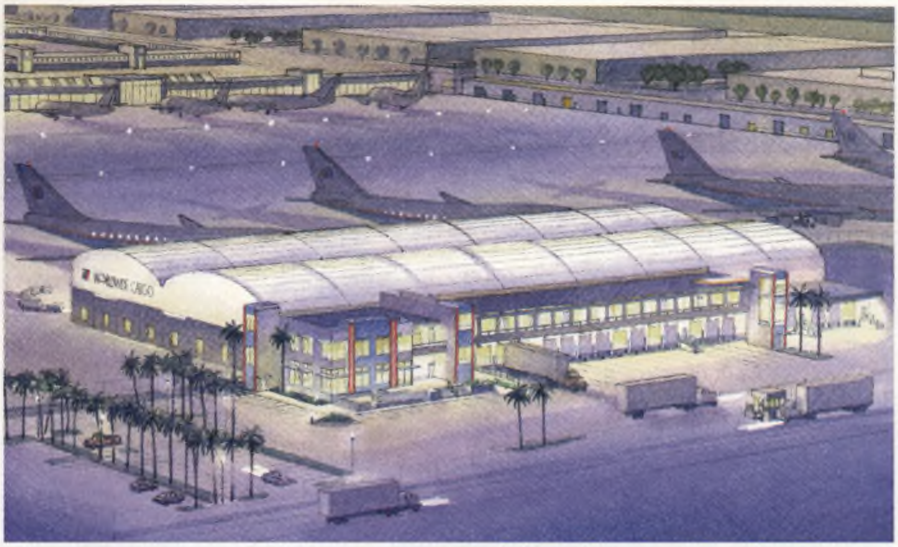
However, the ATA and McClier emphasized that the guideline is merely a checklist of items for airlines and airports to consider when developing modern cargo facilities.

"We've created a document that gives some idea of what should be taken into account in the pre-planning stages," Solaksubasi said. The ultimate design of an air cargo facility will depend on numerous factors, such as type of cargo market, work force, airline management, and climate.

Airlines may find the guide useful to control their facility development costs, a major issue with tight profit margins and increasing overhead costs. It's estimated that air cargo space at Chicago's O'Hare ranges from $60 to $150 per square foot, compared to regular warehouse space 30 miles outside Chicago at $30 per square foot.

"While many airlines provide their own cargo facilities, a growing number of airports are contracting for common cargo facilities and would benefit from the airline thinking beyond what generic space third-party providers would put up," said Gary Lantner, director of facility planning and engineering at United Airlines.

The ATA said the report would be distributed at the meetings of industry groups such as the American Association of Airport Executives, Airport Council International and Airport Consultants Council this year.



United said its special-coated fabric roofs stand up to extreme weather conditions, save 15 percent over traditional construction costs and help lower utility costs.

United's big top approach

New fabric roofs cut building costs, stand up to toughest weather conditions.

PORTLAND, Ore.

United Airlines likes to present itself to the industry as an innovative cargo carrier, even to the roofs of its new cargo facilities.

The Chicago-based carrier has been rebuilding cargo facilities around the country. But instead of topping them with traditional roofing material, United has started to use fabric.

Fabric covers have been used to house sport arenas and exhibit halls for many years. "We're now applying that concept to industrial buildings," said Gary Lantner, director of facility planning and engineering for United.

The carrier has recently applied fabric roofs to its cargo facilities at New York's JFK International, Miami and Honolulu airports. Similar roofing will be added to United's new cargo facilities at Los Angeles, Newark, N.J., and Honolulu.

Jack C. Miller, president of MCA Architects, based in Portland, Ore., and a designer of United's newest cargo facilities, said the biggest obstacle to building these structures are local building and fire codes. "They simply don't have laws that cover this type of roofing on the books," he said.

Special coated fabric roofs have stood up to extreme weather conditions, such as hurricane-force winds, and seismic tests. The fabric used for the United's Miami facility withstood puncture from a 9-pound two-by-four fired from a cannon. Fabric roofs have an estimated lifespan of 20 years.

United likes the architecture of fabric roofs for the cost savings in construction. "We estimate that we saved 15 percent off traditional facility construction costs," Lantner said.

The long-term benefits of fabric roofs are cheaper utility bills. "Even on the cloudiest days you don't need to turn on the lights," Miller said. Depending on how the fabric is laid out, it can also cut down on heating and cooling bills.

Fabric roofs require lightweight steel frames for support, which reduces the need for columns and trestles. That leaves more space for floor and stacking operations. ■

Theodore Prince

E-mail: prince@transgistics.com

Whose data is it anyway?

In a recent discussion with a senior executive of an asset-based transportation company, talk turned to an investment the company had made in a transportation management e-commerce startup. I was surprised to learn he had adamantly opposed participation in the venture, reasoning that his company would be "giving away" its data for free. In fact, many transportation carriers — for a variety of reasons — agree.

Transportation providers are asset-based, network operating companies. Traditional management thinking has focused on two areas of business: increasing traffic volume and reducing expense. The gap created when carriers failed to provide what customers required has come to represent opportunities for new companies.

Intermediaries abound in the transportation industry. Intermodal marketing companies (IMCs) and non-vessel operating common carriers (NVOCCs) have successful sold the asset-providers on a volume growth and cost reduction strategy. In return for lower rates, these companies have served as the direct sales force for the carrier. They have also provided door-to-door service that the carrier was unwilling or unable to deliver. In many cases, intermediaries relied on their arbitrage skills to maximize the difference between what they paid for the underlying service and what they charged for it. In other cases, such as freight forwarding, the carrier would pay a pre-established commission.

Many such companies moved into third party logistics (3PLs) where they could leverage their information technology. While many carriers are still looking for computer system quick fixes and panaceas, systems available to intermediaries allow them to satisfy increasingly sophisticated customer requirements. In fact, some customers believe that intermediaries can provide better service than the underlying carriers. This is due, in large part, to their system's expertise and the support available for customer service.

Development of electronic data interchange (EDI) in the late 1980s increased information demands. Some companies evolved to specialize in supporting technology requirements. Many companies developed fabulously successful business models. (I know of one that made 90 cents profit out of every $1 in revenue.) Out of this environment, have evolved "infomediaries" — information intermediaries specializing in information and knowledge services for, about and on behalf of a virtual community. John Hagel is believed to have first used the term in a 1996 Harvard Business Review article entitled "The Coming Battle for Customer Information."

Many transportation carriers have professed a desire to retain this new source of profitability internally — rather than create a new generation of external millionaires. Established businesses are concerned about how infomediaries will develop. Typically, as e-commerce develops, the infomediary moves beyond simply providing information. It becomes a business matchmaker, helping vendors identify products consumers want, and helping customers leverage their vendors. Hagel asserts that infomediaries will become the agents, brokers and custodians of customer information and, that they will market this information while maintaining the customer's privacy.

Hagle also predicts that as consumers take ownership of their own transactional data, they will create a new form of information supply which will have its own economic value — and will, consequently, change business practices.

Over the past 20 years, value-added networks (VANs) were developed to provide EDI services. While the business models vary, VANs all ultimately charge a certain amount per character transmitted. Payment responsibility for these charges is often negotiated between customer and carrier. In many cases, it is split. The VAN added value by serving as a communications hub and providing additional services (e.g., data translation) at a cost lower than the carrier could provide on its own.

Meanwhile, increasing demand exists for shipment and equipment tracking. Here, the railroads are noteworthy because they provide free car location messages (CLMs) to VANs — who in turn charge the railroads' customers.

VANs are somewhat endangered because carriers and customers have tired of paying for a service which can now be performed for the cost of communications alone. Additionally, the communication alternatives available through the Internet have drastically reduced cost and operational barriers, while consolidation of carriers and customers has reduced the number of links necessary.

Some infomediaries are entering the transportation market to provide tracking visibility. Their business models vary. Some, to grow critical mass, have not yet started charging users. Since carriers will provide data "almost for free" using the Internet, infomediaries have been able to obtain initial carrier participation. The challenge will be to get the market to start paying for what has been free. Advertising alone will not generate sufficient revenues by itself.

Other infomediaries have pursued a strategy of signing up shippers to use their services. Their revenue model is fed by the shipper's carriers paying for the privilege of providing information to an aggregator. Many of these companies have well-oiled publicity machines which proclaim their product benefits using terms such as logistics improvement, supply chain visibility, collaborative planning and the like.

The e-commerce market was first characterized by the transition from EDI to exchanges which were run by technology providers. These first movers had an initial advantage, but as the technology became more mainstream, industry participants starting forming consortia to operate their own exchanges and portals. Six leading carriers in the truckload industry formed Transplace.com. Railroads established Steelroads.com, and ocean shipping has two efforts: Inttra and Global Trading Network.

All of these efforts share a common theme. They all seek to maintain their direct relationships with their customers — without intervention of infomediaries. They also appear to believe they themselves can provide all necessary services at a lower transaction expense. Perhaps most significant, the data will not be handled and remarketed by another entity.

The transportation industry's traditional aversion to handling data may at last be changing into an understanding that information is considered a key component of services provided. Since the raw transaction data is the source material, the industry is motivated to keep the information to itself and for its customers. Now what remains to be seen is whether transportation companies will start charging infomediaries for the use of the data being provided them.

Theodore Prince, a principal in Transgistics LLC based in Richmond, Va., has spent his career in the surface transportation industry.

By Theodore Prince

Overcoming marine intermodal drayage problems

Better information, utilization could cure unrest with truckers, ocean carriers, terminal operators.

This is the second of a three-part series by American Shipper *columnist Theodore Prince, looking at problems and solutions in intermodal drayage. In March, Prince looks at rethinking the role of drayage providers and their relationship with purchasers in a transportation environment facing increased demand for movement and decreasing supply of capacity.*

For the most part, the success of international trade is the success of intermodal. The fulfillment of Moore's Law (predicting the microprocessor revolution) has delivered constantly improving — and significantly cheaper — technology. Engineering is one thing, and manufacturing and delivery is something else. Texas Instruments, one of the early electronic goods manufacturers, first wanted to manufacture in the Caribbean, but the "Yankee Go Home" attitude prevalent during the Vietnam war persuaded them to opt for Asia — considered at the time to be more receptive to American business.

The subsequent electronic goods revolution in Asia could only have been accomplished with the help of a reliable and cost-effective transportation solution. Containerization and intermodal were key components of the subsequent Asian economic miracle. In the world of intermodal transportation, the drayage, or local, trucking company represents the critical link in the service chain. Every loaded container entering or leaving this country is intermodal because it has at least one truck movement between the customer and the ocean terminal.

Problems

Truckers serving steamship lines in the ports are often perceived as bottom-dwellers. As in most industrial trades, there exists a "pecking order." In the trucking community, drayage companies handling marine terminal business rank below domestic intermodal carriers, longhaul drivers and unionized truckers. They frequently drive cheaper equipment, which has been discarded by other truckers. They also often lack the political influence to protect themselves.

One significant problem for marine terminal draymen is that they are paid by the trip, not by the hour (as are unionized drivers). Dr. Michael Belzer, of the University of Michigan Trucking Industry Program, has called these operations "sweatshops on wheels" due to the existence of classic sweatshop conditions: low wages, long hours, significant degree of piece-work, subcontracting, and unsafe or unsanitary conditions.

Highway congestion and terminal congestion have worsened recently at many ports, diminishing the number of trips manageable per day for draymen — and reducing their gross income. Most attempts by harbor truckers to improve their lot have failed. Because they own their tractors, owner-operators are prohibited by antitrust law from collective bargaining. Nevertheless, in December 1999, the Teamsters committed to organizing owner-operators who serve the nation's ports.

Now, ports, terminal operators and steamship lines must confront and correct a tradition of ignoring the truckers, as well as the inherent industry problems blocking efficient, through intermodal movement.

Congestion, Peak Volumes

Container shipping is famous for the congestion which arises from its unique combination of peak volumes. Imports peak during the early fall. Exports — when they were still a major traffic component — would peak in the early spring.

Last year, one major importer criticized the common steamship line industry practice of quoting a rapid transit time from the Far East (assuring a high-load factor) and its subsequent neglect to make loads available for pickup for several days, which reduced asset velocity and disrupted customer product distribution.

This is a common problem. Vessel deployments are usually designed around certain markets. Traditionally, import markets sought to provide a Sunday cutoff in Hong Kong, to allow for consolidation of south China merchandise at weekend. For exporting refrigerated commodities, lines sought to arrive in Hong Kong and Taiwan in time for the Thursday market shopping.

Such peaks are endemic to the shipping industry. Seasonal peaks cannot be changed because they reflect the retail buying habits of customers. Schedule grouping will not change because lines deploy assets to best fulfill the requirements of their customers. In fact, weekly peaks may grow as a result of the introduction of larger vessels intended to affect cost savings and economies to financially strapped steamship lines. In the past five years, international liner vessel capacity has almost doubled. Two years ago, the largest vessel was 5,000 TEUs. Today, vessels are close to 7,000 TEUs. Almost 90 percent of vessel capacity on order today is for these large vessels.

If peak demand is here to stay, then other problems need solving to improve overall system efficiency.

Gate Operations

The real point of interaction between truckers and marine terminals is the gate. This has presented obstacles for years. To date, although some terminals have implemented scanners and other technological enhancements, most efforts have been directed at correcting spot problems.

For example, gate processing is too slow. Rather than overhaul the gate process, terminals simply widened staging areas to accommodate queuing delays. On-dock rail, the response to an inability to manage peak traffic surges to and from vessels — simply sweeps the problem from one area of the terminal to another.

Additionally, clerical gate functions are rife with labor problems. Many remember the labor featherbedding prevalent in the rail industry prior to deregulation (e.g., diesel replaced coal but firemen stayed on engines.) Similar practices exist today at marine terminals. In some cases, a computer will enter all information automatically — the clerk need simply hit "enter." But with the constant risk of labor disruption, no incentive exists to invest in labor-saving techniques and gate queues still remain interminable.

Unlike other intermodal terminals, marine terminals are open for only part of the day. An open marine terminal gate usually necessitates yard labor. This is often mandated by labor practices which have not yet been modified by collective bargaining.

In California, government has twice considered imposing solutions. One thought was to mandate marine terminals being open 24 hours daily. Earlier, Los Angeles threatened to impose truck curfews on major transportation arteries — which would have forced the marine terminals to remain open.

To date, such initiatives have been successfully resisted. Often, at times of extreme operational trauma, stress or volume, gate hours have been extended. This means anything from not closing the gates for lunch, to extending the day several hours earlier or later.

Gate problems only promise to worsen. Highway capacity is short and congestion is becoming a political, quality-of-life issue. The freight transportation industry must improve its practices, or it will have change forced upon it by government.

Terminal Management

Liner shipping is characterized by extensive vertical integration. When containerization began in the late 1960s, lines were forced to invest in vessels and containers to provide basic service. Liner carriers were selling their own vessels, terminals and containers, and line-controlled terminals became the standard. Asset ownership was crucial to the customer. Years ago, these terminals could be counted upon to be a source of profit to their owning lines.

Today, management of the terminals is often turned over to retired seafarers, or other "captains." These individuals are frequently inexperienced in U.S. terminal management. One positive change has been the development of professional terminal operating companies. Some of these companies operate common-user terminals. Others subcontract the operation of line-controlled marine terminals. But many of these companies are reluctant to join in industry-wide initiatives for fear of obviating their investment in systems improvements. This is well-founded, yet opportunity probably exists for both participation and service distinction.

Management problems for terminals will continue as volume increases and land available for expansion disappears. Volume throughput per unit of land must increase, which will require increased grounding and stacking of containers.

Information Silos

Despite the explosion of the Internet, tracking information stored there still exists largely in silos and is not of much use. Even the development of terminal Web sites has failed noticeably to improve productivity.

Many Web sites were developed for simple reasons. A customer visiting a Web site requires no paid employee — a real benefit to the line. Web sites not only represent a cost savings, but they also eliminate the risk of unsatisfactory customer/employee exchange. (This worry plagues companies in today's full-employment society, in which it is so difficult to attract and keep qualified employees.)

Web pages are a natural extension of customer service centers. Truckers must browse multiple Web pages for different steamship lines and marine terminals, and without complete information, they cannot optimize their movements. It is completely possible for a trucker to depart a terminal empty, not realizing that a return move is coming available. In some cases, Web pages have become hostage to labor relations, and are shut down when union clerks aren't working.

Solutions

The above-mentioned problems contribute to unrest within the intermodal drayage community. But better information could lead to better utilization, which could make truckers more profitable without raising their rates. Carriers would benefit while terminal assets would become more productive. Customer service would improve without additional infrastructure capacity. Yet progress has been slow.

Asset Utilization

The typical port community solution is to build bigger and buy more assets. But today's system has expanded to a point where we need to do more with less. Figure No. 1 quantifies the utilization of land — a port's most scarce resource. To improve utilization, marine terminals will need to institute new operating practices, such as increased stacking and expended gate hours.

Improvement of the entire network's performance will be key. We must seek to avoid a situation where one component improves efficiency at the expense of another (Many draymen feel that this has been a longstanding practice within marine terminals).

Port Internet Community

An Internet community should be established to provide views to various port constituencies:

1. Truckers need a port-wide view to see, with a single request, the status and location of all their intended movements within the port community, regardless of location (such as marine terminal, rail ramp, customer location). This enables them to plan an entire day's activity in advance, and to support

Figure No. 1

ongoing revisions to the plan.

2. Terminals must provide an overview of their operational situation. This would include vessels, operating schedules, equipment and congestion.

3. Railroad intermodal cargo requires seamless integration. Railroads must be able to view import cargo coming off vessels and destined for them. Lines and terminals should know the status of export cargo being moved by the railroad to the port.

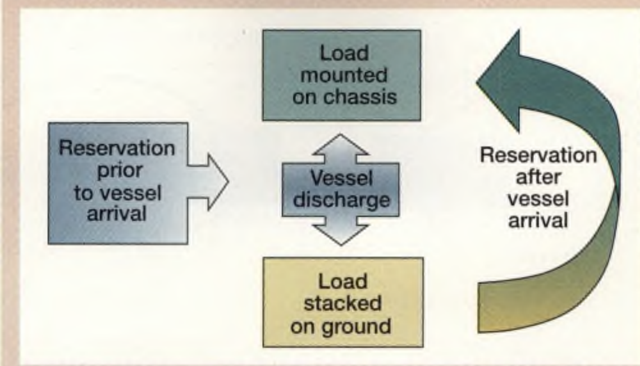
4. Equipment utilization statistics can be compiled with complete equipment tracking. This is especially important for chassis, where the true cost of ownership is determined by understanding the percent of time they are actually utilized and the amount of empty repositioning.

5. Customers must be able to access information about the status of their moves within the port, and to communicate their changing requirements. They should also be able to identify priority loads (for reservations) and the change in status (loads devanned, empties vanned) indicating readiness for pickup.

Some terminals already utilize Internet cameras to display operations. The Internet community could link to terminal Web pages for real-time updates. The Internet community should also integrate with the various intelligent transportation system (ITS) initiatives for local traffic conditions, including notification of traffic delays and alternative routes.

Several attempts have been made to accomplish at least some of the above-mentioned goals. eModal has provided some answers, but has been unable to get complete participation from all San Pedro terminals. Americas Systems Inc. is building communities for New York/New Jersey and Georgia port authorities. If the ports mandate participation, it will represent a major improvement.

Figure No. 2



Terminal Operating Practices

Once an Internet port community is established, improved terminal operating practices will become easier to implement.

Establishing a reservation system should be the first step (See Figure No. 2). Reservations can be made for picking up loads and empties. Today, in an effort to respond to commercial pressures, some terminals have begun to load all imports on chassis for immediate availability. Volume increases, however, have made this a most undesirable option for many terminals.

The reservation system would establish the subset of loads which would be required for immediate pickup. Those loads would be premounted on chassis, so that the trucker could pick up the load immediately, without waiting for the yard crew to mount the load from the ground. Picking up an empty would involve the same process, with the added step of the terminal passing back the equipment initial and number.

The introduction of a reservation system would also solve the Gordian knot of terminal gate hours. To avoid bringing in a full deployment of gate and yard labor, terminals have resisted extended gate hours. Now, gates could be opened with clerical labor only. Equipment for reservation pickup would be available without the need for any yard labor. Drivers literally could drive in, pick up the container and depart immediately (See table below).

Terminals would be able to spread the volume over a greater period of time, increasing efficiency and creating additional terminal capacity without any infrastructure investment. Ideally, this system could be expanded to all hours of operation. If the system were successful, drivers with reservations could use a separate gate to further improve transit through the marine terminal.

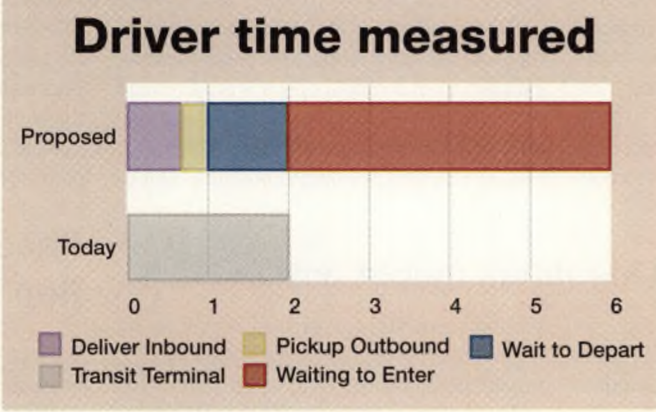
There must be a control. If peak volumes create infrastructure demands beyond terminal capacity, reservations may need to be limited, much like slots at certain airports. Furthermore, a compliance system could and should be developed to highlight — and measure — performance. Terminals not premounting containers should be held up to public scrutiny, as should truckers not picking up containers reserved. These statistics could be published, and market commercial forces could exact consequences.

Improve Driver Turntime

To generate credibility, marine terminals must improve driver transit through the terminals. Most terminals measure the elapsed truck time between gate entry and departure. That is insufficient, as it overlooks time spent waiting by drivers.

A solution here is two-fold. First, drivers must be able to report into the Internet community. This can be accomplished either through their dispatchers, or by use of a wireless device. Second, using driver information, terminals need to start measuring driver waiting time to enter and depart the terminal. This will give a real picture of driver productivity. Also, time within the terminal needs better accounting so that problem areas can be identified and remedied (See Figure No. 3).

Figure No. 3



Proposed Operation

Time Slot	Customer	Gate	Yard
Day (8 a.m. - 6 p.m.)	Identify next day's candidates	Open	Full Operation
Night (6 p.m. - 3 a.m.)		Open	Limited Operation
"Hoot Owl" (3 - 8 a.m.)		Open	No Operation

Figure No. 4

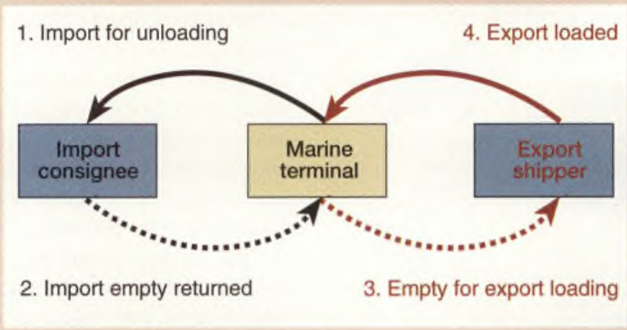
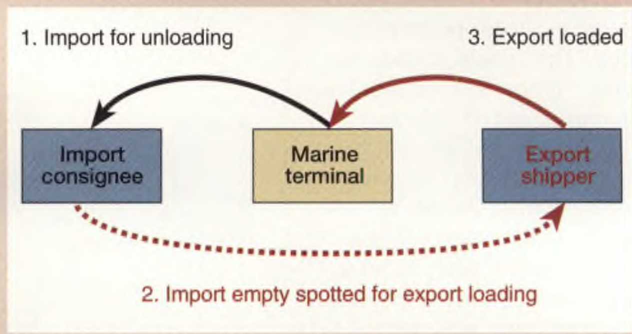


Figure No. 5



Increase Street Turns

Recently, proposals have been made to implement off-dock terminals as a solution to maritime terminal problems. This represents just another problem transfer (The problem is complicated by the ILWU seeking to expand their jurisdiction). Recent land issues in Chicago have made these depots a zoning issue and locations like Southern California are no strangers to "not-in-my-back-yard" objections.

One of the more obvious ways to improve driver terminal transit is to eliminate the move. Figure No. 4 shows the traditional method of import devanning and export vanning, both involving empty moves through the marine terminal. Improved visibility — from the Internet community — should enable increased "street turns" (see Figure No. 5.). Improvements would include fewer gate transactions, better driver productivity and enhanced equipment utilization. Street turns could also save the steamship lines millions of dollars in trucking expense. Technology makes the units "on the street" part of a virtual terminal.

Consider Chassis Pools

Only in North America must steamship lines provide chassis. Empty chassis consume considerable marine terminal assets (e.g., land, operations and gate moves). Formation of a chassis pool would reduce the number of necessary chassis and the amount of empty repositioning moves.

Chassis pools definitely constitute a long-term solution. A great number of obstacles exist here, including financing, labor jurisdictions, maintenance and repair. However, the benefits are too significant to continue to ignore.

Strategy for Success

It is unrealistic to expect these changes at once. But a step-by-step approach could affect improvements sensibly. Initial success would most likely spur more ambitious endeavors — and achievements.

International trade is expected to grow. Port infrastructure is limited and trucking is becoming more problematic. It is time for the industry to start doing more with less instead of looking to add capacity to compensate for sub-optimal asset utilization. ■

DOT computer tool identifies freight bottlenecks

WASHINGTON

The U.S. Department of Transportation has unveiled a personal computer tool to help public sector freight planners identify and assess current and likely major freight bottlenecks in the five sectors of the nation's transportation system.

The Intermodal Bottleneck Evaluation Tool is part of the U.S. government's effort to give policy professionals the means to assess demands of commerce on the national transportation systems, said Ashish Sen, director of DOT's Bureau of Transportation Statistics.

The tool will help planners address bottlenecks on highway-seaport access; seaport congestion; highway-airport access; airport congestion; and, highway-rail terminal access, DOT said.

The evaluation tool allows users to look at both modal and intermodal networks, as well as modal trends and use patters like origin and destination points. For each bottleneck area, the tool is able to show domestic, import and export flows, as well as through traffic by states of origin and destination, DOT said.

The new program was created by the Bureau of Trade Statistics, along with the Office of Intermodalism, the Office of Freight Management and Operations, the Federal Highway Administration, and the Oak Ridge National Laboratory. ■

Union Pacific to cut 2,000 jobs

OMAHA, Neb.

Union Pacific Corp. said it will cut 2,000 management and union jobs and take a $70 million charge due to lower-than-expected fourth quarter earnings.

The railroad said it would earn 87 to 90 cents a share in the last quarter, less than an average estimate of 93 cents expected by Wall Street analysts.

UP employs 50,000 workers. The job cuts will occur during the first half of 2001. About half of the work force reduction will come from not replacing employees when they retire or leave the railroad. ■

Pacer completes Rail Van purchase

WALNUT CREEK, Calif.

Pacer International, a third-party logistics provider, has concluded its purchase of Rail Van Inc., based in Columbus, Ohio.

Rail Van, which supplies truck brokerage and rail supply services, will "expand Pacer's intermodal marketing and our access to volumes for our North America stacktrain system," said Donald C. Orris, Pacer's chairman and chief executive officer.

Rail Van's senior management will remain with Pacer International. The combined company had pro forma revenues of $1.8 billion in 1999 and $1.4 billion for the first nine months of 2000.

On Dec. 22, Pacer said it had filed a registration statement with the Securities and Exchange Commission for an underwritten initial public offering of its public stock, to be made in the first half of 2001, depending on market conditions.

Pacer said that a substantial portion of the net proceeds of the offering will be used to reduce outstanding bank debt. The company's earnings for the third quarter of 2000 indicated that Pacer had $287.3 million in long-term debt. ■

West Coast ports in spotlight

Industry coalition focuses on improving cargo logistics through the region.

LOS ANGELES

When cargo flows become bogged down at West Coast ports, it's easy to start pointing fingers.

Instead of fighting, a newly formed group of shippers and transportation providers wants to develop a forum to better understand the requirements needed to operate efficient ports on the West Coast.

"The answers to many port-related issues will be found by working together," said Robin Lanier, executive director of the West Coast Waterfront Coalition, and senior vice president of Washington-based Management Options Inc. "Now we rarely speak to each other unless there's a problem."

The ranks of the coalition are already building. So far, it includes some the biggest names in the retail industry, such as Toyota Motor Sales, Target Corp., Wal-Mart and Mega Toys, and industry groups such as the International Mass Retail Association, U.S. Association of Importers of Textiles and Apparel, Agriculture Ocean Transportation Coalition, Footwear Distributors and Retailers of America, and Pacific Merchant Shippers Association.

Several transportation service providers have also joined in recent months, including C.H. Powell Co., Pacer Stack Train and Limited Distribution Services.

"We're still very much in the formation stages," Lanier said. "The goal is to have players from all facets of the supply chain."

In 1999, $260 billion in waterborne commerce moved through West Coast ports, which translates to more than 7 percent of the U.S. Gross Domestic Product. West Coast port trade reached more than $300 billion by the end of 2000.

While inbound container volumes continue to swell, West Coast ports are increasingly susceptible to gridlock. The coalition believes that a better understanding of each other's processes, from terminal operators, ocean carriers, and labor to importer, customs broker and inland transport providers, could help to prevent many problems.

"Delays in the global supply chain ultimately result in lost customers and lost sales," the coalition said. "Bottlenecks at the port drive up inventory costs and disrupt just-in-time value chains."

"America's manufacturers, farmers, retailers and transportation industries must unite to educate policymakers and opinion leaders about the contribution the West Coast waterfront makes to America's economy, and to urge West Coast decision makers to invest in state-of-the-art technology at the region's ports," the coalition added.

William Hagenzieker
president, Coastwise Inc.

"The owner of the cargo ultimately pays for the cost of the total industry. An importer may not wish to have a hand in day-to-day affairs (of the ports), but should definitely be involved to assist in setting policies."

Industry experts believe the coalition is an entity that importers should throw their weight behind.

"The owner of the cargo ultimately pays for the cost of the total industry," said William Hagenzieker, president of Coastwise Inc., a developer of container technology, and former head of several terminals on the West Coast. "An importer may not wish to have a hand in day-to-day affairs (of the ports), but should definitely be involved to assist in setting policies."

"We need to have more efficient ways to move products in and out of ports, but we can't do that without understanding first what's happening behind it," said Rick Gabrielson, senior import operations manager for Target Corp. "Once you understand the impacts, you can begin to make changes.

Target has taken an active role in developing relationships with ports through which it brings its imports. Last year, the company met with officials at the Virginia Port Authority at Norfolk to deal with inland container transport delays associated with damaged chassis.

"Shippers as a whole must be more involved, or at least aware of, the operational details of the ports," Gabrielson said. "They have to look at the entire picture."

In the past, terminal operators and labor have agreed to extend gate hours and even open "hoot" gates to help move containers quicker through the ports. "Shippers have to take advantage of these services. Otherwise they won't be around long," Gabrielson said.

The objectives of the coalition are:

- Become a voice to support the implementation of new technology in West Coast ports to prepare for future container business.
- Educate public and government officials about the importance of West Coast ports to the country's manufacturing, agricultural and consumer product industries.
- Communicate with the public and media about the need to improve predictability, reliability, productivity and safety at West Coast ports. The coalition has created an Internet Web site to air its views and work: www.portmod.org.

The West Coast Waterfront Coalition plans to hold a meeting in Los Angeles in mid-February, which should include the region's port directors.

Lanier emphasized that the coalition's purpose is not to attack the International Longshore & Warehouse Union.

"We want to outreach to the ILWU," she said. "We are not anti-labor. The problems in the ports involve all of us."

The Pacific Maritime Association, which represents about 100 ocean carriers, stevedores and terminal operators in negotiating and administering labor contacts with the ILWU, failed to get the union to accept a technology and productivity agreement in the current contract.

The general fear amongst ILWU members is that too much sophisticated waterfront technology would take away their jobs. But the union's new international president, James Spinosa, has indicated that the ILWU would consider the use of new technology as long as its jobs are protected.

In the current master contract, labor and management agreed to establish a Joint Technology Committee that will serve as a forum for the parties to come to terms with new technology issues affecting the industry.

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.

Meanwhile, the pressure is on for the industry to find answers to the West Coast's port problems. "Otherwise shippers will go to other ports to get their goods through," said Jonathan Gold, director of international trade for the International Mass Retail Association. ■

Ports push for repeal of import fee

WASHINGTON

The U.S. port industry, through is lobbying organization, the American Association of Port Authorities, will try to persuade the new Congress to repeal the import harbor maintenance tax.

Declared as an unconstitutional tax on exports by the U.S. Supreme Court two years ago, the tax is still applied to imports.

The Clinton administration attempted to convince Congress to replace the tax on exports with a "harbor services fee" on vessels calling at U.S. ports. But that effort was met with widespread political and private sector opposition.

The AAPA's drive to repeal the remaining portion of the harbor maintenance on imports has the support of the European Community, which has threatened to challenge the tax as an unfair trade practice before the World Trade Organization.

For nearly two years, the European Community has tried to persuade the United States to suspend the tax on imports.

With new faces from both parties emerging on Capitol Hill and a new Administration in Washington, the AAPA sees a chance of repealing the tax on imports.

Before reaching the full House and Senate, legislation repealing the harbor maintenance tax would have to be approved by the House Ways and Means Committee and the Senate Finance Committee.

The AAPA continues to take the position that port dredging and other harbor projects should be funded from the U.S. Treasury. The EC nations also agree that the funds could come from the general revenues. The EC says it is unfair that imports alone pay some $500 million yearly for the operation and maintenance of U.S. ports.

One Year Limit. Meanwhile, the U.S. Customs Service has proposed a one-year time limit for filing refund requests for overpayments of harbor maintenance taxes that were paid quarterly, and for making other claims against the agency.

Under the proposal, a request for a refund of a quarterly harbor fee payment must be submitted to Customs accompanied by an Harbor Maintenance Fee Amended Quarterly Summary Report, Customs Form 350, and a copy of the Harbor Maintenance Fee Quarterly Summary Report, Customs Form 349. The mailing address is the U.S. Customs Service, HMF Refunds, 6026 Lakeside Blvd., Indianapolis, Ind. 46278.

Comments are to be filed by Feb. 15 at the Regulations Branch, Office of Regulations and Rulings, U.S. Customs Service, 1300 Pennsylvania Ave., N.W., Washington, D.C. 20229. For additional information phone Deborah Thompson, Accounts Receivable Branch, Accounting Services Division, at (317) 298-1200, extension 4003. ■

Maersk Sealand, Hanjin commit to Charleston

CHARLESTON, S.C.

The South Carolina State Ports Authority said it has received commitments from Maersk Sealand and Hanjin Shipping to operate out of the Port of Charleston.

The port authority said that Maersk Sealand is expected to sign a four-year contract with four five-year extensions.

South Korea's Hanjin said it would begin offering service between Charleston and North Europe early next year. Hanjin plans to buy space on ships in the existing service operated by China Ocean Shipping Co., Yangming and "K" Line. Charleston's Columbus Street Terminal is the first inbound port from Le Havre and the last outbound port before Antwerp in the service.

In related news, the Columbus Street Terminal will undergo $5.9 million in improvements in the next nine months. Work includes raising and repaving the terminal for grounded container operations using rubber-tired gantry cranes. The project is expected to improve port capacity by about 5 percent.

COSCO, Yangming and "K" Line are the primary customers of the terminal. ■

In brief . . .

LE HAVRE SETS CARGO RECORDS. Record volumes in general cargo, particularly containers and roll-on/roll-off traffic, helped the Port of Le Havre record an overall 5.6-percent increase, to 68.02 million tons for 2000. General cargo rose 5.8 percent to 16.2 million tons, with container traffic increasing 7.5 percent to 13.8 million tons. Transshipment containers increased 16.5 percent to 2.7 million tons. Car traffic jumped 21.7 percent to 622,000 tons. Petroleum products rose slightly to 34.3 million tons, while refined petroleum products traffic grew 35.2 percent to 8 million tons. Coal volumes fell 3.3 percent to 3.3 million tons.

SINGAPORE TOPS 17 MILLION TEUS. The port of Singapore, the world's second-largest container port, handled a record throughput of 17.04 million TEUs last year. PSA Corp., the owner and operator of the Southeast Asian transshipment hub, said the volume showed "a robust increase of more than 1.1 million containers (or 7.2 percent growth) over the throughput handled in 1999." The port of Singapore has recently lost its largest customer, Maersk Sealand, to the new Malaysian container port of Tanjung Pelepas.

ANTWERP CARGO UP 12%. The port of Antwerp saw an increase in its total cargo traffic of 14 million tons in 2000, or 12 percent, according to preliminary port statistics. The Belgian port handled 130 million tons of cargo last year. Container traffic contributed to the increase in traffic. Container volume reached about 44.5 million tons, up 12 percent, on 1999 volumes. Measured in TEUs, Throughput topped 4 million TEUs for the first time in 2000, compared to 3.6 million TEUs in 1999.

ROTTERDAM TONNAGE UP. The port of Rotterdam handled a record 323.4 million tons of cargo in 2000, up 6.5 percent, despite a dip in container volumes. The 2000 total volume was 9 million tons more than the previous record, set in 1998. Strongest growth was in coal (up 26.8 percent), ores and scrap (21.8 percent), oil products (14.6 percent) and other liquid bulk (mainly chemicals, 11.8 percent). Container tonnage declined 1.2 percent, while throughput dipped to 6.3 million TEUs, from 6.4 million TEUs in 1999. The port said the decline was due to Maersk Sealand rerouting of some cargo to other ports, as well as capacity programs and reorganziation at its main terminal ECT. The Grand Alliance and the United Alliance have also re-routed feeder strings or are allocating other ports more containers in their deepsea services.

Corporate Appointments

(800) 874-6422, FAX (904) 791-8836, e-mail gburrows@shippers.com

Logistics

Geodis Group

Pierre Blayau has been appointed president of the big French logistics and transport group owned by the French railways.

Blayau succeeds Alain Poinssot, who resigned in December.

Blayau is a former senior civil servant with the French government. He has been president of retail group Pinault-Printemps-Redoute and manufacturing group Moulinex.

USFreightways Corp.

John A. Niemzyk has been named senior vice president and chief information officer of the Chicago-based supply chain management and transportation company.

Niemzyk, formerly vice president, information technology for Baxter Healthcare's Renal Division, will be responsible for leveraging IT resources for USF operating companies. Prior to joining Baxter, he was vice president, information technology and CIO for Favorite Brands International.

Forwarding

USF Worldwide

John Gallahan has been named president and chief executive officer of the forwarding subsidiary of USF Freightways Corp.

Gallahan joined Air Express International in 1980. He was responsible for European sales for seven years and later was promoted to vice president sales and marketing for North America. For the last five years, he served as president of a Virginia pharmaceutical company.

Maritime

Kawasaki Kisen Kaisha Ltd.

Tokyo-based "K" Line has named Yoshio Iinuma managing director.

Iinuma was "K" Line's director, having worked in the company since 1967. From 1995 to 1998, Iinuma served as executive vice president, and then president and chief executive officer, of "K" Line America. He became Kawasaki Kisen Kaisha's director in June 1998.

Neptune Orient Lines

Tim Rhein has left the board of directors of NOL, the parent company of APL.

Rhein, a long-time senior executive of APL, joined the board of directors of the Singapore-based NOL group after it took over APL in 1997.

Kwek Leng Jo, another member of NOL's board since 1997, has also left.

NOL has named Stephen Lee Ching Yen to the board.

Lee is chairman of the Singapore Trade Development Board and president of the Singapore National Employers Federation. He is also the managing director of Great Malaysia Textile Manufacturing Co., and Shanghai Commercial and Savings Bank Ltd. (Taiwan). He is chairman of Vickers Ballas Holdings Ltd. and Vickers Capital Ltd., and a director of Fraser & Neave Ltd. He is also a former member of parliament in Singapore.

Lua Cheng Eng remains chairman of NOL. Flemming Jacobs is president and chief executive officer of NOL and CEO of APL Liners.

Wallenius Lines Holding Inc.

The Montvale, N.J.-based company has appointed Peter J. Finnerty vice president, business planning and development for Wallenius and executive vice president of American Roll-On Roll-Off Carrier (ARC).

Finnerty retired from CSX Corp. in December after 30 years with Sea-Land Service Inc. He has been a well-known figure in Washington, D.C., participating in shipping policy initiatives. He serves on the boards of the Coast Guard Foundation and the Naval War College.

Wallenius Lines Holding represents U.S. interests of Wallenius Lines, based in Stockholm, Sweden.

American Roll-On Roll-Off Carrier, jointly owned by Wallenius Lines and Wilhelmsen Lines of Norway, is a U.S.-flag service operating between the United States and Europe.

Finnerty will be based in Washington.

Air

Atlas Air Inc.

John D. Holum has been named to the newly created position of vice president, international and government affairs.

Holum was U.S. Undersecretary of State for Arms Control and International Security. President Clinton appointed him Director of the U.S. Arms Control and Disarmament Agency in 1993. He served as director of ACDA until 1998, when he managed the agency's merger into the Department of State. Before joining the administration, he practiced law in the Washington office of O'Melveny & Myers, concentrating on regulatory and international matters.

Mercury Air Cargo

Mark J. Coleman has been named chief operating officer, replacing J.R. "Butch" Bouchard, who retired from the firm in September. Bouchard continues to consult for Mercury Air Cargo.

Coleman served as president of Los Angeles-based Mercury's subsidiary, RPA Airline Automation Services.

Before joining Mercury, he was senior vice president of marketing and sales for Midway Airlines Corp. He also worked for other airlines, such as Western Pacific Airlines, Trans World Airlines, America West Airlines and Frontier Airlines.

TNT International Express

The parcel delivery arm of the Netherlands-based TNT Post Group has promoted Mark Gunton to president and chief executive officer of the company's Americas region.

Gunton had been president of TNT International Express, North America, for about 12 months. He has been with TNT since 1989 and served as finance director for TNT parent TPG before taking on his role in the United States.

Curtis Watson, also a TNT veteran who served most recently as U.S. vice president of sales and marketing, was named president of TNT International Express USA.

Inland

Con-Way Transportation Services

Jose Antonio Gonzalez has been promoted to managing director of Con-Way's Mexican less-than-truckload operations, which has been renamed Con-Way Mexico Express.

Gonzalez has been with Con-Way since 1992 and established the CNF subsidiary's first office in Monterrey, Mexico. He has since developed sales offices in Mexico City and Guadalajara as well as Monterrey.

Con-Way Mexico Express will operate as a subsidiary to Con-Way Southern Express, which is based in Fort Worth, Texas.

Florida East Coast Industries Inc.

Richard G. Smith has been named executive vice president and chief financial officer of the parent company of the Florida East Coast Railway Co.

Smith was vice president and CFO of American Business Products in Atlanta, and has 25 years' experience in finance, corporate development and strategy. Previously, he was CFO at Brambles Acquisitions Inc. and Environmental Systems Inc.

Service Announcements

(800) 874-6422, FAX: (904) 791-8836, e-mail: gburrows@shippers.com

Yangming, Hanjin enter space-sharing pact

Yangming Marine Transport Corp. and Hanjin Shipping Co. have entered into a space charter agreement covering trade between the U.S. East and Gulf coasts and European ports in the Hamburg-Gibraltar range.

Hanjin will charter 200 TEUs or 2,400 metric tons per vessel, whichever is reached first, on Yangming ships. The charter covers both eastbound and westbound movements.

The carriers are authorized to interchange or lease empty containers, chassis, and related equipment. They also are permitted to jointly contract or coordinate in contracting with stevedores, terminals, ports and suppliers of equipment. The agreement does not permit joint operation of U.S. marine terminals.

Pending U.S. Federal Maritime Commission clearance, the agreement is expected to go into effect Feb. 1.

HUAL raises transatlantic bunker charge

HUAL, the Norwegian roll-on/roll-off carrier, is increasing its westbound transatlantic bunker charge, citing the continued trend of high bunker prices.

On Feb. 1, the carrier's emergency bunker adjustment factor will rise to 15 percent, from 10 percent for general cargo shipments from northern Europe to North America.

The charge applies to westbound shipments only, but HUAL is considering a bunker charge in the eastbound transatlantic trade.

U.S./Australasia lines' proposal hits snag

A proposed trade sharing arrangement among six carriers of the U.S./Australasia agreement has run into a snag at the U.S. Federal Maritime Commission.

The carriers hoped to operate under a trade participation agreement starting Jan. 1, but the FMC said it needs more information to determine the agreement's competitive impact on the trade.

The FMC's action restricts the carriers from carrying out the arrangement until they provide answers to the commission's questions — which have not been made public — and the FMC takes action.

Under the proposed agreement, Australia-New Zealand Direct Line would receive the largest share, or 28.7 percent of the trade, followed by Columbus Line (26.9 percent); P&O Nedlloyd (21.1 percent); Contship Container Lines (12.1 percent) and Wallenius Wilhelmsen Lines (6.6 percent).

The trade shares would be in effect for one year, through Dec. 31.

If the carriers exceed their share limits as reported above, they would have to contribute $1,000 per container over their allotted limit.

The agreement would exclude U.S. West Coast transshipment cargoes from the trade participation shares.

United Alliance adds Yantian call

United Alliance carriers Hanjin Shipping, Senator Lines and Cho Yang have added a direct call at Yantian, in South China, to their joint all-water East Coast AWE-PDM container service.

The AWE-PDM "pendulum" weekly service covers the transpacific and transatlantic trades within a single rotation, using 13 ships of about 2,700-TEU capacity.

The AWE-PDM joint service has a rotation of Yantian, Hong Kong, Kaohsiung, Pusan, Manzanillo (Mexico), Manzanillo (Panama), Savannah, Norfolk, New York, Felixstowe, Bremerhaven, Rotterdam, Le Havre, New York, Norfolk, Manzanillo (Panama), Manzanillo (Mexico), Long Beach, Pusan, and Yantian.

Lines finalize North America/Oceania service

Columbus Line, P&O Nedlloyd, Australia-New Zealand Direct Line and FESCO Ocean Management Ltd. have announced details of their two-loop, 15-vessel space charter agreement covering trade between the U.S. Pacific Coast, Hawaii, Canada, Mexico, Australia, New Zealand and the Pacific Islands.

The agreement also covers intra-regional trade between U.S. West Coast ports and ports on the Pacific coasts of Mexico and Canada.

The carriers' initial plan is to operate a Pacific Southwest string and a Pacific Northwest string.

The PSW string covers ports in California, New Zealand, Australia, Fiji and Mexico. The string will be served by seven vessels with approximately 1,100 to 1,500 TEUs capacity. P&O Nedlloyd will provide two ships and ANZDL will provide five ships.

The PNW string includes ports in California, the U.S. Pacific Northwest, Hawaii, New Zealand, Australia, Fiji and Tahiti. The PNW string will initially use eight vessels of approximately 1,100 to 1,500 TEUs, three of which will be provided by Columbus Lines, three by FESCO and two by ANZDL.

The initial weekly allocation of slots is 890 TEUs to ANZDL, 487 to Columbus Line, 465 to FESCO and 374 to P&O.

Subject to regulatory clearance, the new agreement will be implemented in the first quarter of 2001.

WTSA lines postpone rate rise on vegetables

Ocean carriers of the Westbound Transpacific Stabilization Agreement, a discussion agreement for the U.S. export trade to Asia, said they will reduce a planned rate increase on shipments of "vegetable all kinds" from $200 per 40-foot container to $150, with proportionate adjustments for other equipment sizes and cargo otherwise rated. The increase, which was scheduled to take effect Jan. 1, has been postponed until April 1.

WTSA lines said the changes "reflect current slow demand in Asia, a smaller California crop this season due to weather, and an effort to give customers more time to plan their shipments in the first quarter of 2001."

The carriers said the actions on vegetable all kinds are in part the result of discussions with the shipper community, as well as individual market research. However, they reiterated the need for an increase in rates for those shipments, after "marked declines during the 2000 shipping season."

WTSA lines are APL, COSCO Container Lines, Evergreen Marine Corp., Hanjin Shipping, Hapag-Lloyd, Hyundai Merchant Marine, Kawasaki Kisen Kaisha ("K" Line), Maersk Sealand, Mitsui O.S.K. Lines, P&O Nedlloyd, Nippon Yusen Kaisha, Orient Overseas Container Line, and Yangming Marine Transport.

Grand Alliance to add Asia/Europe loop

The Grand Alliance of Hapag-Lloyd, NYK, OOCL and P&O Nedlloyd is planning to add a fifth weekly Asia/northern Europe service this year.

The ports of call and vessels of the service are still under discussion by the alliance, but the service is likely to focus on mainland China, said Ted Wang, chairman and managing director of OOCL (Europe) Ltd. Direct calls at Indian subcontinent ports within the new service are also under consideration.

Plans to deploy more capacity on the Asia/Europe route are part of a move by ocean carriers to take delivery of a large number of new containerships during the current year. CMA CGM will take delivery this year of eight 6,500-TEU containerships for the Asia/northern Europe trade that will replace vessels of about 4,100-TEU capacity.

New World Alliance of APL, Hyundai Merchant Marine and Mitsui O.S.K. Lines are expected to introduce a fourth service between Asia and northern Europe, according to industry sources. At present, APL, Hyundai and MOL run three Asia/northern Europe loops and one Asia/Mediterranean service each week.

The high-volume Asia/Europe trade is forecast to grow by more than 10 percent this year.

Ports for joint U.S./Med service named

P&O Nedlloyd, Zim Lines and Hapag Lloyd have released the port rotation for their new joint service between the Mediterranean and the U.S. East and Gulf coasts.

The GAMEX service, still pending U.S. Federal Maritime Commission and European Union approval, will start on a fortnightly basis in February, becoming weekly by summer.

Port rotation will be New York/Charleston or Savannah/Miami/Houston/Charleston or Savannah/Malta or Salerno/Naples or Genoa/La Spezia/Fos/Barcelona/Lisbon. The final choice of ports of call depends on the outcome of terminal negotiations, P&O Nedlloyd said.

P&O and Farrell (acting as one party) will provide four ships, while Hapag Lloyd and Zim (also acting as one party) will provide two vessels. The ships will have a capacity of approximately 1,500 - 1,800 twenty-foot equivalent units.

"The new service will fill a void which we used to cover with Sea-Land via the Vessel Sharing Agreement," said Pieter Bas Bredius, senior vice president for P&O Nedlloyd's transatlantic trades.

The Farrell Mediterranean Express service (FAMEX), P&O Nedlloyd's other U.S. Med Service, which Hapag-Lloyd joined in August, will continue unchanged and will not be integrated into the new service.

Lykes, TMM, Contship upgrade Med link

Lykes Lines, TMM Lines and Contship Containerlines have upgraded their joint U.S. Gulf/Mexico/Mediterranean service to weekly, from every nine days.

The lines have boosted frequency by adding faster vessels of 2,100-to-2,400-TEU capacities.

The service rotation is Veracruz, Altamira, Houston, New Orleans, Miami, Barcelona, Valencia, Barcelona, Gioia Tauro, La Spezia, Miami, Veracruz, Altamira, New Orleans and Houston.

Carriers offer Caribbean/Med service

Maersk Sealand, Nordana Line, CGM Antilles Guyanes and Compagnie Maritime Marfret have entered into a vessel sharing agreement to operate a new weekly direct service between Puerto Rico, the Virgin Islands, other points in the Caribbean and Mediterranean Europe.

The agreement calls for the deployment of a maximum of 12 ships having a capacity of up to approximately 2,500 TEUs.

Initially, the carriers will deploy six vessels. Three will be provided by Maersk Sealand and one each by Nordana, CGM Antilles and Compagnie Maritime Marfret.

The initial slot allocations on the six vessels will be approximately 31.8 percent for Maersk Sealand and 22.7 percent each for Noranda, CGM and Compagnie Maritime Marfret.

Dole to charter slots to King Ocean

Dole Ocean Cargo Express and King Ocean Central America S.A. have entered into a slot charter agreement covering a weekly service between Port Everglades, Fla. and Puerto Moin, Costa Rica.

Dole Express, based in Jacksonville, Fla., will make available to King Ocean up to 30 FEU slots for each voyage, with up to 10 of those slots available for 45-foot containers.

The service departs Port Everglades on Wednesdays and arrives at Puerto Moin on Saturdays. The service then departs Puerto Moin Sunday and arrives at Port Everglades on Thursday.

King Ocean is based in Miami.

e-Commerce still flourishing

Several auction-type electronic marketplaces for shipping have closed down just as *American Shipper* warned several months ago that there would be a shake-up among narrow price-focussed marketplace providers.

But e-commerce in shipping, trade and logistics are not finished — far from it. Drawing any such conclusion now would be excessive — just as saying, a year ago, that every e-commerce firm would revolutionize the world of commerce was excessively idealistic.

Just look around.

E-Commerce trade facilitators like CCEWeb, Bolero.net and TradeCard (see story, page 28) are not carriers, but they created very innovative and highly productive services that do away with the inefficiencies of paper-based processes essential to trade. They have proved their usefulness and are growing. There is a huge demand for better, network-based information sharing systems that speed up international transactions, enabling shippers to predict total logistics costs, reroute shipments while in transit, and make the right management decisions based on up-to-date data.

This is a learning process, and the most important lesson already learned is that business information and data is like pure gold when properly organized and converted into a usable, digital format with the right execution and business experience behind it.

There will always be room for third-party elements which add value and seamlessly fit into other systems. Like buying a shoe at the store, the one you buy is the one which gives the best fit. Some innovations will come out of new entrepreneurial dot-coms; others will be developed by traditional service providers.

Forwarders, logistics service providers and carriers admittedly have an advantage over the third-party e-commerce firms in providing certain e-commerce tools to fit the needs of their customers. But the source is less important than fit.

Fit. This is what the INTTRA and GTN multicarrier portals are all about, drawing upon and providing links to information and data which fits into a standard system.

Given the fragmentation, lack of standards and limited integration of systems in international trade, ocean shipping and air cargo industries, third party e-commerce firms will continue to play an important role in building comprehensive, universal information systems.

Philip Damas