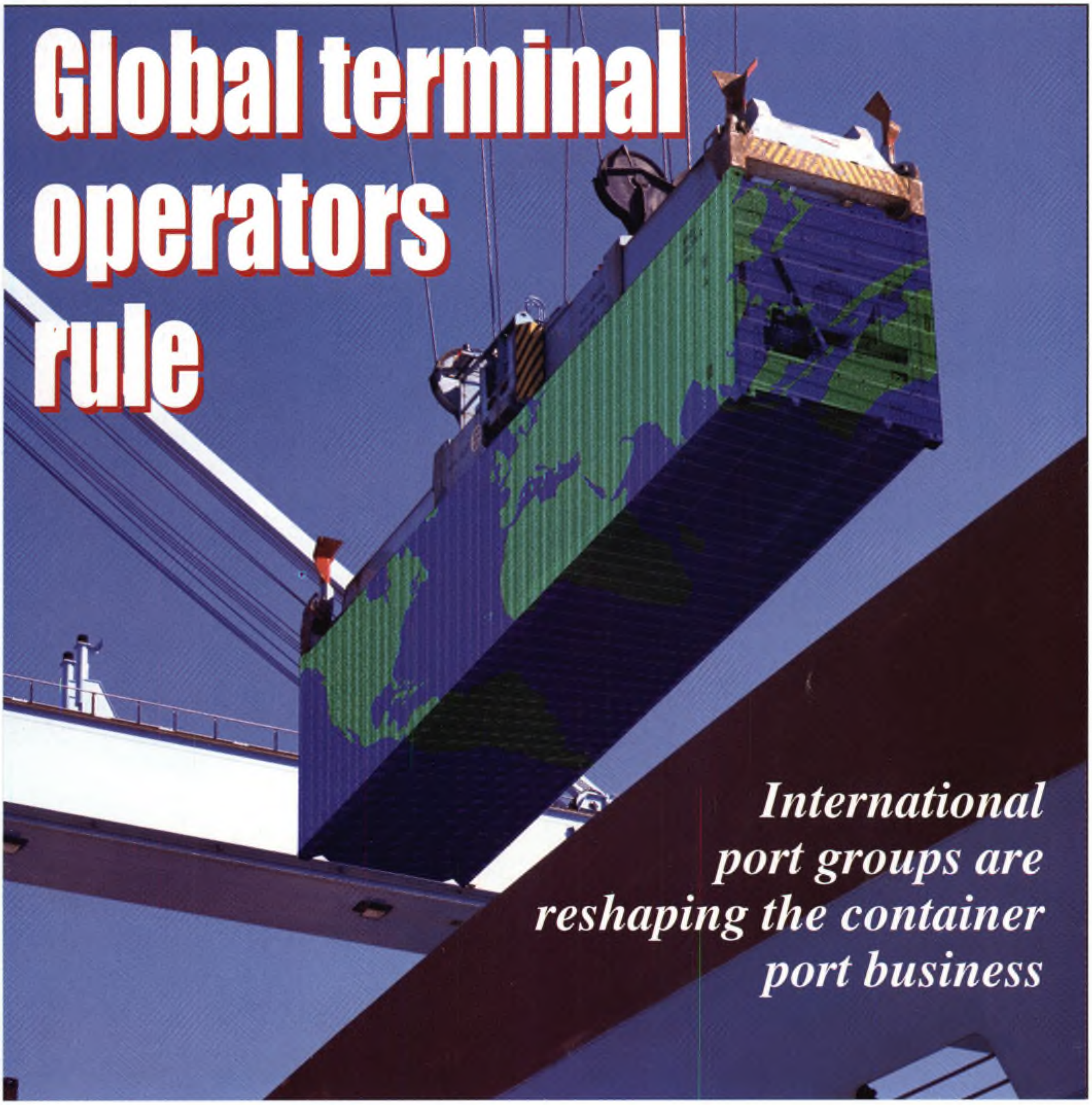
FEBRUARY 2002

American Shipper

The Monthly Journal of INTERNATIONAL LOGISTICS



Global terminal operators rule

International port groups are reshaping the container port business

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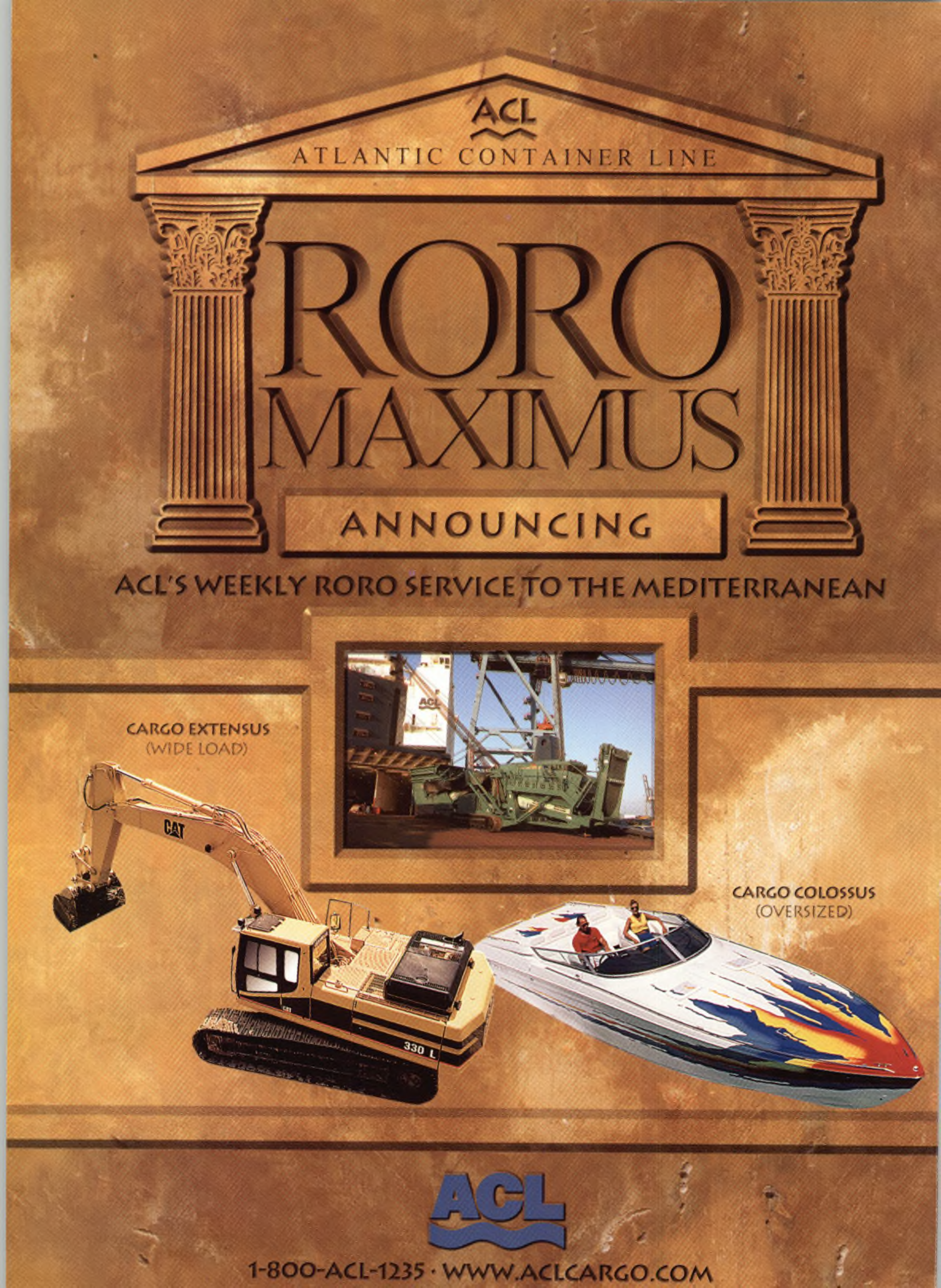
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American Shipper

Vol. 44, No. 2 February 2002

On the Cover

A handful of large international port groups from Asia, Europe and the United States are reshaping the container port business on every continent. These groups lead an unmistakable move toward market concentration, as global operators win new terminal contracts, acquire smaller competitors and supplant local operators.

APL Logistics has all the characteristics of a third-party logistics provider — operating warehouses and managing various transport and logistics services on behalf of its providers. However, the company sees itself more as a fourth-party logistics provider, equipped with "the proper information technology platform to link all the transport entities from a global perspective," said Mike Gardner, APL Logistics CEO.

The Internet is providing shippers and carriers with the opportunity to negotiate contracts with less strain, and collaborative logistics is providing the means. Compaq Computer Corp. recently used technology from Logistics.com, a third-party provider of transportation solutions, to make a series of staggard rounds or rate bidding more palatable.

Bradley J. Dechter has over the past 20 years built DHX into the largest non-vessel-operating common carrier in the U.S./Hawaiian trade, largely off full-containerload business. Dechter has gone to the U.S. Surface Transportation Board to try to stop what he alleges are abusive tactics by the carriers he does business with, who are trying to take back the full containerloads.

American Shipper
INTERNATIONAL LOGISTICS

Publisher Hayes H. Howard
Jacksonville hhoward@shippers.com

Gordon Forsyth, Assoc. Publisher
New York gforsyth@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

Mark McHugh, Associate Editor
Washington mmchugh@shippers.com

Robert Mottley, Feature Writer
New York rmottley@shippers.com

Francis Phillips, Shipping Research
London fphillips@shippers.com

Simon Heaney, Research Assistant
London london@shippers.com

Beth Voils, Art Director
Jacksonville evoils@shippers.com

Virginia Powers, Graphics

Advertising Cathy Avolio, Advertising Manager
New York cavolio@shippers.com
(732) 868-0800
Nancy B. Barry
Jacksonville nbarry@shippers.com
James Blaeser, Marketing
New York jblaeser@shippers.com

Circulation Karyl DeSousa
Kerry Cowart
Jacksonville circulation@shippers.com

To subscribe call
1 (800) 874-6422
or on the Web at
www.americanshipper.com

New York **(212) 233-3648**
Fax: (212) 233-3717
111 Broadway, 9th Floor
New York, N.Y. 10006

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

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 $120 per year for 12 issues;$180 for air mail; $10.00 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

U.S. Customs' regulation harms U.S.-flag industry

Primum non nocere. It is the cornerstone of the medical profession's code of ethics, and it commands doctors to *first, do no harm.* This most basic principal of the Hippocratic Oath dates back to 400 B.C., and occupies such a prominent place in the medical ethos that all newly minted physicians must swear to uphold it before earning the right to treat patients.

If only Washington bureaucrats were required to make a similar pledge.

In the latest example of faceless government workers dictating policy on issues they fail to understand, the U.S. Customs Service recently published a new regulation for American ships making repairs while on the high seas.

Current law requires a 50 percent ad valorem duty be charged on non-emergency repairs to U.S.-flag vessels performed in foreign shipyards. Congress originally approved this fee to encourage American operators to make repairs to their vessels in American shipyards, and keep business within the United States.

Now, in a radical departure from both the mandate of Congress and economic good sense, Customs will assess the ad valorem duty on virtually all supplies and parts used in routine repairs and maintenance by the crew while a vessel is on the high seas. Customs also plans to levy the tax on imported equipment that is installed while a ship is underway, even though duty has already been paid on those items.

The American maritime community's unanimous opposition to this unprecedented rule is rooted in its sheer impracticality. The new regulation will force the crews of U.S.-flag ships to report the use of every single item on board a vessel, literally down to the last nut, bolt, and pint of grease. This overbearing micro-management promises to add significantly to each mariner's already arduous duties, taking valuable time away from critical responsibilities.

The proliferation of unrealistic administrative and paperwork burdens will force U.S.-flag ships to add crew members to handle the workload, which would, in turn, increase vessel operating costs. Further still, miring the crew in such unnecessary minutiae compromises their focus on truly important obligations, such as vessel safety, environmental protection, and cargo delivery.

Most importantly, this ruling represents a grave injustice, because it applies only to American-flag ships, while competing foreign-flag vessels operating in U.S. trades are free from this ill-conceived tax. Quite simply, the costs of complying with this rule threaten to trigger the extinction of the U.S.-flag shipping industry. With its competitiveness hamstrung by unwitting yet culpable regulators, the American merchant fleet will slowly succumb to foreign rivals unhindered by such government encumbrances. To cut expenses and save their businesses, American operators will have no choice but to pull their ships out of the U.S. registry, a move that could cost thousands of skilled American merchant mariners their jobs.

Congress never anticipated that bureaucrats would assess backbreaking taxes and regulations on national industries when it first approved the ad valorem tax. Five U.S. senators indicated as much in a letter written earlier this year that urged the Customs Service to rescind the ship repair rule.

"Costs of this magnitude together with the other burdens of the rule are so onerous as to make abandonment of the U.S.-registry a realistic alternative," wrote Senators Ernest F. Hollings, D-S.C.; Daniel Inouye, D-Hawaii; Frank Murkowski, R-Ak.; Trent Lott, R-Miss.; and John Breaux, D-La. "This rule goes far beyond the imposition of a single duty and the intent and view of the Congress already expressed in this matter."

Today, America finds itself in the midst of an extraordinary period of national

history. The shadow cast by the horrible events of Sept. 11 is both long and dark. Consequently, every action our government takes, and every rule our government publishes, should be viewed through the prism of economic growth and national security.

Yet, the Customs Service fails to acknowledge this new reality. The irony of the ship repair rule is that it resembles decision-making in the pre-Sept. 11 era. The agency bases its decisions only on strict legality, not the overall impact of public policy in strengthening the American economy, preserving jobs, or combating terrorism.

Supreme Court Chief Justice John Marshall declared in 1819, "the power to tax involves the power to destroy." He cautioned that, while we all recognize the necessity of taxes to conduct the government's business, a fine line separates reasonable fees from unreasonable assessments. The recent rule issued by Customs' bureaucrats provides a vivid illustration of the latter.

Government must not be in the business of eliminating American jobs, especially during a time when war and recession dominate the political landscape and occupy the hearts and minds of every citizen. Yet, if the U.S. Customs Service's latest regulation on repairs to U.S.-flag ships at sea remains the law of the land, that is exactly what will happen — a U.S. industry critically wounded by a handful of civil servants who, despite the new world in which we live, treat every policy matter as "business as usual."

Clearly all would be better served if the bureaucrats made *first, do no harm* the cornerstone of their professional creed.

Gloria Cataneo Tosi
president,
American Maritime Congress
Washington, D.C.

Forward-looking MarAd chief

Capt. William Schubert, the new head of the U.S. Maritime Administration, doesn't want to dwell on the agency's beleaguered past.

"Many of you have felt that over the years, maritime interests are last on the public policy list, that the administration does not care, that the Department does not hear your concerns, and that MarAd may be out of step with the industry," Schubert recently said to the U.S. Merchant Marine Academy Alumni Association in Washington.

"However true that may have been in the past — and I do not want to stop to argue about how true it may or may not have been — it is not true now," Schubert said. "As I have told virtually everyone in MarAd — I don't care where we have been — it's where we are going that counts."

"I'm staking my professional reputation on the realistic hope that we as an industry can work together — and MarAd is here to help you do it," he said.

Schubert also wants the various U.S.-flag maritime industry groups to set aside their differences and seek common ground to preserve the country's merchant marine.

"An unproductive cycle of attacking one group after another in order to look out for one's self-interest simply cannot exist in this new environment," Schubert said. "Self-destructive behavior within the industry can easily spell the end." *(Chris Gillis)*

New FMC chairman with carrier roots?

President Bush's pick for the new U.S. Federal Maritime Commission chairman has started raising some eyebrows among the freight forwarder and non-vessel-operating common carrier industry.

The intended nominee, Steven Robert Blust, has deep roots in the ocean carrier and terminal management industries. Since the mid-1980s, he has worked for the Jacksonville Port Authority and Lykes Bros. Steamship Line. He is currently president and chief executive officer of Tampa Bay International Terminals.

If confirmed by the Senate to serve as FMC chairman, Blust could have a difficult time proving to the forwarders and NVOs that he truly cares about their concerns, and that he will not be easily swayed to favor the carriers. The FMC is already widely perceived by the forwarders and NVOs as pro-carrier. *(Chris Gillis)*

Consolidation scale or scare?

Six terminal operators now control 37 percent of the global container port handling volume (see article page 67).

This is not Microsoft-style world domination, but we are fast approaching a state of affairs distinguished by a handful of heavy global terminal operators. The container terminal industry is now much more concentrated than the container shipping line industry, which has itself moved rapidly towards big operators. The global operators in the international container terminal business have deep pockets, and plan to expand more. The "majors" are Hutchison Port Holdings, PSA Corp., APM Terminals, P&O Ports, Eurogate, Stevedoring Services of America and CSX World Terminals.

Is this concentration good for the industry and its users — shippers, forwarders and shipping lines? Or is it a threat?

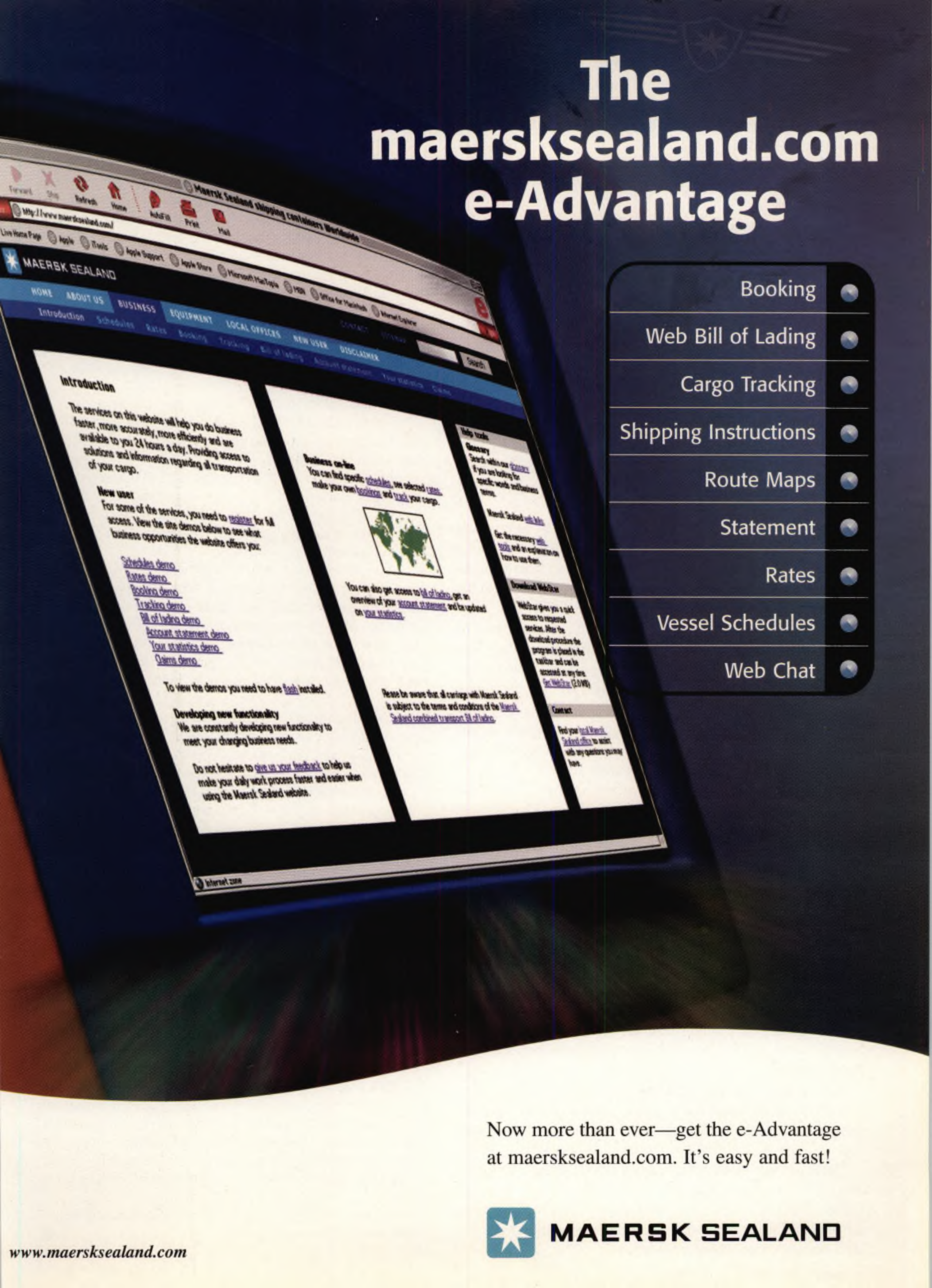
American Shipper has always promoted competition in shipping and related markets. Past history has shown that it is common to detect negative competitive implications if any one group has 35 percent or more of a given market, or if two groups control more than 50 percent between them.

But the current state of concentration among terminal operators has not reached this degree, and it isn't worrying for users. We still see real competition among the "majors," as well as among the smaller port operators.

An ideal textbook case study actually happened when PSA built a dominating position in the Southeast Asia transshipment container port business, only to see APM Terminals, Hutchison and their respective local partners set up competing Southeast Asian terminals in Malaysia.

In the United States, alternative intermodal links create an ongoing competition between the major East Coast and West Coast ports. New York must watch what Montreal is doing, and the Californian ports could lose intermodal business to the Pacific Northwest ports if they dropped their guard or became too congested.

There is also a positive side to consolidation of the ports industry. It should lead to technical progress, more widespread use of advanced information systems and investment in new productivity tools. There should be a transfer of the practices used say, in Hong Kong, like time slots for truckers picking cargoes in port, to ports elsewhere. Some of the common practices of U.S. terminals, like the chassis-mounted in-termi-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nal system, could be questioned by global operators who also run more space-efficient in-terminal operations based on container-stacking yards.

Instead of spreading market domination fears, global port operators will likely spread know-how and best practices around the ports of the world. *(Philip Damas)*

Afterglow

Studsvik, a Swedish shipper, recently contracted with Federal Express to fly a 300-pound package of Iridium-172 through Paris to New Orleans. During the first week of January, after a FedEx truck delivered the keg of Iridium to the consignee, Source Production and Equipment Co., in St. Rose, La., the package was found to be emitting so much radiation that the recipient "has been unable to get near enough to measure it directly," The *New York Times* reported on Jan. 10.

A FedEx spokesperson told *American Shipper* that the carrier was conducting an extensive internal investigation of what had undeniably occurred. Yet, *The Times'* headline, "FedEx Shipped a High Radiation Package Without Knowledge," was especially troubling for FedEx, since the carrier did not have all of the facts as to what was actually known by its people.

To be fair, Source Production found the keg to be emitting a dosage of 10 rem an hour after it had been in FedEx's possession. Strictly speaking, that doesn't mean that the package was irradiating at that level for all of the time it was in the carrier's hands.

Nonetheless, a person exposed to 10 rem for a period of several hours would suffer serious radiation poisoning. The pilots on the FedEx plane that carried the package wore badges that measured radiation, and those are said not to have shown any alarming exposure. Of course, the pilots don't fly sitting on, or near, the cartons they are shipping. No one knows at this point if other FedEx employees were exposed, if indeed the keg was in a dangerous state while they were around it.

While FedEx deserves the leeway to investigate and come clean with the truth, these are not ordinary times. People panic easily, for quite plausible reasons. FedEx can rightly expect to be grilled to the bone from all quarters.

There are certainly unnerving aspects so far. The shipper and the recipient were apparently well known to FedEx. Confidence was high all around, so one can speculate that the shipment of Iridium-172 had been pre-cleared. Why wasn't the package checked for excessive radiation as it entered FedEx's domain? What does this incident mean for the container freight stations U.S. Customs allows trusted shippers to maintain — those bonded receiving areas for favored incoming cargo? The FedEx "event" (a calming term preferred by publicists) is especially horrific because of the extreme hazardous nature of the shipment.

Early reports say the Department of Transportation is extremely concerned, and will probably conduct its own investigation of the leaking Iridium-172. FedEx should expect no less.

These are not times when such a story can be cast away. Terrorists could use cargo jets as well as passenger ones for kamikaze attacks. At the very least, the legitimate shipment by air of material for industrial radiography must be monitored with far more care. *(Robert Mottley)*

TSA plans to bring rates back to May 2001 levels

VANCOUVER, B.C.

Container shipping lines of the Transpacific Stabilization Agreement, a group of 14 major transpacific carriers, have announced a plan to restore freight rates in their contracts with shippers for the forthcoming 2002/2003 season back to levels previously in effect in May 2001.

Having seen freight rates fall since last May, while shippers re-negotiated service contracts, the ocean carriers now want to see rates in their 2002 contracts, effective May 1, brought back to their levels of last May.

According to industry sources, eastbound transpacific freight rates have decreased by an estimated 35 percent since last May.

"Carriers will review and monitor individual market sectors, and in some instances may take a more commodity-specific approach to pricing than in the past," a spokesman for the carrier group said.

Senior executives of TSA carriers met in Vancouver, B.C. to discuss market trends and recommendations for rate increases. The executives "found few bright spots in their discussions of the transpacific freight market," a TSA group spokesman admitted.

TSA carriers have delayed their announcement of their pricing plan for the forthcoming 2002/03 service contract negotiating season until mid-January because of market uncertainty. Rate recommendations for the 2001/2002 season had been announced in October 2000.

TSA said its carriers noted a significant decline in overall profitability since the last round of service contracts took effect.

"Internal estimates by the 14 individual lines in the Transpacific Stabilization Agreement ... indicate combined losses of more than $1.2 billion in 2002 if current rates continue into the coming contract season," a spokesman warned.

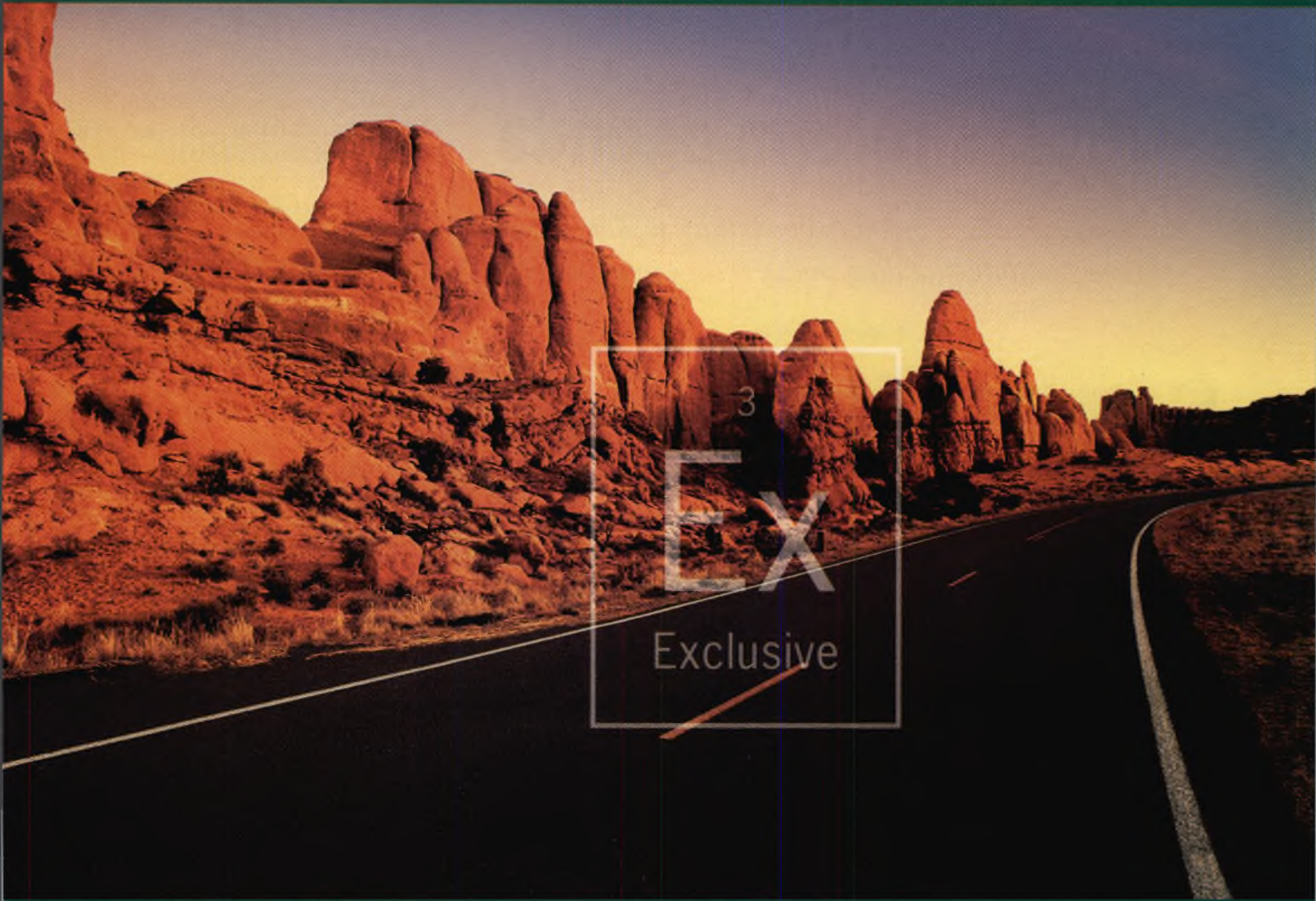
"The downward pressure on rates has been considerable in recent months, with the overall economic downturn and the events of Sept. 11 slowing cargo demand," said TSA executive director Albert Pierce. "Now that the carriers have been able to step back and assess the full impacts of 2001, including rising costs, there is real concern about having the economic ability to maintain current service levels and, to an extent, carrier financial viability."

However, prospects of continued overcapacity and sluggish cargo growth for the remainder of the year are expected to make it difficult for ocean carriers to obtain rate increases.

Commenting on the vessel supply/demand issues, TSA carriers said the current vessel capacity situation in the Pacific is "a long-term structural question that must be dealt with separately, and on a distinct time frame, from more immediate revenue concerns."

TSA carriers indicated that they plan to address more comprehensively the issue of long-term capacity expansion needs and short-term market volatility, but provided no detail on such plans. Last September, TSA carriers dropped a tentative plan to introduce a collective seasonal ship capacity withdrawal program in the over-tonnaged Asia/North America trade.

TSA carriers said they are also planning to seek cost reductions within their organizations. ■



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OECD's reform agenda

Economic analysis, industry consultation seen as tools to resolve long-standing policy issues in shipping.

By Philip Damas

Something is happening to the Organization for Economic Cooperation and Development.

The transport division of the Paris-based think-tank had one of its busiest years in 2001, and has attracted widespread interest in its recent work on shipping policy.

The OECD raised its profile in shipping by seeking to tackle some of the thorniest issues related to ocean shipping regulations and policy.

Wolfgang Hubner, head of the transport division, and Danny Scorpecci, principal administrator, said the OECD has a wider regulatory reform agenda targeting shipping.

During an interview in Paris, Hubner and Scorpecci said the OECD has worked and made progress on three long-standing shipping policy issues:

- A reform of international competition regulations in liner shipping, including the existing immunity protection granted to carrier conferences.
- A reform of cargo liability rules for ocean transport.
- The never-ending question of "substandard ships" and how to eradicate unsafe practices.

All three issues would seem to be potential minefields for any policymaker, and are seen as very sensitive by the industry. But the OECD managed to make its mark and seek rational thinking while involving member governments and the industry.

"It's high time that industry comes together and pushes certain moves," said Hubner.

One such move is liberalization, he said. He welcomes industry initiatives, such as the recent agreement made between the Washington, D.C.-based carrier body, the World Shipping Council, and the U.S. shippers' National Industrial Transportation League (NIT League) on a proposed reform of cargo liability clauses and exemptions. Hubner believes that the liner shipping market would work better without liner conferences.

"Reform" and "liberalization" are words that the OECD transport officials often use.

Wolfgang Hubner
head of transport division, OECD

"The best recommendation is the removal of the antitrust immunity for price-fixing. But this is not politically feasible."

"The first move comes from governments, the second from industry," Hubner said of reform.

One of the OECD's ways of working is to seek consensus among member countries on international issues. But the OECD only has an advisory role, and leans on member countries to implement policy changes. In the 1990s, the OECD obtained a broad international agreement from member governments to end shipbuilding subsidies, but the deal was subsequently blocked by Congress in Washington and never came to fruition worldwide.

Last year, the OECD's transport division worked on policy issues covering ocean shipping and air cargo transport — and played an influential role in moving governments and industry towards reform.

Cargo liability. "Maritime cargo liability was new to us," Hubner said. "The OECD was asked by governments of the Consultative Shipping Group to look at it." The Consultative Shipping Group is an inter-government body that comprises representatives of the U.S., Japanese and European departments or ministries in charge of transport.

The OECD published a largely well-received report at the end of 2000 that urged a modernization of the 80-year-old maritime cargo liability conventions and their national legislative equivalents (March 2001 *American Shipper,* page 6). The Arlington, Va.-based NIT League said last year that the OECD report "should serve as a wake-up call for the U.S. to modernize rules that apply to cargo liability."

The report was followed in January 2001 by a meeting of about 120 government, carrier, shipper and other representatives to discuss its recommendations and findings.

One of the main recommendation was the elimination of the "error of navigation" exemption of carriers, which currently forms part of Hague Rules and the U.S. Carriage of Goods by Sea Act (COGSA).

"With cargo liability, we're not doing any more work," Scorpecci said. The OECD report on this question was presented to the Comite Maritime International, he said, referring to the specialized committee of national maritime lawyers' associations.

Scorpecci believes there is "plenty of momentum for change" among governments to revise international cargo liability rules. "It's on the boil."

This reform program is now handled by the Comite Maritime International and by the United Nations Commission on International Trade Law (UNCITRAL).

"Now it's up to the drafting," Scorpecci said. "It's up to the lawyers."

Hubner said he hopes that the governments and agencies involved will reach agreement on a new cargo liability convention.

Liner Shipping Reform. The OECD transport division published a draft report last November which recommended that governments remove the antitrust immunity of conferences, discussion agreements and stabilization agreements (December *American Shipper,* page 10).

The controversial report was discussed during a high-profile workshop of about 130 government and industry representatives convened by the OECD in Paris in December. There was no sign of Christmas goodwill at the meeting.

Hubner conceded that it was hard to find consensus and make substantial progress on as divisive an issue as the removal of the price-fixing immunity of carrier conferences. Not only are different groups in the industry split on the issue, but different political institutions within and between countries also have differing views.

The OECD officials, who frequently

meet senior government officials of member countries, appear to be well attuned to the respective political inclinations of legislators and power brokers in member countries.

Predicting an "impasse" on the question of ending the immunity of carrier conferences, the OECD also put forward an alternative — three principles that it believes can improve liner shipping competition rules even if the conference joint pricing immunity isn't removed.

Predictably, representatives of shipping lines rejected the proposal to remove their immunity and said the current regime worked well. They also criticized the OECD's other recommendations for reform.

"The recommendations will remain in the final report," Hubner adamantly said. "We have not seen any real criticism which will force us to amend the recommendations."

Hubner said the OECD's involvement in liner shipping competition policy is the result of a program by the council of the OECD to look at regulatory reform in different industry sectors.

The transport division of the OECD is conducting a similar program on the liberalization of the air cargo market (see related story).

The OECD meeting on liner shipping competition policy has had its first major impact: During the OECD workshop in December, the European Commission said it would review the European Union regulations on liner shipping competition.

Compromise Proposal. The OECD report called for the removal of the antitrust immunity of liner carriers for joint pricing. It also praised the main reform aspects of the U.S. Ocean Shipping Reform Act of 1998, which retained the immunity of ocean carriers.

Hubner suggested that this dual position reflects the OECD's own reading of politics in international shipping.

"The best recommendation (of the OECD draft report) is the removal of the antitrust immunity for price-fixing" he said. "But this is not politically feasible." In OECD parlance, joint pricing by liner conference is described as "price-fixing."

Some of the liberalization-oriented recommendations of the OECD appear to be too radical for most of the OECD member countries.

But three "principles" proposed by the OECD would be "a second-best solution" and could attract broad support from member countries and industry, according to the Paris-based agency.

Hubner said the three principles would widen the confidential contracting practices already contained in OSRA in trades to and from the U.S. The principles are:

- "Rates, surcharges and other terms of carriage in liner shipping should be freely negotiated between shippers and carriers on an individual and confidential basis.
- "Carriers and shippers should be able to contractually protect key terms of negotiated service contracts, including information regarding rates."
- "Carriers should be able to pursue operational agreements with other carriers, so long as these do not include price-fixing or confer undue market power to the parties involved."

Danny Scorpecci
principal administrator, OECD

"Someone said that the liner shipping industry is the only industry in the world where your customer is your enemy and your competitor is your friend."

Scorpecci denied that the OECD report merely advocated OSRA worldwide. But he said that the three OECD principles, including the tight contractual confidentiality practices, do reflect what happened with OSRA.

"OSRA has been successful," Scorpecci said. "It's worked. It hasn't caused problems of incompatibility (with the competition laws of other countries)."

Asked whether OSRA should be used as a model when the OECD itself called for the removal of the antitrust immunity, Hubner replied: "It was a political compromise." He inferred that compromises on liner shipping competition regulatory reform could also work in other OECD countries.

"Both carriers and shippers support individual contracts and confidentiality," Scorpecci noted.

Confidentiality. Both Hubner and Scorpecci stressed the importance of total confidentiality for both shippers and carriers in liner shipping.

There is a common perception that countries outside the United States had no tariff filing and already had rate confidentiality before the United States adopted OSRA.

But Scorpecci said it is still possible for ocean carriers "to share information on shippers" and set rate benchmarks. These carrier practices allow shipping lines to have "optimum pricing," he said. "This can be used against the interest of shippers."

"Someone said that liner shipping is the only industry in the world where your customer is your enemy and your competitor is your friend," Scorpecci said.

There is a need for "full confidentiality" on both sides, he said.

"It's like being pregnant. You can't be 'a little' pregnant. You can't have 'a bit' of confidentiality," he said.

Scorpecci also underlined the fact that OSRA has shown that conferences and confidentiality can coexist. Most containerized shipments in the United States now move "under individual service contracts that are outside the conference mechanism," he said.

Hubner rejected the argument of defenders of the status quo that reform in certain countries will inevitably create conflicts of international laws. Lobbyists of ocean carriers have pointed out, when governments or lawmakers reviewed their immunity, that a given country's regulations would differ from those of its trading partners if the immunity were withdrawn.

"This excuse can be used ad infinitum," Hubner said. "If the political will is there, it can be done."

"To the extent possible, there should be compatibility," Scorpecci said. But "if certain governments decide there is a case to be made to amend competition policy, they should do it. Some will start. Others will follow."

The OECD regards OSRA as a precedent in how the question of competition reform can be addressed. OSRA came from the United States, but it actually introduced regulatory changes in all the bilateral liner shipping markets to or from the United States. Neither the industry nor the regulators of other countries complained about the changes.

Scorpecci believes that amended competition rules can be introduced and extended "in many trades" without having a simultaneous global legal reform in liner shipping competition rules — regarded as an impossible task.

Which OECD countries will move first towards competition reform?

Hubner and Scorpecci would not name the

countries that are the most resistant to change.

They said that the European Commission has indicated a plan to review its own liner shipping exemption law, but cautioned that "in the European Union, most governments are sitting on the fence."

It is known that the U.S. administration and Congress are divided on the case for the continued immunity of ocean carriers, while Japan has traditionally been one of the most conservative, pro-carrier maritime nations.

"About half of the OECD nations were interested in what we are doing," Hubner said. "I am not saying that they will follow suit."

Despite the interest that they are seeing, Hubner and Scorpecci said that they could not predict when OECD governments would reform their liner shipping competition regulations.

Sub-standard Shipping. Last year, the OECD transport division published a matter-of-fact report on who bears the costs of sub-standard ships, and who benefits from unsafe sub-standard shipping.

The OECD has worked on the question of unsafe ships for several years — arguably one of the most shameful aspects of the shipping industry.

"One of the findings (of the report) is that those responsible for sub-standard shipping don't directly bear the cost," Scorpecci said. Unethical though they may be, sub-standard shipping practices allow some parts of the industry to make "savings" on safety measures, and gain a competitive advantage.

"The question was: 'What could we do?'," he said. The contribution of the OECD, he said, will be the issuance, early this year, of a policy statement on sub-standard shipping, setting out a possible course of actions by governments.

Hubner said the OECD does not seek to

OECD's air cargo proposals

Member countries should deal with air-cargo regulatory restrictions separately of passenger air transport issues.

By Philip Damas

The Organization for Economic Co-operation and Development has looked into more liberal policies for the international air cargo market since 1997.

In 1999, the OECD transport directorate published a detailed report, *Regulatory Reform in International Air Cargo Transportation.*

A workshop convened by the OECD in 2000 considered liberalization principles and alternative liberalization approaches such as a protocol to existing air service agreements and a "multilateral air cargo agreement."

At the end of January, the OECD was scheduled to hold another workshop on air cargo liberalization.

For the latest meeting, the OECD transport division produced another report for discussion, called *Liberalization of air cargo transport.*

Following are extracts of the report and its recommendations:

- Practical ways and means to promote liberalization in the air cargo transport sector. Increased market access lies at the heart of air cargo liberalization. But there is also a range of ancillary actions needed to improve the efficiency of international air cargo operations."
- Two alternative broad implementation approaches that can be taken towards liberalization of air cargo operations: an amendment to existing bilateral agreements; and an introduction of A new multilateral agreement."
- "Air carriers are still highly restricted ... in their ability to supply the air cargo services that users are seeking. Widespread regulatory constraints imposed by national governments prevent services being provided by air carriers primarily on the basis of technological and commercial considerations. There are differences between countries and regions as to the availability of cargo relevant traffic rights, but as a general rule, the current pattern of bilaterally-agreed international air service traffic rights — designed primarily for passenger traffic — are a major restriction on the most economical operation of aircraft operating networks and air cargo services. Carriers are also constrained by a range of other rules affecting operational and 'doing business opportunities.' "
- "Air carriers also face severe practical hindrances in undertaking their existing services, including the time required for customs to clear their air cargo in airports ... "
- Member countries can take practical liberalization measures "by way of grants of rights to designated air carriers for air cargo transportation, with consistent treatment of scheduled, non-scheduled and charter services. Options include grants on a bilateral or multilateral basis of international fifth- and seventh-freedom rights, as well as the longer term prospect of grants of rights for the operation of domestic air cargo services to designated carriers from other contracting parties."
- The report "focuses on the liberalization of traffic rights for all-cargo carriers, ancillary services and specific air cargo transportation issues that can be dealt with separately under existing bilateral air service agreements. It provides, in the form of a protocol to existing bilateral air service agreements, revised approaches to a number of the cargo-specific regulatory barriers that air carriers are currently facing. These include: maximum scope to diversify into related business activities, the ability to use surface transportation when necessary to provide the most efficient service to customers, and maximum choice in the arrangement of ground-handling services, including self-handling."
- "The provisions include undertaking to implement the best customs practices as recommended by the World Customs Organization and other international bodies."
- (The report) "goes one significant step further, and proposes, in the form of a multilateral agreement, a complete set of articles that would facilitate early liberalization of air cargo services, without compromising in any way essential safety and security aspects of civil aviation. The agreement would provide the means for effective liberalization of existing market access restrictions on all-cargo services, and do so on a multilateral basis."

The fifth freedom is the right of an air carrier to carry freight between two countries on a route with origin/destination in its home country; the seventh freedom is the right to carry freight between two countries by an airline of a third country on a route with no connection with its home country.

replace the International Maritime Organization.

"All our work is done in close coordination with the IMO, We have briefed Mr. O'Neil — he supports our work," he added, referring to the secretary-general of the IMO.

The OECD's contribution to the policy debate on unsafe ships is "economic analysis," Hubner said.

"The OECD tries to involve the industry, for example finance institutions, charterers and classification societies," he added.

The OECD officials regard unsafe ships as a continuous problem.

It is known that countries around the world follow a policy of port state control vessel inspections, but these policies have not eradicated the problem.

"It's the role of the OECD to keep the pressure. It's a serious problem," Hubner said.

Scorpecci, an Australian, cited the recent tightening of the shipping safety policy of Australian maritime authorities. While these measures drove unsafe ships away from Australian waters, the bad ships "moved to other countries with lesser controls," he said.

The combined pressures applied by the OECD, the IMO, port state controls and others must be increased so that "eventually they have nowhere to go," he said. "The only solution is to widen the net."

Hubner also said there are also problems with open registries. "I am not saying that open registries equal sub-standard shipping."

He rejected the argument that shippers don't always have access to the safety records of the ships they use. Shippers, or their brokers, can easily get the information on vessel detentions and safety records compiled by maritime authorities, he said.

Hubner said he sees "a changing attitude to sub-standard shipping." But there is a need for "greater awareness" of the safety issue, particularly among smaller shippers and banks, he said.

He cited the example of major bulk shippers, such as oil shippers, who have developed their own ship vetting safety standards. ■

Seaport security on fast track

Senate passes Port and Maritime Security Act; House expected to take up bill quickly.

WASHINGTON

The U.S. Congress is expected to act quickly upon its return from recess in late January to pass comprehensive legislation to increase security in and around the country's 361 sea- and river ports.

Before the recess, the Senate unanimously passed its version of the 2001 Port and Maritime Security Act. Sen. Ernest F. Hollings, D-S.C., chairman of the Senate Committee on Commerce, Science and Transportation, who originated the bill, called U.S. seaports "a gaping hole" in the country's national security.

"Our agents at the Mexican border near Tijuana will tear the seats out of a car to search for drugs -- while a crane just up the coast in Los Angeles lifts thousands of truck-sized cargo containers onto the dock with no inspection at all," Hollings said.

"For the first time we will require approval of seaport security plans, better coordination of law enforcement, more information about cargo, and directly fund more U.S. Customs agents and security screening equipment to protect against crime and terrorism threats," he said.

While the Senate Commerce Committee first approved the Port and Maritime Security Act in August, the legislation was significantly expanded to cover potential terrorist activities after Sept. 11. Sen. Hollings and Sen. John McCain, R-Ariz., are credited with spearheading the Senate's passage of the legislation.

In early January, Sen. John B. Breaux, D-La., of the Senate Commerce Committee made a three-day trip through the Southeast and Gulf to drum up more support for the bill.

The House has yet to propose its version of seaport security legislation. Shipping industry groups, which have endorsed the improvement in seaport security after Sept. 11, are still expected to lobby the House in the coming weeks to ensure that the legislation doesn't cause undue harm to their business.

Highlights from the Senate version of Port and Maritime Security Act, S.1214, are:

- Creation of local port security committees to coordinate efforts between federal (FBI, Coast Guard, Customs, and Immigration), state, local, and private law enforcement agencies.
- Mandatory comprehensive security plans for all ports.
- Limited access to "security-sensitive" areas in ports, restrictions on firearms and other weapons, evacuation plans, and employee background checks.
- Electronic cargo manifests sent to ports before cargo is cleared to enter, and prohibitions on improperly documented cargo.
- Improvements to requirements for reporting of crew members, passengers, and imported cargo to better track illegal activities.
- A sea marshal program and Coast Guard authorization to board ships entering U.S. ports to deter hijackings or other terrorist activities.

Hollings said that like the airport ticket tax, the users of the ports would directly pay for greater security. Cargo ships currently pay a tax on the gross registered tonnage the ship can carry. That tax rate is expected to decline starting in 2003. However, the seaport security bill would extend the tax rate until 2006, and direct all revenue ($219 million) to increasing seaport security.

To improve seaport security infrastructure, the bill directly grants and authorizes:

- $390 million for grants to ports to upgrade security infrastructure, such as gates and fencing, and remote surveillance systems.
- $166 million to back the $3.3 billion in loans and loan guarantees for port security infrastructure improvements over the next four years.

Under the legislation, Customs will also receive additional funds to invest in new cargo screening technologies to detect dangerous shipments. The bill grants and authorizes:

- $168 million to buy non-intrusive screening and detection equipment for Customs.
- $145 million for fiscal 2002 to increase the number of Customs inspectors for screening cargo and to update the agency's computer system.
- $75 million to fund the development of explosives and weapons screening technology for use at seaports.

It's estimated that U.S. sea- and river ports handle about 95 percent, or 2 billion tons, of international cargo annually. Yet Customs has only enough manpower and resources to efficiently inspect less than 2 percent of containerized shipments.

"Prior to Sept. 11, we already faced security problems at our seaports related to smuggling, drugs, and cargo theft," Hollings said. "But now we face the even greater threat of terrorism — a threat that requires us to immediately tighten security at our seaports, the most vulnerable part of our international border, in the defense of our nation." ■


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Merck resigns from FMC

Former commissioner investigated Florida port tug monopolies.

BY CHRIS GILLIS

Antony M. Merck enjoyed his many years of work in the maritime law profession, and when he was offered a Republican appointment by the Clinton administration to serve as a commissioner at the Federal Maritime Commission, he took it.

Merck

But some jobs aren't always what they're cracked up to be, and Merck resigned from the commission after two years.

"I didn't have an appreciation for the way independent federal agencies operate," Merck said. "It wasn't the type of management that I was familiar with."

While he credits the FMC staff for its knowledge and professionalism, Merck said he was disappointed to find that the commissioners were largely out of the loop on day-to-day operations of the agency.

Prior to his appointment at the FMC, Merck was a partner with Charleston, S.C.-based maritime law firm Buist, Moore, Smythe & McGee from 1973 to 1994, where he focused on admiralty and maritime law, representing shipowners and protection and indemnity clients. He also spent five years involved in investment management and with several non-profit organizations related to health care and natural resource conservation.

Merck said he had become used to a management environment that required direct involvement in issues. "I'm an optimistic person and I like to be consultative," he said.

At the FMC, Merck found numerous instances where he was essentially on the outside looking in at issues.

"To find out what was going on, I often had to act like an investigative reporter or read about it in the newspapers," Merck said. "The problem I believe is that the agency reported to the chairman and not to a board. I decided that I wasn't going to reside myself to insignificance."

Merck is concerned that despite a recent reorganization, the FMC's ways of management won't change any time soon. "I'm afraid it's going to remain status quo."

During his time as commissioner, Merck became involved with several FMC initiatives, such as the 1998 Ocean Shipping Reform Act impact study, China shipping practices, and Florida port tug monopolies.

Although Merck entered the FMC after the legislative passage of OSRA, he quickly and thoroughly examined the law to understand its aspects.

He believed OSRA was functioning as intended, which is to promote the growth and development of the U.S. ocean-shipping trade through more reliance on competition in the marketplace. The FMC is charged with implementing and enforcing the act.

Hotly debated aspects, such as the retention of the ocean carrier antitrust immunity provision, didn't bother Merck as long as it wasn't abused to enhance carrier profits or reduce transportation options to shippers.

While he listened to the concerns of the non-vessel-operating common carriers about the continuance of tariff publishing, Merck was not convinced the FMC should terminate the requirement. "I had eagerly awaited the petition from the NCBFAA (National Customs Brokers and Forwarders Association of America), but I never saw it," Merck said.

Merck also took great interest in the FMC's international activities.

Since 1998, the FMC considered taking action against China for alleged shipping practices that may have had an adverse effect on U.S. shipping in this trade. The agency has the authority by law to combat restrictive foreign shipping laws.

Merck believes unfavorable conditions for U.S. shipping do exist in China. For example, U.S. shipping policy allows Chinese carriers to use their own subsidiaries for vessel agency services in American ports, while the Chinese government requires foreign carriers to use services provided by state-owned enterprises.

But Merck doesn't believe the FMC should take action against China too soon. Requirements for China's accession to the World Trade Organization may breakdown restrictive shipping practices, he said.

Merck began to put his stamp on the agency when he took the lead on the investigation into exclusive tug arrangements in Florida ports. The FMC found that a single tug company, Seabulk International (formerly known as Hvide Marine Inc.), had served Port Everglades and Port Canaveral without competition for more than 40 years. Both the 1984 Shipping Act and OSRA prohibit marine terminal operators from unreasonably refusing to deal or to negotiate with new tug operators.

During the investigation, Port Everglades awarded Tugz International LLC a tugboat and towing service franchise, breaking Seabulk's monopoly in the port. Tugz had been unsuccessful in an earlier bid for a tug franchise.

Merck, the investigative officer, does not take credit for the breakdown of the tug monopoly in Port Everglades, but some industry officials believe that the knowledge of the FMC investigation pushed the port to approve Tugz's franchise request.

Merck issued his report of findings and recommendations to the commission on Dec. 28. It's still uncertain if or when the FMC will take action.

Merck, 57, has since returned to his home in Charleston. During the year, Merck splits his time between Charleston and his other home at Mount Dessert Island, Maine.

Merck has made no decisions about what he will do next, but he said he is open to any of number of possibilities. ■

Blust pegged FMC chairman

WASHINGTON

President Bush intends to nominate Steven Robert Blust to commissioner of the U.S. Federal Maritime Commission and upon confirmation designate him chairman of the agency for a five-year term.

Blust

Blust is president and chief executive officer of Tampa Bay International Terminals in Tampa, Fla. He joined Lykes Bros. Steamship Co. in 1987 and served as vice president from 1991 to 1996. Blust also worked for the Jacksonville Port Authority in Florida from 1985 to 1987.

Blust is a graduate of the U.S. Merchant Marine Academy and holds a master's degree in business administration from Tulane University.

If nominated and confirmed, he would replace Harold J. Creel Jr., who has chaired the FMC since February 1996.

From 4PL to information management

APL Logistics defines its core business as end-to-end logistics, but with a strong focus on information management.

BY PHILIP DAMAS

Is a logistics company primarily an information management company?

APL Logistics, the fast-growing international supply chain management provider, said that this definition applies, as it invests heavily into information technology.

"Well, in essence we are a technology company to a large extent," said Rick Moradian, president, Asia region at APL Logistics.

"If you think of it in broader terms, a fourth-party logistics organization is really a technology organization. In our case we are both a fourth- and third-party logistics environment. We do have 3PL capabilities, but for the most part we behave more as a 4PL. The only way a 4PL could be really successful is for it to have the proper information technology platform to be able to link all the transport entities from a global perspective," Moradian said.

"Again it makes it even more complex when it is global, and not necessarily regional," he added.

Moradian said APL Logistics is "a technology company — we are a logistics company with technology as our strong point."

"The whole concept of logistics is not product management — it's information management," he said.

APL Logistics operates warehouses and manages various transport and logistics service providers on behalf of its customers.

Integration of information with external companies is also playing a key role at APL Logistics.

In 2001, APL Logistics introduced a Web-based information system called "see change technologies."

Based on a technology platform to APL Logistics and large corporations, the system provides enterprise-wide visibility from factory to final destination. The company describes the system as "a proactive, global supply chain decision engine."

"Clearly U.S. multinationals have been on a trend for several years to consolidate all the goods and services they purchase and this has been every apparent in a 3PL arena."

Mike Gardner,
chief operating officer, APL Logistics

"We have a number of customers, including Nike and Philips who use the system — and basically it is a global visibility tool and it integrates with other either enterprise or tracking systems," said Mike Gardner, chief operating officer of APL Logistics.

"So even with our sister company — APL Liner — we have integrated the system so that we can take feeds from their data transmissions," he added.

"We have integrated with, I think, 16 ocean carriers now — so it is really the ability to provide global information. We have released version 1.5 at this point and in the spring we will have the next release and this will be an ongoing process," Gardner added.

Predictive Information. In common with other supply chain management systems, APL Logistics' current system provides exception management alerts (September *American Shipper,* page 31). But Gardner said that such systems "still require human intervention" to redirect inventory or switch a shipment to air freight when an alert has been detected.

"Ultimately what we are looking to do is to provide an early warning system so when things go awry in the supply chain, it will send a warning message to our customer service folks so we can either use pre-plan decision rules and make modifications and/or contact the customer to see what they would like to do in that situation," he said.

He expects the company's information technology system to have this "early warning capability" within 18 months.

But it will require a standardization of decision making to respond to alerts. Gardner said this will "determine what you do with this information."

"I call this predictive information," he said.

APL Logistics also integrates its system with the enterprise systems of large companies.

"Most of our consumer companies take the orders and then from the point it enters their enterprise system, we take over from there, to include delivery to the retailer, up to and including any penalties for 'out of stocks' with Wal-Mart and the other retails," Moradian said. "We are not actually managing the purchase orders on the front end for those types of companies."

Thomas Poulsen, vice president operations in charge of the Europe region, said customers ask APL Logistics, when it starts mixing the international supply chain with domestic distribution and supply chains: "Can we deliver directly to their customers warehouses, so that we don't overwhelm or clog-up the customer's or the brand's own warehouse situation?"

"So what we often do is to pack containers or ... pack trucks specific to the customer's customer and give our customer the visibility throughout the chain so that the merchandise would never touch our customer's actual network," he said.

"So by doing such distribution center bypass or drop-ship programs ... in Europe and America and Asia, we are able to save double handling in the supply chain, if our customer already knows what he has sold to his customer. This means sending goods to their customers directly with the right labels on, the right price tags on the merchandise and the right information straight into their customers' supply chain.

"Now if his forecasting systems or his SAP models do not allow for something like that, then we try to go in and help the customers that we service re-engineer their supply chains and interfaces with enterprise resource planning systems or other forecasting tools to help them do this.

"This is a big 'wow' for customers," Poulsen said.

Integration. Last year, APL Logistics, the logistics arm of Singapore-based Neptune Orient Lines, acquired GATX Logistics, the large warehousing and contract logistics group based in Jacksonville, Fla.

"We now have about 6,000 employees around the world — a large base of operations in Asia and, through the acquisition of GATX Logistics in the United States, we picked up about 3,000 people," Gardner said.

"We spent a good bit of the year 2001 integrating the company," he said. "Previously APL Logistics really had very little presence in the U.S ... but the acquisition of GATX was a major milestone in creating a presence in North and South America." GATX was active in the United States, Mexico, Canada, Costa Rica, Chile and Argentina.

APL Logistics said that integrating GATX Logistics into the group has been more challenging, longer and more costly than anticipated, but it is now largely complete.

"Particularly when you put a plan together from an acquisition perspective, it is really at a high level how you are going to integrate the companies," Gardner said. "As you move that down into the working team — human resources, accounting, finance, information technology particularly — it took a fair amount of heavy lifting to bring all of those together."

But despite the problems of integrating GATX Logistics, APL Logistics has experienced "some very significant organic growth," Gardner said. "We have landed a number of new major customers including Dell Computer, some additional business from Procter and Gamble, Dow Corning and we have seen tremendous market place reaction to the combined entity."

"The plan for next year is that we open offices continuously across Europe and we very much go by customer demand, so we try to pick the places where we have the most customer requirements at any given time."

Thomas Poulsen
VP operations,
APL Logistics

Gardner defined APL Logistics as "a fully integrated supply chain management company providing everything from basic warehousing services to consolidation and de-consolidation for major customers."

Global Capability. Following the takeover of GATX Logistics, APL Logistics, based in Oakland, Calif., is now a $1-billion-a-year company with about 6,000 employees. APL Logistics' revenue in the first half of 2001 accounted for 14 percent of Neptune Orient Lines' group revenue, up from 9 percent in the first half of 2000.

It aims to build up its global logistics network and serve multinational companies globally, as companies reduce the number of logistics vendors they use.

"Clearly U.S. multinationals have been on a trend for several years to consolidate all the goods and services they purchase and this has been very apparent in a 3PL arena," Gardner said.

"We see some real opportunities to bring those U.S. multinational customers to Europe. We are in dialogue with a number of them, again, that is part of the value of the acquisition of GATX by APL Logistics.

"I don't have anything to announce at this point, but you have the major U.S. multinationals, the Dell Computers, Procter and Gamble, Colgate Palmolive, Case New Holland. All of those companies are looking at strategic initiatives relative to how they can source a third- and fourth-party logistics services and that is what really we are all about.

"By being a global end-to-end logistics company, we are looking for those major customers who want a global service offering. They may or may not buy in every region, but clearly with the information capability and the visibility we can provide, we can then leverage them from one 'geography' to another and provide global services if not all, then at least three regions of the world," Gardner said.

He said integrating a logistics information system into a company's global enterprise system comes with a fixed cost. Once done, integrating additional regional subsidiaries into that system is inexpensive. "The infrastructure is in place, we've leveraged the investment, the cost then to add additional geographies in the world is relatively minimal and that is the value to those clients," Gardner said.

Most multinationals now have global enterprise systems, he said.

"We have customers ... in Europe who we could ultimately provide services to in the U.S.," Gardner added. "They key challenge is to integrate their information systems and provide the information visibility."

"The clients we have dealt with, these have been global clients, the Nike's of the world, or the Gap's of this world," Moradian said.

"Is Nike really an American company? It is really a global company. It has just as much presence in Europe as it does in the U.S — and by the way it has just as much presence in Asia; it has all the manufacturing locations in Asia," Moradian added.

APL Logistics operates in more than 27 countries in Asia, the Mideast and the Indian Subcontinent. In Europe, it has a relatively small, but increasing presence.

"We are building a proper infrastructure in the different countries in Europe," said Poulsen. APL Logistics is active in Belgium, The Netherlands, the United Kingdom, France and Germany. In Germany, the company acquired Mare Logistik last year.

"The plan for next year is that we open offices continuously across Europe and we very much go by customer demand, so we try to pick the places where we have the most customer requirements at any given time," Poulsen said. "At this point, firmly in our plans for next year are Italy, Spain and Turkey."

Poulsen said APL Logistics is still looking for acquisitions in Europe, suggesting that some of them may be large.

"We have been evaluating suitable partnerships in Europe for quite some time," he said. "We have not been exactly able to identify a GATX Logistics of Europe."

"It has not been possible for us to go out and identify one company that we could acquire or a joint venture within one go and then build the presence," Poulsen added. He said the Sept. 11 events have made an impact on the takeover thinking of APL Logistics, as the valuations on some companies may decrease further. "If you have money in the bank now is a good time to go out there," Poulsen said.

Poulsen sees a lot of development for the company in Eastern Europe. Parts of southeastern Europe can be "bridgeheaded," for example the Black Sea area can be reached through Turkey. "This is a very big sourcing area for many of our European and American customers," Poulsen said.

Are there any plans at APL Logistics to look for acquisitions in Asia?

"I would say on the Asia front our plans are probably more aggressive in China on the joint venture front for a number of reasons," Moradian said.

"Number one, acquisition in China is not really something that one can do.

"Secondly, the World Trade Organization is one of the main reasons for us to partner with current entities. There are tremendous amounts of state-owned enterprises (SOEs) that are under a lot of pressure to produce and to be really on their own from a profit and loss perspective. They are quite eager to work with an organization that has the capability from a global logistics perspective to really expand their operations.

"Now, thirdly, there is a tremendous about

Asian countries on radar

OAKLAND

Rick Moradian, president, Asia region at APL Logistics, said that three Asian countries — China, Vietnam and India — "seem to be on everyone's radar screen these days."

Substantial growth in demand and major business changes will happen in all three countries, he predicts.

China. "From a China perspective we are dealing with a country that has over 1.2 billion population, and a middle class of somewhere around 120 million, which is almost half the U.S., and it is expected that the middle class is going to grow to about 500 million in the next nine or 10 years," Moradian said.

"So there is a tremendous amount of opportunity from a demand perspective. Not just only from a supply perspective that everyone seems to emphasize because of the World Trade Organization, but from a demand perspective as well.

"We think that WTO is going to change China more from a supply-chain-demand-management angle, and at some point there is going to be a balance between that supply and demand. We believe a supply-chain organization such as us, and a number of others, are going to benefit from that," Moradian added.

Logistics service providers "must have" partnerships with various service providers in China, creating joint ventures with various entities and also having the licenses in the various locations.

Trucking is often the only way to move goods to and from the interior of China, but each province has its own system of licenses, Moradian said. The shipment may have to be unloaded and re-loaded to meet the regulations.

Logistics costs in China are around 17 or 18 percent of global domestic product, Moradian said. "(This) is massive. There's a tremendous amount of inefficiency."

"The infrastructure is so weak ... Supply chain management is poor," he said.

APL Logistics has been asked by China's State Economic Trade Commission to provide training to its organization.

"WTO is not going to increase demand (in consumer countries)," Moradian said. "It is going to shift supply." He said that, as manufacturing quality standards in China are as high as in India, production may shift from one country to another.

Like most international businesses, APL Logistics is predicting substantial growth in activity in China.

"You need to be there at the beginning of that trend ... as the business grows," Moradian said.

India, Vietnam. In India, Moradian said statistics are similar to those in China, if not larger. "The middle class population represents over 240 million people. With that said, the good news is the demand, the bad news is there is a tremendous amount of inefficiencies in the overall infrastructure, or lack of infrastructure in fact," he said. "Whatever exists is probably 30, or 40, or 50 years behind what we would view as world-class, hence, again a tremendous opportunity to create an integrated solution if you will from an infrastructure perspective, from an IT perspective, from an information perspective and really turn that into what we think is going to be a first-rate logistics operation entity."

In India, shipments sent by air often wait for two weeks at the airport to be cleared. "Then, what's the point of air freight?" Moradian said.

Ports in India are congested and warehouses are 30 or 40 years old, he added.

But Indian is going through a process of transformation.

Vietnam is "a complete raw field," a country where 30 years ago there were massive bombardments, Moradian said. But the Vietnamese president and President Bush recently signed a deal to cut tariffs.

"So there is now tremendous opportunity from a manufacturing and development perspective," he said. "We have two offices there with 250 employees, massive operations from key and multinational corporations, such as Nike. We do complete end-to-end supply chain management capabilities, from Vietnam on down to ultimate delivery to the stores throughout the world."

"Most of the countries we are dealing with are third-world countries that still have a tremendous amount of documentation that has to flow through the network," Moradian said.

"It goes completely against the true definition of logistics management as the Council of Logistics Management would define it, but that again is reality.

"So the information in some of these countries is not only just information from a one-to-zero perspective on our network, but also documentation flow from customs, from inspections and gaining various 'chops' (stamps) from various provinces, various locations around China or India and so forth. Down to the final product that flows into the stores of our customer bases whom clients usually purchase from. So it is a complete end-to-end supply chain solution and again, the backbone of that is our information technology," he added.

of fear, or anxiety, from the China perspective in that with the restrictions on imports being lifted, or at least being minimized, a lot of them are questioning whether they can be competitive in the current environment," Moradian said.

He expects "a tremendous amount of joint venture activities in China," adding that the next set of acquisitions in Asia will be somewhat more on a global scale, as opposed to Asia-only.

APL Logistics is also considering "niche acquisitions" the U.S. and Brazil.

Stand-alone Operation. APL Logistics said it is an independent operation within the NOL group, and is not tied to use the vessels of APL Liner.

A board of directors of APL Logistics was set up last year, comprising non-executive directors, as well as executive directors of the NOL group and APL Logistics.

Gardner said APL Logistics is driven by mergers and acquisitions, and needs advice from non-executive directors.

"We would like (APL Logistics) to be a public company," he said, adding that going public could happen in the next two years.

The NOL group has declared that it would like APL Logistics to be as large a business as APL Liner, the group's $2.5-billion container shipping line.

About one-third of APL Logistics' business goes on APL Liner ships, a percentage that the company expects to remain stable.

"Many of the customers actually make the decision on which shipping line or carrier to use — it is not our decision," Poulsen said. "But as such, APL Logistics is a neutral provider. We can obviously offer certain integration benefits with our sister colleagues in APL Liner if our customers so desire."

The dual logistics/shipping interest of APL Logistics/APL Liner resembles that of other large shipping groups like Maersk Sealand/Maersk Logistics and P&O Nedlloyd Container Line/P&O Nedlloyd Logistics.

Through the GATX acquisition, APL Logistics took over GATX e-Logistics; an e-fulfillment operation that was subsequently renamed APL Direct Logistics.

"I think what we found was the same thing that the entire marketplace has found, that the dot-com crash has come down upon our ears as it has everyone," Gardner said.

"(APL) Direct has a number of customers, such as AOL, who we provide services to. It is a state-of-the-art e-fulfillment facility in Kentucky in the U.S.

"We haven't seen too much demand of late, and even on the business-to-business side we have really struggled trying to get our existing client base to really evaluate those kind of options. So it is really a niche play for some of our customers, but not many of them will turn that into a broad market statement," Gardner added.

"Clients are looking more and more beyond just transportation and distribution. They are looking for optimization, they are looking for an organization that can constantly improve and affect their supply chain, this from a speed perspective, time perspective, inventory flow perspective and so on."

Rick Moradian
president, Asia region, APL Logistics

Cost Re-balancing. Following the disruptions to supply chains on Sept. 11, people have realized that they were too focused on cost at the expense of other logistics variables, according to APL Logistics.

"The supply chain has become so efficient," Gardner said.

"You look at the inventory sales ratio, particularly in the U.S. It is at the lowest in history, and what has happened is that they have taken all the slack out of the system of supply chain because we have become very efficient, very, very cost focused.

"What we are seeing customers now do is that they are adding buffers of inventory at various points of the supply chain and even customers who use vendor-managed inventory, particularly in the electronics sector, they are forcing their vendors to maintain an extra day or two of supply. Not that they are anticipating a similar kind of event, but who knows what is going to happen?

"We think the pendulum has swung too far," Gardner stressed. "Let's balance a little bit, so we do have some available inventory to feed these 'just in time' manufacturing systems."

APL Logistics reported that it has seen a few customers focused on electronics and automotive evaluate, and actually move some freight from air to ocean.

Gardner also confirmed the recent trend that companies are adding some more inventory in the supply chains (November *American Shipper,* page 17).

In Asia, depending on how compressed the order cycle for clients was, the implications were different, Moradian said.

"Some other things that we noticed ... was questioning sourcing strategies," he added.

"A lot of customers started questioning whether they should source from north of the 24th parallel in the Mideast area, from Pakistan or from Bangladesh, or from Sri Lanka or some of those locations, and they are starting to think twice about basing decisions purely on cost of manufacturing as the only factor.

"Some customers have started debating whether they should source from a single country or should they split that sourcing process from different countries in order to be able to alternate from an emergency perspective.

"Most of our automotive clients are questioning their lean manufacturing and just in time product flow principles. It doesn't make sense to have three- or four-hour inventory in your pipeline, especially when you have products that are flowing in from other continents," Moradian said.

"Clients are looking more and more beyond just transportation and distribution," Moradian said. "They are looking for optimization, they are looking for an organization that can constantly improve and affect their supply chain, this from a speed perspective, time perspective, inventory flow perspective and so on and so forth."

APL Logistics has optimization software and an engineering division. The work of the division's 45 employees is to advise on the optimization of networks, the optimal number and location of distribution centers of a given company. ■

Finding 'the sweet spot'

Compaq turns to Logistics.com's collaborative logistics solution to improve service bidding process.

BY ROBERT MOTTLEY

Shippers and carriers are reaching out to each other these days in ways that would have strained credulity not so many years ago.

Their traditional adversarial roles can be summarized as follows:

- Shippers want their goods to move as inexpensively as possible.
- Carriers want to charge all the traffic will bear at a particular moment in trade and time.

The resulting figure is famously and forever too high for one party and too low for the other.

The witching point is the bidding process, when a shipper will solicit hard figures from a number of carriers before narrowing the field.

Today, shippers and carriers have the opportunity and the means of negotiating with less strain. The Internet provides the opportunity; collaborative logistics offers the means. Compaq Computer Corp. recently used technology from Logistics.com, a third-party provider of transportation solutions, to make a series of staggered rounds of rate bidding more palatable.

"Historically, our bidding processes were probable like those of a lot of shippers," said Thomas W. Day, director of global logistics for Compaq Computer. "We used to do it all manually.

"We'd gather four or five people with database experience into a room. We'd try to go out and collect data regionally instead of centrally," Day said.

"Compaq's bids ranged from ocean bids to those for North American less-than-truckloads to air bids. We'd have people tied up for 18 months working in that room, or 'dungeon,' as which we used to call it. Then we killed a lot of trees by typing everything out, sending the requests for bids, getting responses, and ultimately going through several rounds of bids to narrow the process down to the carriers we finally wanted," he said.

"That's when the work really started, because then you'd spend the next 12 weeks evaluating only your major lanes, to determine who had the best bid."

"We had over 500 lanes of traffic that we had to bid out in order to select our carriers," Day said at a seminar sponsored by the Council of Logistics Management. "We started off with 17 ocean carriers and ended up selecting four.

"You also have to understand the complexity of the context for that process," he explained. Compaq pays 1.5 million bills a month. "That's a lot of payments going through our (IT) system."

Externally, Compaq servers run systems that control two-thirds of the world's electric power supply. Other systems manufactured by Compaq handle 66 percent of all credit card transactions worldwide, 95 percent of transactions in securities, 80 percent of ATM transactions, and 75 percent of transfers of electronic funds.

"The old way, when bids came in, we would look immediately at their back page. So even if the responding carriers had done a lot of last-minute work, we'd basically look at the back page and say, 'what's the cheapest rate? That's what we're going to go with,' " Day said.

"If the carrier didn't perform, you'd say, 'sorry, we don't want to use your services anymore. We'll go to somebody else.' You kept the churn going by rotating carriers top to bottom. Eventually, the carriers you kicked out before would come back to the top. It was always a constant training cycle of what your expectations were," he said.

"That adversarial relationship with carriers caused problems. A lot of times, the carrier would be the last intermodal element to touch our customer. If a carrier should be frustrated with us, often that frustration would be passed on to the customer.

"We wanted better service. We knew we had four bids in sequence coming up. We wanted to do them electronically, to stop killing trees and sending requests for quotations back and forth. We wanted a one-stop process, so that we could go out there one time, with everyone sending the bids back to us electronically. Not only could we take care

"Instead of having five people to manage the old process, we needed only one person with OptiBid. We were able to go through 500 lanes of traffic in three days and find the carriers we want to use. We not only evaluated rates, but 15 other criteria as well."

Thomas W. Day
director of global logistics, Compaq Computer

of the major lanes of our transportation routing, but the minor lanes as well," he said.

Compaq looked around for a third-party logistics provider "because we didn't have the people to go through an 18-month process," Day said.

Logistics.com, a third-party logistics company based in Burlington, Mass., had used its OptiBid software to manage a series of bids for Wal-Mart that involved 4,000 lanes and 400 carrier responses;

"Previously, Wal-Mart negotiated with its carriers in multiple-round bids to get the lowest price. The effect of that was a 60-percent turn-down rate on their primary tenders, and a real capacity-finding problem on the other side, especially in the months of November and December," said Joseph H. Wagner, senior vice president of global sales for Logistics.com.

Using the provider's OptiBid solution, Wal-Mart increased its primary tender acceptance rate above 95 percent and still obtained the low rates it wanted.

Impressed, Compaq asked Logistics.com to help with its bidding rounds. "Instead of having five people to manage the old process, we needed only one person with OptiBid. We were able to go through 500 lanes of traffic in three days and find the carriers we wanted to use. We not only evaluated rates, but 15 other criteria as well," said Day, who is based in Houston.

"Moreover, we were 100-percent confident that all lanes had been evaluated, and that we had found the optimal solution for all of them, not just the major ones."

The effects on Compaq were immediately beneficial. "We were able to implement our carriers 12 weeks ahead of our prior schedule, and we were able to go to contract almost immediately, because of the interaction we'd had with the carriers we selected," Day said.

"That was a big improvement over tense, last-minute negotiations in the past. This time, there were no 11th-hour surprises," Day said in an interview.

"We were slow in our processes five years ago. Today, we're much more agile. Back then, it was all bids. If you worked in a procurement department at Compaq, and you were trying to buy components, you would go and negotiate a price for a particular part. If you could get 10 cents off, you'd order 500,000 more of those parts. That way, we gathered a lot of inventory. We threw all of those other costs, for transportation, IT systems, etc., over the fence, and the rates we obtained were whatever the vendors charged us.

"Now, we have more flexibility to negotiate rates, and can assess bids, even in a multiple, staggered process, in three days or less instead of three months," Day said.

"Collaborative training definitely takes adversity out of the bidding process."

Joseph H. Wagner
senior VP of global sales, Logistics.com

"We have to make the exchange of information between carriers and shippers more efficient," Wagner said. "We developed OptiBid six years ago when the company that became Logistics.com was actually owned by Sabre.

"What happened at Compaq certainly was not unique in the industry. Anytime you get above 50 to 100 lanes — many large shippers have 1,000-lane networks — the collection of data and the ability to make the right decision based on information from so many sources becomes very difficult and time-consuming.

"That's on the shippers' side. Meantime, the carriers are trying to understand why shippers make certain choices. They are trying to improve their business by realigning their resources, if they can, to win more business from shippers," Wagner explained.

"When a shipper is unable to segment the data, analysis it, and give a credible result back to his or her carrier partners, that drives the adversarial relation."

As a 3PL caught in the middle, Logistics.com developed collaborative solutions for both groups.

"On the carrier side, we started down the path of giving them better tools to look for specific lanes that would match their network, the ability to take information from their own dispatch systems and overlay it on top of the shippers' networks, so they can build an effective virtual collaborative network to handle the requirements of a shipper's bid," Wagner said.

"Every shipper has a specific market rate — we call it 'the sweet spot' — that makes most sense for his or her supply chain, given the balance between inventory carrying costs and the effects on manufacturing relative to direct transportation costs.

"Carriers need help from 3PLs in understanding that balance. For example, not every shipper requires 99.9 percent on-time delivery."

Shippers need to decide what message they want to communicate to carriers, Wagner said. "Do I want to tell them that 'in this case, I'm looking for a strategic partner.' Do I want to say, 'for this, you're just a commodity, and I can find a hundred other people like you.' Both scenarios are valid, depending on the shipper's needs of the moment."

"Whether you actually say the words or not, the carriers are going to get the message" from a shipper's subsequent actions.

What is the carriers' view? "They never want to see an auction. The number-one response from a carrier is, 'I want a direct relationship with you, the shipper,' " he said.

"There are times when carriers are looking for market share. In those situations, a reverse auction can actually assist them — in fact, carriers will respond very aggressively to a reverse auction if it helps their network, or if they have overcapacity in certain areas of the country.

The carrier wants to know from the shipper, "tell me what's expected. I'd like to know what your service requirements are. I'd like to know when I can trade off equipment. I'd like for you to prioritize your expectations relevant to my performance.' In short, 'Tell me where I should spend my money,'" Wagner said.

In tense times, shippers find that a collaborative relationship with empathetic carriers can more quickly sort out "who works best with you during a surge period, and who allows you to maintain the same rate when your volume drops off," Wagner said.

In a collaborative spirit, shippers should also be willing to train prospective carriers who might succeed with future bids. "Today, a carrier in any mode — ocean, air, trucking — wants to know 'if I lose a bid, how can I win the next time?' Losers often win the next bids if they work at them. We've seen situations where $30 million worth of business routinely swings back and forth," he explained.

"Collaborative training definitely takes adversity out of the bidding process," he said. ■

SURVIVAL GUIDE FOR CUTTING LOGISTICS COSTS

Consultant Ed Kugler offers strategies to bring concrete changes to companies' bottom lines.

By Robert Mottley

It's better to chop than be chopped. As corporate bottom lines grow starker, more chief executive officers are pressuring logistics executives to reduce costs. The question is how, without too much bloodletting — especially your own.

Ed Kugler, chief executive officer of Direct Hit Inc., a logistics and change management consulting company based in Big Arm, Mont., is blunt about the hard facts of logistics life.

"As logisticians, we'd like to be kingpins, but too often we have such a small role that we're barely pawns," Kugler said in a seminar at the Council of Logistics Management's conference last year.

"Quite a few companies have let their logistics managers know they really aren't that important in the greater, prevailing corporate scheme of things," he told *American Shipper.*

"If your smartest vice president resists this change project you've proposed, shoot him."

"The unsubtle message that comes down goes like this: 'you're in a dirty part of the business we don't want to hear about until it's time to chop costs again.' They always start with the ax in logistics departments, which are perceived as open cash drains," said Kugler, who has been vice president of logistics at Compaq and also worked for Pepsi and Frito-Lay.

Get Real, Be Honest. Perhaps because of such disdain, logisticians "try to gloss over the basic fact that we move freight. Once, we were 'distribution people.' Now, we say we 'manage supply chains.' That's a step up only in syntax," Kugler said.

"Let's say you're a logistics executive who gets the word from on high: 'start a change project and save us money, or else.' That's the lingo these days: change projects. It sounds better than downsizing."

"There's a lot of flash about change programs. If you've been tapped to ramp one up, get real, be honest, and don't play political games when you're hunting for money.

"By God, if I don't take $2 a ton out of our costs, I'm going to be fired."

"If you do all that, you'll stand out like the sore thumb you'll be in most organizations. Today's corporate cost-saving mindset of 'we've scraped off all the meat, so now we'll shave the bone' is the equivalent of downsizing the Seven Dwarfs to five by phasing out Dopey and Sneezy, and in a politically correct marketing mode, changing Grumpy's name to Moody," Kugler said.

Since some logisticians prefer fairy tales to their real-world status, the first thing a change manager should do is "to know where you stand in your own company," Kugler said.

"Don't play political games when you're hunting for money."

"If you're not on the radar screen of your chief executive officer, you need to know that, and then rapidly get on the screen of one or more of your company's senior management team," he explained.

"The next step is to figure out what management is angling for. Yes, they want to save money. But where, specifically? Not long ago, I had a client with revenues of $6 billion who kept saying, 'we have to change the way we do business, can you help us?'

"I kept asking 'what specific problem are you trying to solve?' The bottom line, after two days of beating around the bush, finally aired when the company's vice president of logistics slammed his fist on the table and said, 'by God, if I don't take $2 a ton out of our costs, I'm going to be fired.'

"I said, 'now we know the problem,' " Kugler said.

Early in a change project, "you also need to define what success will look like. It would be a pity not to recognize it," Kugler said.

"You need to show your CEO a plan indicating that 'when we have done thus-and-so, we will have reached our goal.' It's never wise to let someone else set the perimeters of what defines success," he said.

The Right Team. Logistics change managers need support, "ideally from the company's CEO. Sometimes I've had that, sometimes not," Kugler said. "My advice is to settle for a CEO's grudging acceptance — don't expect backslapping, wholehearted support.

"You must have support from your chief financial officer, and key members of the CFO's senior staff. You get them on your side by talking their language," he said.

"At Compaq, we put together a major change project from 1994 to 1997. At the beginning, Compaq was spending 11.7 percent of sales on logistics. At the end of three years, that figure had dropped to 6.5 percent, which equated to about $1 billion dollars. About $400 million of that was in real dollars saved.

"We obtained support for that change project by going and finding people closer to Compaq's CFO and head of sales than I was. We put a plan together showing what the project would do for them," he said.

Picking the right personnel is essential. "You need to build an 'A' team to effect a major strategic change," Kugler said. "Calling that an 'A' team doesn't mean talking down about people. At various times in my own career, I've worked on 'A,' 'B', and 'C' teams. The lettered category is about where they are as contributors to strategy when you take a snapshot to embark on a change project."

An "A" player is someone to whom "you can give a crisis and know he or she can handle it. If you don't have time to follow up, you know they are going to do the right thing," Kugler said.

"A 'B' player is going to need more time of yours to get the job done. 'C' players are very important," he said, "because they are the long-term professionals, the experienced people who make the business work because they're there all of the time. They are the ones who know how doable what you've proposed really is. If you make them feel part of your team, they may even tell you."

"At least 50 percent of your team needs to be made up of 'A' players," Kugler said. "There has to be a balance in this top cadre between headquarters and field people. It can't be all one or the other — it has to be a mix of the two."

As for the rest, "you need 25 percent 'B's and 25 percent 'C's."

Moving The Rock. Once a change team is in place, the next step is not to be benched by the same management that ordered the cost reduction project in the first place.

"One of the major problems in corporate America is that a phalanx of meetings is held, tasks forces are assembled, yet the rock doesn't move. People are even promoted for having done nothing," Kugler said.

Judith Bardwick wrote about that metaphorical rock in her book, *Danger in the Comfort Zone: From Boardroom to Mailroom, How to Break the Entitlement Habit Killing American Business* (1995).

"After Bardwick's book came out, my secretary brought me a large rock that we kept on our conference table as our change project symbol," Kugler said. "After each staff meeting, we'd ask each other, 'did we move the rock today, or did we just sit there and beat the heck out of it?' "

The essentials of moving goods haven't changed over the years. "The driving factors are weight, space, velocity, value, size, and distance," Kugler said.

"By space, by I mean how much room your product takes up going through the system — how many trailers are necessary to move it, how big they have to be, how many warehouses they required. Velocity means how fast a shipment has to move. Value can be a spur, as well, since high-valued cargo usually moves faster at greater cost.

"As you take cost out, start with distance. There are two elements to distance if you're looking for leverage. You can reduce the number of miles, or the cost of the mile," he said.

"Which gives higher leverage? Taking out the mile. If the cost is $1 a mile, you're taking out a $1 with every mile eliminated. If you take out 10 percent of the cost of the mile, you're only taking out 10 cents. Both are important, but leverage comes from taking the mile out.

"Today's corporate cost-saving mindset of 'we've scraped off all the meat, so now we'll shave the bone' is the equivalent of downsizing the Seven Dwarfs to five by phasing out Dopey and Sneezy, and in a politically correct marketing mode, changing Grumpy's name to Moody."

Ed Kugler
chief executive officer, Direct Hit Inc.

"It's the same with weight. Take the weight out, you reduce the cost you're being charged. Or, you can reduce the cost of the weight, how much it's costing per pound," Kugler explained.

Making It Painful. Space — warehouse storage and associated costs — can also be a significant expense. A chairman of one corporation once called Kugler into his office and said, "Our inventories have reached $2.2 billion, on a $10.5 billion base, so inventory costs are now over 20 percent of sales. Do something about it."

Kugler told the chairman, "This is the garage principle at work. In Connecticut. I had a two-car garage. In Texas, I have a three-car garage. I still can't get my car in it, because the garage is full.

"That's what happens with warehouses. If you have the space, it's going to fill up. That's why we have to figure out how much space you really need, and limit your people to using that amount and no more. In fact, we need to make it very painful for them to add more space," Kugler said.

The CFO said, "Consider it done. They'll have to come through me. If they ask for more space, I'll call you."

"The pain was that anyone wanting more space had to go to the CFO," Kugler said.

"In two years, my teams cut spending from $290 million to $240 million," he said. "We couldn't say, at the end of that period, that we had put in a cutting-edge new system. We didn't. The savings was all in the dirty work. For example, we cut the carriers we used from 30 to three. There were howls of protest up and down the trail, in and out of the company, but the results spoke for themselves."

Know Everything. The next step in a change project "is to tear your logistics organization apart on paper. You'll want to know everything about it: where the spending is, all of those little 'other accounts' that everyone throws things into; all those carriers they are using 'because they're the only ones we can get in this area', a ruse as old as saying 'the check is in the mail.'

"You can hone it all down, with information from the Internet and elsewhere, to find where money can be saved, but then you have to roll up your sleeves to go get it," Kugler said.

"If you turn to outside help, from consultants or 4PLs, use them only for coaching your in-house team. Consultants leave before the implementation. They don't want to be around for the shooting," he said.

> *"Change is painful. Don't try to sweeten it."*

"Finally, you have to validate that what you want to do can actually be done. This is a rough step because everyone's face and ego is in the sling, not least the team leader's.

"You have to get some old salts out there on your side, to say how feasible it is. No one else will tell you that particular truth. If the answer's zip, you need to hear that early in the game," Kugler said.

"Let's say your present logistics operation is costing your company $500 million. After looking at all the procedures you know are wrong or need correcting, and after checking costs in the 'real world' outside, let's assume you've determined that the same work could be done for $250 million.

"That's the gap: between $500 million and $250 million. There's no single fix. And there's a brake on what you can do: the amount of change people can actually digest at one time," Kugler said.

> *"Forecasting heroism – committing to a goal prematurely – demoralizes your team players … you can't get any decent work out of them."*

"If you're smart, you don't forecast heroism. You don't say 'we'll reduce costs by 20 percent."

Don't Be A Hero. At one computer manufacturer, an overzealous executive actually pledged publicly to have an expensive and complex client-server software system installed in just one year.

"That was in 1994. I can give you the phone number of his successor, who is still trying to implement the 2002 version of that system," Kugler said. "It's like people say of the CIA, 'once in, never out.'

Forecasting heroism — committing to a goal prematurely — "inevitably demoralizes your team players before they ever come out of the blocks, and you can't get any decent work out of them. Your plan is shot before you even have started," he said.

Instead, "you want to prioritize your opportunities to reduce costs. Circle in red the chops for which you get up to 80 percent support. According to our hypothetical example, that lowers your window to between $500 million and $350 million.

"Of course, that's less than you planned, but it is doable, and $150 million is a respectable amount of savings,"

Half Wrong Isn't Bad. Once, a CEO balked when Kugler's team reported that a particular corporate 'sacred cow' operation could be done for $20 million less. "I don't think there's that much money there," said the CEO, who had made a pet project of the operation being questioned.

> *"Did you move the rock today, or did you just beat the heck out of it."*

"You wonder why you're losing money," Kugler said. "It's because you've let it be. "Suppose we're half wrong?" Kugler said. "That's still a savings of $10 million." The CEO demurred, and the project survived until his last day with the company.

"Being half wrong isn't bad when you're talking about money that's already being spent in the system, and as such, is ripe for saving," Kugler said.

"As you implement your plan, sketch it out in grids and make different people responsible for different grids. One changes packaging, one negotiates an aggregate rate, another person plans routing, etc. Everyone's work has to be integrated, with clear responsibilities of duty and boundaries of activity, so people don't overlap in their work.

> *Never let someone else set the perimeters of what defines success."*

"It helps to assign one person to act as traffic cop and town crier," he said. "People do what they are rewarded to do. Take special care of your 'A' players and those 'Bs' who take less of your time as they learn more."

What's Different? At the end of the day, "you have to be able to pass the 'so what?' test. That's when you ask everyone, 'we did all of this, what's different? Just because everything has changed doesn't mean that everything is different. How many 're-orgs' have you been through when that was true? In the end, they only brought a little breathing room."

In Kugler's view, that explains the thinking behind the proposed merger of Hewlett-Packard and Compaq. "Nothing's happening in either company. Bringing them together will only buy time for the executives at the top. As one analyst said, 'it's like tying two rocks together and throwing them in the river to see if they float.'"

After Kugler's CLM presentation, a member of the audience asked, "how can you lay out a clear logistics strategy when a company's business strategy is murky?"

" That's tough," Kugler replied. "I've been lucky to work mostly for companies that had clear-headed plans. You have to work from within, and try to find your way through the fog. But you can't let that sap your confidence."

Sustaining Credibility. Most change projects fail because of a lack of leadership, "which is the art of mobilizing people to get results," Kugler said.

" I can't motivate you. You have to bring your own motivation to the table. As a leader, I can inspire you to focus and fire up your motivation."

To do that, a team leader "has to own the project. You have to be enthusiastic about it, you have to live it and love it, and been seen as doing so. Otherwise, you and the project will have no credibility with your team. Lukewarm leaders lose their troops," he said.

"No one wants to work hard on a project that seems impossible. If your 'C' players smell doom, and you can't deal with their suspicions, then you're sunk."

Finally, change is painful. "Don't try to sweeten it," Kugler said. "I once told a CEO, 'if your smartest vice president resists this change project you've proposed, shoot him. If you're unwilling to do that, don't start my team rolling without your full support." ■

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IT may need IV in 2002

Morgan Stanley study finds outlook flat for outsourcing information technology logistics.

By Robert Mottley

The first half of 2002 is going to be dismal for providers of information-technology-related logistics services, according to a survey released in December by Morgan Stanley's Equity Research North America division, based in New York City.

The survey asked chief information officers for a broad range of companies to indicate anticipated IT budget growth for 2002 in four areas: hardware, software, networking equipment and outsourced services.

Based on the survey's results, analysts at Morgan Stanley forecast "2-percent IT budget growth for 2002," said Charles Phillips, managing director for equity research.

Phillips

Corporate caution in regard to IT budgets is definitely increasing. "The percentage of CIOs indicating that the slowing economy has caused them to re-evaluate IT budgets in the last month rose in November, to 67 percent, from 52 percent in October," Phillips said.

Asked about budget re-evaluating, 34 percent of the survey's respondents said they were planning to spend less. One in 10 CIOs said their senior management had given them direct orders to cut spending.

In terms of overall IT spending, 34 percent of the survey's respondents predicted flat IT budgets. Only 1 percent anticipated a 25-percent increase in spending, compared to 4 percent that expected a 25-percent decrease in IT spending.

Not Much Movement. As for money spent on IT hardware, 43 percent of respondents predicted that acquisitions would flatline. However, 13 percent predicted a 6-percent increase in hardware buying, while 4 percent anticipated a 6-percent decrease in spending for hardware.

The CIOs were almost equally cautious about spending money for networking equipment: 37 percent predicted flat sales, and only 17 percent said they would upgrade their networks by an outlay of 6 percent.

As for buying software, 42 percent of the respondents predicted that sales would remain flat. However, 16 percent indicated that they would allot up to 10 percent of their budgets for new software, compared to 3 percent who said they would reduce spending to that degree.

In terms of outsourcing, 43 percent of the survey's respondents predicted that outsourcing would remain flat through 2002. Ten percent said they would increase spending for outsourcing by 6 percent, while 8 percent of the respondents said they would reduce their spending by 6 percent.

First And Last. Asked to list their top priorities in 2002, 37 percent of respondents listed "e-commerce initiatives" in first place.

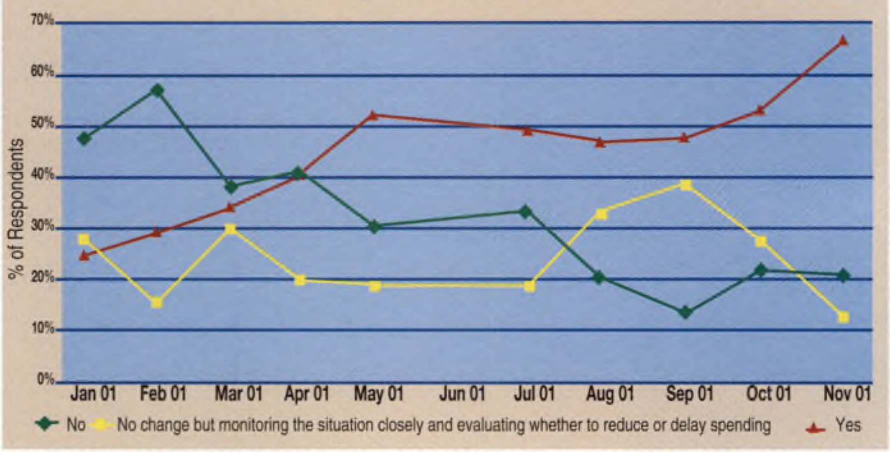
The second through fifth top priorities were:

- "Security software" (important to 34 percent of respondents).
- "Application integration" (33 percent).
- "Storage hardware" (28 percent).
- "ERP software and ERP upgrades" (26 percent).

XML-based applications ranked 11th (19 percent). Data portal projects ranked 13th (17 percent).

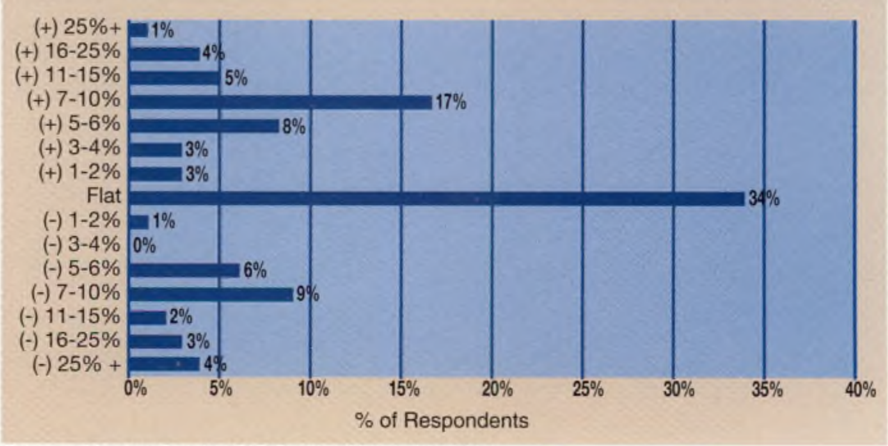
Interestingly enough, only 10 percent of the survey's respondents listed "supply chain management software" as a priority, in 32nd place. Near the bottom of the list were "consulting" (43rd place, important to only 5 percent of the respondents), "inventory man-

Has the ongoing news about a slowing economy combined with a stock market decline caused you to re-evaluate your budget/spending plans within the last month?



Source: Morgan Stanley CIO Survey, November 2001.

Overall information technology budget



Source: Morgan Stanley CIO Survey, November 2001.

agement" (48th place, cited by four percent of the CIOs), and "content delivery networks" (40th place, cited by 4 percent).

The lowest rung went to "e-store software for Web site" (51st place, noted by only two CIOs, or 1 percent of the total respondents).

ERP Slowdown. Asked if they would spend more on new projects in 2002 than in 2001, 44 percent of the responding CIOs said no, 28 percent yes, and 16 percent maybe. The money that is spent is more likely to be spread throughout the year, according to 55 percent, with more of it being held back for the second half of 2002.

Looking at their companies' business prospects, 43 percent of the survey's respondents answered "positive," 40 percent "neutral," and 17 percent "negative."

The economic slowdown has caused a backlog of pending or potential projects at many companies: a "modest" number for 53 percent of the survey's respondents, and "significant" backlogs for 18 percent. However, 28 percent reported no pending backlogs or deferred projects.

Asked if they planned to invest in Enterprise Resource Planning (ERP) software in 2002, 60 percent of the respondents said no, 28 percent yes, and ten percent were uncertain.

Among ERP users, 47 percent reported centralized deployment of ERP applications and 12 percent reported distributed deployment, consolidating where possible.

As for supply chain management software, 64 percent of the respondents have no plans to buy any such solutions, 16 percent will do so, and 19 percent are uncertain.

Equipment Costs. Interesting enough, 42 percent of the CIOs surveyed reported that data networking equipment is slightly less expensive than in the recent past, and 15 percent said they were paying significantly less for such equipment. While 28 percent said that prices have remained the same, only 2 percent reported paying more — and that only "slightly," not" significantly."

As for functionalities receiving top priority, the CIOs listed "sales force automation" (49 percent) and "marketing" (38 percent), followed by "support and service" (26 percent), "partner relationships" (25 percent) and "pricing and contracts" (22 percent). "Field service" ranked lowest (listed as a priority by 17 percent of respondents).

When asked when the U.S. economy will improve, 37 percent of the respondents said a turnaround is likely to occur in the second quarter of 2002. Others, more cautiously, predicted an improvement in the third quarter (31 percent) or fourth quarter (16 percent).

The percentage of CIOs placing their bets on the fourth quarter more than quadrupled since a Morgan Stanley survey last August. Some optimism showed up in November, when the percentage of CIOs predicting no significant change until 2003 dropped from 13 percent to 7 percent.

When asked for their outlook on current conditions of the U.S. economy, 36 percent of the CIOs said they were neutral, 36 percent slightly positive, 20 percent negative, and 8 percent said they were positive.

The survey asked one very pointed question: "Has the increased concern about security slowed your plans to build collaborative applications that integrate with trading partners?" Among the survey's respondents, 81 percent answered "no," 7 percent "yes," 8 percent "unsure," and 4 percent, "probably." ■

COSCO enters logistics market

BEIJING

The China Ocean Shipping Co. group has set up a new logistics arm, COSCO Logistics Co. Ltd., and entered the logistics market.

COSCO said the establishment of COSCO Logistics aims "to meet the challenges of China's entry into the World Trade Organization and help carry out COSCO's strategic plans of becoming a global logistics service provider from (its) current status of one of the major global carriers."

Most large shipping lines have set up logistics arms, such as Maersk Logistics, APL Logistics and MOL Logistics.

The newly established COSCO Logistics comprises eight subsidiaries in China, based in Dalian, Beijing, Qingdao, Shanghai, Ningbo, Xiamen, Guangzhou and Wuhan.

COSCO said its new logistics business has Internet platforms called "On-line Inventory Management Information System," "On-line Road Transportation System," "On-line Space-booking System" and "Online Settlement System."

COSCO Logistics is targeting customers in China and abroad in a variety of fields, including logistics services, international shipping agency, international multimodal transportation service, freight forwarding, road transportation service, air transportation service, rail service, terminal operation management, storage and distribution operation, less-than-containerload service, project development and management, and chartering. ■

Theodore Prince

E-mail: ted@oax.com

Punxsutawney policies

Punxsutawney, Pa. is the site of one of this month's most watched ritual – *Groundhog Day*. In the movie of the same name, the protagonist is stranded overnight and awakens to discover that some unexplained, supernatural powers have sentenced him to re-live the same day over and over again — until he changes for the better. Facing the dual challenges of national security and recession, government policy shapers must sometimes crave similar powers.

Only six years ago, President Clinton declared the end of the era of Big Government. However, since Sept. 11, America has responded militarily, increased intelligence initiatives, and created an Office of Homeland Security. The transportation industry has expanded to include 28,000 new federal workers for airport security. Government's primary role is national defense, and these steps are similar to ones taken in 1941 and the mid-1960s. But, increasingly we also find ourselves looking to government for solutions to a range of problems as varied as financially distressed industries, displaced workers and a bio-terror threatened public health system.

While the investigation of Sept.11 intelligence shortcomings has been postponed until later this year, an interesting similarity exists between government and industry. As they downsized, both had difficulty absorbing and processing vital information. Jobs — but not workload — disappeared. Prior to Sept. 11, intelligence agencies lacked personnel who could speak the language of our known enemies, the U.S. Immigration and Naturalization Service couldn't share data with intelligence agencies on known terrorist suspects, and lack of information and coordination delayed investigation and response to anthrax incidents. Like industry, government must resist the urge to throw money and people at known problems, and work to improve actual business processes.

The current recession has focused attention on governmental largesse. Lobbyists seem to have descended on Congress and just about "anything goes" — especially if you can wrap the proposal around economic stimulus and national security. Far-fetched transportation proposals (from Amtrak funding to Dulles Airport light rail) have made surprising progress.

Much speculation swirls around the future of globalization. Shortly after Sept. 11, John Gray, London School of Economics professor, declared the era of globalization to be over. The attacks on New York and Washington were clear evidence of the sense of injustice and rejection of western modernity felt by the rest of the world against the world's richest states — most specifically the United States.

A new book by Harold James, *The End of Globalization: Lessons from the Great Depression,* maintains that we cannot take globalization for granted. James notes the international economic order of the late 19th century as the source of the Great Depression and economic calamity — and notes many similarities to today's world. A fragile international financial network, accompanied by increasing demand for trade protection and mounting hostility to immigrants create a burden that cannot be supported by political means when confronted by global recession and violent conflict. There is some fear that the current economic and political chaos in Argentina may be warning signs of such a change.

Our government faces tough decisions about trade. The recent meeting of the World Trade Organization (WTO) in Doha, Qatar, resurrected negotiations that were stillborn in Seattle two years ago. Robert Zoellick, senior trade representative had to make some hard choices. Anti-dumping provisions may be the most difficult for the WTO to reach. Developing nations, along with exporters like Japan, want to reduce the extent of these laws used by the United States to protect domestic industries — most notably steel. At the same time, industrial icons like Bethlehem Steel and LTV are filing for bankruptcy.

President Bush lacks fast-track negotiating authority on trade. (It was such authority that enabled the North American Free Trade Agreement and the WTO to pass Congress.) Although the House granted this authority — by a single vote in December — it did so by assuring protection for domestic textiles and citrus. It is hard to imagine how such promises will co-exist with a free trade accord. For trade to continue to flourish, Bush must construct a policy consensus, which will satisfy numerous constituencies. The transportation industry has grown along with trade and this growth may be threatened.

Traditional issues of diplomacy still require the focus of our national leaders. China and Russia represent major powers with significant geopolitical influence. They will also exert major economic influence. During the economic downturn, China has been a lone standout of growth. Its numerous advantages include abundant, cheap labor and engineers, and good infrastructure. China's WTO entry may drive economic prosperity for all nations — or enable it to absorb manufacturing previously done elsewhere. Either result will affect international transportation providers.

In our new world, Russia is no longer the "evil empire" and is now our strategic ally. Not only has it supported anti-terrorist initiatives, Russia has thwarted attempts by OPEC to raise oil prices by production cutbacks. The U.S. national energy policy has been sidetracked since Sept. 11 — a critical issue for transportation, further complicated by an uncertain future for Saudi Arabia, which controls a quarter of all known petroleum reserves. The CIA has identified the growing instability of the Saudi regime and oil reserve vulnerability to terrorist attacks as the most immediate Mideast threat to American interests.

In 1956, M. King Hubbert, a Shell Oil geologist correctly forecast that U.S. domestic oil production would peak in the early 1970s. One of his colleagues, Kenneth S. Deffeyes, has just written a book, *The View from Hubbert's Peak,* predicting that world oil production will peak this decade and then decline. This view contradicts the accepted industry outlook.

In 1973, during the first energy crisis, Amory Lovins pointed out that the cheapest source of new energy was conservation. This was not a view embraced by the oil industry. Last year, Vice President Cheney's energy task force did not appear to put much faith in conservation either. But most business executives recognize that a $1 expense reduction can reasonably be expected to become $1 profit, whereas a $1 revenue increase has no such guarantee. (Energy conservation should theoretically work the same way with oil reserves.)

Any national energy policy will have a major impact on transportation. The events of Sept. 11 have resulted in the realignment of policy priorities. Resolution of some may have been postponed, but ultimately they will require attention. (Reauthorization of TEA-21 may also fall into that category.) Public policy matters so much to our nation and industry that we need to get it right the first time.

Theodore Prince is senior vice president of marketing and sales for Optimization Alternatives Ltd. Inc.

Bonner proposes 'smart box'

U.S. Customs commissioner says stopping concealed bombs must begin at top 10 international seaports.

By Chris Gillis and Mark McHugh

Ocean containers are the most common method to transport cargo into the United States, but they could easily become a conveyance for terrorists to initiate surprise attacks against civilian populations and to cripple the country's economy.

U.S. Customs Commissioner Robert C. Bonner wants to plug the holes in the country's border security by proposing an electronic system to track container movements between the U.S. and other leading seaports of the world. Last year, 5.7 million containers entered the country, he said.

Bonner

"We need to have a secure system in place," Bonner said recently during a press conference at the Center for Strategic and International Studies in Washington. "We must do it, because if we don't, we're going to have some very nasty consequences to the world economy."

Bonner's vision for the container security system would involve the use of seals or sensors, which would be placed on U.S.-bound containers by customs agencies in the overseas ports. A global positioning system would record the containers' movement en route to the United States. The seals or sensors would alert authorities if the containers had been tampered.

He proposed that the Group of 8 nations and other large trading countries, which rely heavily on containerized shipping, should implement the system as soon as possible.

The key elements of U.S. Customs' container security strategy are:

- Establish security criteria for identifying high-risk containers.
- Pre-screen containers before they are shipped to the United States.
- Use technology to pre-screen high-risk containers.
- Develop and use smart and secure containers.

Bonner said the system should be first implemented in the biggest ports of the world. The top 10 overseas ports, so-called "choke points" for the containerized cargo, that ship to the United States are Hong Kong, Shanghai, Singapore, Kaohsiung, Rotterdam, Pusan, Bremerhaven, Tokyo, Genoa, and Yantian. Hong Kong, the largest U.S. import origin port, which moves about 350,000 containers a year to the United States, followed by Shanghai and Singapore with 200,000 U.S.-bound boxes.

With such a systems in place, when a specially sealed container would arrive, U.S. Customs would know that its counterparts overseas have pre-screened, targeted and X-ray scanned for potentially high-risk cargoes before arrival on an American shore. "We don't have to look at that box when it arrives in the United States," Bonner said.

Bonner believes other smaller overseas ports will embrace the container security system if they want to increase their flows of international trade. "It's in the self-interest of all countries involved in global trade" to stop the "nuke in the box," he said, referring to a smuggled weapon of mass destruction.

Technology Available. While the U.S. government would have to make some investment in port and container security technologies, Bonner said the groundwork for the system is already in place.

For years, Customs has used mobile and stationary X-ray and gamma-ray technologies to spot narcotics and other illegal contraband hidden inside containers entering the seaports.

Since the Sept. 11 terrorist attacks, Customs has increased its budget to acquire more of these "non-intrusive" technologies for the ports. President Bush added to the agency anti-terrorism budget when he recently signed the Terrorism Supplemental bill into law in January.

Customs is also taking advantage of smaller, more portable devices to detect dangerous cargo. About 4,000 of the agency's field inspectors carry pager-sized radiation detectors, which could detect the smallest amounts of radioactive material. There's also consideration for mounting this technology to container cranes in the ports, Bonner said.

Bonner emphasized that a container security network would require an efficient flow of cargo data and intelligence. Customs has relied on its Automated Manifest System (AMS) with the vessel operators to know what goods are entering the country. The agency's system then "mines" the manifest data for high-risk shipments.

Since Sept. 11, Bonner said the agency's cargo intelligence has increased through better communications with other law enforcement agencies. "It's never been better," he said of increased information-sharing between U.S. Customs and the Central Intelligence Agency. "Every morning I receive an intelligence briefing from the CIA," he said.

Trade Support. The commissioner praised the shipping industry for its "tremendous enthusiasm" in assisting the U.S. government in its war against terrorism.

In November, Customs held a trade symposium that solely focused on antiterrorism measures. Shortly after, the agency introduced the Trade Partnerships Against Terrorism program, which provides a forum for Customs and the industry to exchange ideas, concepts, and information. Customs expects to increase security in the entire commercial process from manufacture through transportation and import clearance to ultimate distribution.

U.S. Customs has been working with Canada Customs to tighten security along the shared land-border, Bonner said. "I think we're making some good progress," Bonner said. He stressed that, with so many people entering and leaving the U.S. every day on our southern and northern borders, border security called for tighter measures. "We can no longer think of 'the border' as merely a physical line separating one nation from another," he said.

Since the mid-1990s, Customs has also supported the Business Anti-Smuggling Coalition (BASC). The coalition was set up as a voluntary program for shippers, with no U.S. Customs-imposed rules. Shippers are expected to create "self-imposed" business standards that will deter drug smugglers from using their supply chains. BASC has had success in stopping drug smuggling in containers in Cartagena, Colombia. World Customs Organization and International Chamber of Commerce officials believe that the program could lay the groundwork for a international shipper supply chain standard.

Bonner admits a global container security program will neither be easy to implement nor full proof, but the difficulty of the task pales in comparison to what could happen if nothing is done.

Customs maintains that it has no intention to stop 100 percent of cargo for inspection. "That's not where we want to go. We must stop that type of thinking," he said. "Instead we should be asking ourselves which containers should we inspect." ■

Shippers' Case Law

Abstracts by Robert Mottley, rmottley@shippers.com

1878 case law defines market value

BP North American Petroleum owned a cargo of diesel oil and regular unleaded gasoline. After contracting to sell the cargo to Colonial Oil for 63 cents per gallon, AHL Shipping Co. agreed to transport the oil from Corpus Christi, Texas, to Colonial Oil's terminal in Savannah, Ga., by means of the *Solar,* an AHL-owned and operated tanker. Upon reaching Savannah, the *Solar* began discharging the diesel oil on Aug. 25, 1996. During the discharge, a portion of the diesel oil was contaminated with unleaded gasoline. According to an appellate court ruling, "the evidence later revealed that the contamination was the direct result of negligence on the part of AHL and the *Solar.*"

Two weeks later, a slop re-processor offered to buy the contaminated oil from BP at a discount of 10 cents below market value, not including freight costs. BP could not accept that offer because no transportation for delivery of the oil was available at the time. In October, seven weeks after contamination occurred, BP sold the tainted diesel oil for 62 cents per gallon. However, in that time, the market value of uncontaminated diesel oil had risen to 74.5 cents.

Immediately after discovering that its cargo of diesel oil was tainted, BP traded in the futures market in order to hedge against market price fluctuations in oil pending BP's disposition of the contaminated oil. Specifically, BP sold futures contracts in the identical number of gallons of oil that had been tainted in an attempt to "lock-in" the value of that oil pending disposition. The idea was to prevent BP from losing money if the market price of oil had fallen before it could sell the contaminated product. However, because the market price rose by 20 percent, BP suffered a loss on those futures contracts equal to the change in the price of oil – 12.5 cents per gallon. At the same time, BP was able to take advantage of this increase by selling the contaminated oil for a higher price.

BP sued for damages in a federal district court, and was awarded only the difference between the initial contract price for sound oil 62.9 cents minus the price BP eventually received seven weeks later for the contaminated oil,or 0.9 cents a gallon. On appeal, BP argued that the district court neglected to calculate BP's actual losses by miscalculating the fair market value of the contaminated oil.

The U.S. Court of Appeals for the Fifth Circuit ruled that the lower court's award to BP based on its profit expectations had been flawed by a "somewhat inaccurate characterization" of BP's futures trading. "That was the starting point from which the court jettisoned the traditional method of calculating damages in damaged cargo cases."

"There are two distinct classes of players in the futures market. Hedgers are interested in the commodities themselves. They can be producers, like oil drillers, or users, like BP (an oil distributor). Hedgers are interested in protecting themselves against price changes that will undercut their profit. Speculators, on the other hand, trade futures strictly to make money in the futures market itself. A futures trader that never uses the commodity itself is a speculator. Speculators buy and sell contracts, depending on which way they think the market will fluctuate. The district court was incorrect insofar as it described BP's activities as speculation," the appeals court explained. "Hedging, like insurance, is a method of risk aversion, not risk assumption."

The appellate panel noted a 1878 opinion by a district court in California *[The Compta, 6F.Cas. 233, 234 (D. Cal. 1878) (No. 3070)]* that stated a principle of market value that applies to all types of cargo: "where goods are delivered in a damaged condition, the damage sustained is the difference between their market value, if sound, and their market value in their unsound condition ... If the shipper has seen fit to hold the goods for a better market, he has entered into a speculation the result of which can in n[illegible] ffect the liability of the ship. If he has obtained a higher pri[illegible] have been realized at the time of breach (of contract), [illegible] liability is not thereby diminished. If he has sold them at a lower price, her liability is not increased."

The appeals court ruled in favor of BP, instructing the district court to recalculate an award that "should be the difference between the estimated value of the contaminated oil and the market value of sound oil on the date of discharge."

[BP North American Petroleum v. Solar St., et al., U.S. Court of Appeals for the Fifth Circuit, No. 00-30494; Date of ruling: May 14. The appeal was from a decision originally rendered by U.S. District Judge Marcel Livaudais Jr., from the Eastern District of Louisiana]

No hosing for underwriters

On June 5, 1999, the *Gypsy* sank in San Juan Bay Marina, San Juan, Puerto Rico. Carlos Labarca, who owned the *Gypsy,* filed a claim with the vessel's insurer, Underwriters at Lloyd's. The insurer denied coverage, asserting that the *Gypsy* had been unseaworthy, a condition that caused its sinking.

One evening, according to court papers, "the owner returned home but left running the air-conditioning system aboard the vessel. He did not know that two of the four hoses connected to a pump supplying seawater to four air conditioning units were left unsealed after two of the air conditioners had been removed" to make it easier to paint the vessel's interior. The next day, the owner discovered that the vessel had sunk at its slip in calm water.

A federal district court judge ruled in favor of Underwriters, saying that the vessel was unseaworthy due to the two unsealed air-conditioner hoses. When the owner appealed that decision, partially on grounds that the intrusion of seawater was a fortuitous act covered by a typical "perils of the sea clause" in a hull insurance contract, the U.S. Court of Appeals for the First Circuit upheld the lower court's verdict.

The appellate panel cited case law *["Commercial Union Ins. Co. of New York vs. Daniels," 343 F.Supp. 674, 677 (Southern District, Texas, 1972)]* holding that a sea valve left open "was not a peril of the sea" in the sense of a "fortuitous event," but rather an event that, although unfortunate, was nonetheless a certainty. Put more broadly, the appeals court said that did not mean a shipowner "is obligated to furnish an accident-free vessel. The duty is absolute, but it is a duty only to furnish a vessel and appurtenances reasonably fit for their intended use. The standard is not perfection, but reasonable fitness; not a ship that will weather every imaginable peril of the sea, but a vessel reasonably suitable to her intended service."

"We think (the owner's) warranty of seaworthiness remained in effect throughout the occurrence of events that ... caused the sinking of the *Gypsy.* Although the air conditioning unit aboard the *Gypsy* need not, therefore, have been perfect, it was obviously left so as to be both unfit for its intended use and highly dangerous to the vessel's continued viability," the appellate panel said.

[Underwriters at Lloyd's, et al., v. Carlos H. Labarca; U.S. Court of Appeals for the First Circuit, No. 00-2142; Date of ruling: Aug. 2. The appeal was from a decision originally rendered by U.S. Senior District Judge Jaime Pieras Jr., from the U.S. District Court for the District of Puerto Rico]

Brokers, Forwarders & NVOs

By Chris Gillis, cgillis@shippers.com

Good timing

The recent interest by U.S. government law enforcement agencies in the inner workings of the non-vessel-operating common carrier industry should be a cause of concern for operators in the business.

The formation of a new Washington lobby, under the name NVO-Government Affairs Conference, will be crucial in preventing the consolidation industry from becoming the dog of security legislation and policy developments.

Despite cordial words of mutual support exchanged among the various transport lobby groups, the only ones to ensure the NVOs' place at the regulatory table are themselves.

U.S. Customs' new trade relations approach

For years, U.S. Customs' Office of the Trade Ombudsman suffered from lackluster performance and a general lack of respect from the industry.

Customs Commissioner Robert C. Bonner wants to change this image. He has freshened up the ombudsman office with a new name, the Office of Trade Relations, and pumped up its responsibilities. "Changing the office name better reflects the expanded role that this office will now have," Bonner said.

He also appointed Andrew Maner as director of the Office of Trade Relations. Maner will serve as the "Customs regulatory fairness representative" and the agency's liaison between the industry and senior Customs managers. He will be responsible for policy review and planning and apprising the Customs commissioner, Treasury officials and Congress on the agency's service to the industry.

Bonner said Maner's appointment comes at "a critical time" for both Customs and the industry. "Maner will play an important role in the formation of the new partnership between U.S. Customs and the trade industry against terrorism," he said.

Indeed, Maner will be a busy man. He will have to rapidly become an encyclopedia on the industry's issues and concerns, in addition to those of his counterparts at Customs. Both sides are savvy and are easily frustrated when their views are misinterpreted or lost in the shuffle.

Maner appears to have the qualifications for the trade-relations job with his extensive work experience in both the private and public sectors.

Prior to his appointment, Maner served as vice president of development and sales for ICG Commerce, an international supply chain services provider. He had also been a partner with Aligne, a technology-consulting firm, and worked in international marketing and communications for the Chicago Board of Trade.

In the public sector, Maner served the first Bush administration in the White House press office. He also worked for former President Bush as the director of press and political affairs in Houston. He also served as a special assistant to the United Nations Envoy to Somalia, where he assisted with political and trade development.

Simpson at home in Washington

John P. Simpson, president of American Association of Exporters and Importers, is back in familiar territory — Washington.

For 80 years, the industry group has helped its diversified membership stay on top of regulatory changes that impact the way it does business. But, to be more effective, AAEI needed to move from New York to Washington to be closer to the action.

With the association's new headquarters in Washington, Simpson, former deputy assistant secretary of regulatory, tariff and trade enforcement for the U.S. Treasury Department, will be extremely effective at representing the membership's interests on Capitol Hill.

Watch out for Thiel Logistik

There's a logistics giant emerging in little Luxembourg.

Thiel Logistik AG, the expansionist logistics group, has bought a majority of the business divisions of Birkart Globistics AG, the large German international forwarding and logistics group.

Thiel Logistik will acquire divisions that employ about 3,000 of the 3,500 worldwide staff of Birkart. Thiel Logistik expects the acquired businesses to add net sales of about $365 million.

Thiel Logistik said the acquisition will help it "enter the innovative fashion and logistics sector and to expand its activities in Europe, Asia, Africa, the Americas and Australia."

Thiel Logistik also recently announced the takeovers of two other German logistics companies, GAT and AF-Logistik. GAT employs 188 people and has net sales of $12 million. AF-Logistik, which specializes in air cargo, has 90 employees and net sales of $5 million.

Exel increases U.S. import consolidations

U.K.-based Exel has increased its stake in the highly competitive U.S. import consolidation arena by recently acquiring United States Consolidation Ltd.

USCL provides consolidation services to U.S. importers and retailers that buy their goods from manufacturers in Hong Kong and South China. Formed in 1996, USCL operates more than 500,000 square feet of warehouse space in Hong Kong and South China. The company also operates a 180,000-square-foot warehouse in Carson, Calif., to breakdown consolidations.

"In recent years, the retail industry has become increasingly demanding in its supply chain and its requirements for vendor management," Exel said. "To date, very few companies have had the broad range of service offerings necessary to provide a truly integrated solution."

Alan Boylan, vice president of ocean freight for Exel, described the USCL as a "young company" that's management style "will fit easily within Exel and help us to support Exel's objective of building a strong global sea freight business."

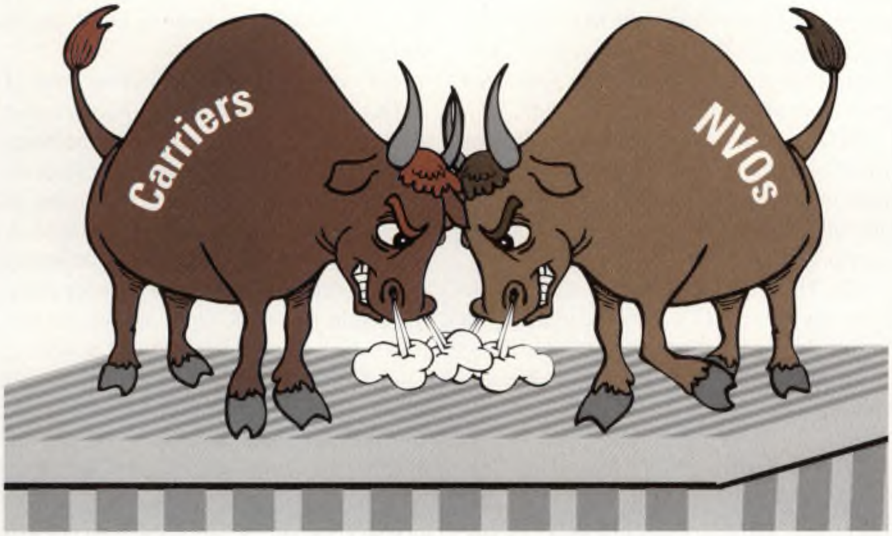
"Consolidation will be a key part of the services offered to major retail and consumer companies as they look for Exel to deliver the benefits of their extended supply chains," said Bill Aldridge, chief executive and a shareholder in USCL. "In turn, our customers will be the beneficiaries of this extended global reach and enhanced capabilities."

Herms leads EU forwarder lobby

Klaus Herms, chief executive of Kuehne & Nagel International AG, has been named chairman of FreightForward Europe, a Brussels-based lobbying group representing nine global freight forwarders and logistics service providers.

Herms succeeds Peter Wagner, who resigned as chief executive officer of Danzas and consequently chairman of FreightForward Europe in December. Herms had been the group vice chairman.

FreightForward represents the interests of ABX Logistics, Dachser, Danzas, Exel, Geodis, GeoLogistics, Kuehne & Nagel, Panalpina and Schenker. The nine participating companies employ more than 150,000 people, transporting volumes in excess of 200 million tons with a consolidated turnover of about $30 billion.



Standing ground

DHX and U.S./Hawaiian ocean carriers lock horns over full-container business.

By Chris Gillis

If the ocean carriers in the U.S./Hawaiian trade had their way, Bradley J. Dechter's non-vessel-operating common carrier would stick to a niche of managing less-than-containerload shipments.

For the past 20 years, Dechter's company, DHX, has steadily become the largest NVO in the U.S./Hawaiian trade, largely off the full-containerload business, which is the staple of the domestic ocean carriers.

Now Dechter finds himself confronting a situation in which the carriers he does business with want the full containerloads back. He has taken his case to the U.S. Surface Transportation Board to try to stop what he alleges are abusive tactics by the carriers to take away his full-container volumes.

"My goal in filing this complaint with the Surface Transportation Board is simple: to try to save my business from an onslaught of various unreasonable rate changes that have been imposed by the carriers through their monopoly power," Dechter said.

The STB oversees the competitive practices of the railroads and the U.S.-flag carriers operating under the 1920 Merchant Marine Act, also known as the Jones Act. Congress solidified the agency's authority over the Jones Act trades when it enacted the 1995 Interstate Commerce Commission Termination Act. Matson Navigation and Sea-Land Service (now CSX Lines) are the only two containership carriers plying the U.S./Hawaiian trade.

While there are about 30 other NVOs in the trade, Dechter, whose company moves about 10,000 TEUs annually from the U.S. mainland to the Hawaiian islands, stands alone in his complaint against Matson and former Sea-Land. "We have the most to gain by winning this complaint, but we also have the most to lose if we don't," Dechter said.

Bradley J. Dechter
president, DHX

"My goal in filing this complaint with the Surface Transportation Board is simple: to try to save my business from an onslaught of various unreasonable rate changes that have been imposed by the carriers through their monopoly power."

Rate Manipulation. To provide shippers with an incentive to tender full-containerloads to its liner services, Matson, the oldest carrier in the U.S./Hawaiian trade, created the "overflow" pricing scheme more than 20 years ago. Sea-Land adopted a similar pricing strategy when it entered the trade in the late 1980s.

"The purpose of the rule was, and is, to attract the business of shippers who would ship multiple containers at a time, by providing a price break on the last fractional container in a particular multiple-container shipment," said Paul E. Stevens, senior vice president of San Francisco-based Matson in a statement to the STB regarding the DHX complaint.

In other words, when a shipper has a multiple-container shipment and one of those containers isn't full, the carrier offers that shipper a discounted rate off the full-container rate.

Matson and Sea-Land claim DHX and other NVOs in the trade have manipulated their overflow cargo rates in recent years to wrestle away full-containerload shipments from the direct control.

"They would do this by seeking out shippers of multiple-container shipments and gathering and manipulating the shipments of different shippers — breaking them up and recombining them in different ways — to artificially increase the number of partial containers that would qualify for the lower rates available under the overflow rule," Stevens said.

"Creation of these new, essentially 'artificial' overflow containers permits the forwarder (or NVO) to profit by charging the shipper something less than the full-container rate that otherwise would apply absent the forwarder's manipulation, but more than the overflow rate that the forwarder must pay the underlying carrier," Stevens said. "Because overflow containers generally are priced lower than full ones, manipulating full containers to artificially create more overflow ones works to the economic disadvantage of the underlying ocean carrier."

Stevens also said this NVO strategy has caused an "inefficient allocation" of cargo space on the carriers' vessels, because it forces carriers to transport "an artificially high number of overflow containers that, by definition, are only partially full."

Paul E. Stevens
senior vice president, Matson Navigation

"Because overflow containers generally are priced lower than full ones, manipulating full containers to artificially create more overflow ones works to the economic disadvantage of the underlying ocean carrier."

Carrier Abuse. While DHX admits to have gained substantial market share from the overflow pricing structure, the NVO said it has done nothing wrong.

"Overflow containers are never a goal by themselves," Dechter said in a statement to the STB. "It is only in this case of heavy and light cargo that there is a mixing and matching process by DHX to most efficiently utilize cubic space within a container. As a result, there is a more efficient use of space within the container (and, therefore, fewer containers for the carriers)."

Dechter said this method also saves the shipper money. "Consumers paying for heavier type cargoes pay the forwarder for the space they use (as opposed to a 'weighed out' partially full containerload) and consumers with lighter cargoes pay the forwarder for the weight they ship (as opposed to the minimum weights the carriers impose)," he said. "Not only do the consumers costs decrease, but they get a larger choice in sailings and a through service where they deal with one company point to point."

The company said it does not, as alleged by the carriers, break down single-shipper full-containerloads, which account for about 20 percent of its total volume.

DHX believes the carriers are now targeting its full-containerload volumes.

In its complaint to the STB, DHX alleged the carriers raised their overflow rates by 17.5 percent in a 12-month period since September 1998. The STB's rules say carriers aren't allowed to raise their rates more than 7.5 percent a year, known as the "zone or reasonableness."

Dechter said the carriers' actions to rapidly raise overflow rates, adjust full-container rates and redefine the term shipment are an abuse of their Jones Act privileges. "For some reason, they feel the Jones Act puts them above reproach," he said.

DHX is seeking restitution from the carriers for damages caused by the overflow rate increases, which would include an amount equal to all sums assessed and collected, plus interest.

The NVO said it wants the STB, as the overseer of the U.S./Hawaiian trade, to ensure the carriers "are not allowed to abuse their monopolistic power now and in the future."

Difficult Fight. Both Matson and Sea-Land had filed motions to the STB to dismiss the complaint, citing that the NVO had no basis to blame them for wrongdoing because their rate increases were within the zone of reasonableness. The agency denied the motion.

While the STB found the carriers' motions identified certain shortcomings in how DHX was trying to identify the rates at issue, the agency concluded that "it appears to us that the gravamen of its complaint is that Matson and SL (Sea-Land) have engaged in unreasonable practices in an effort to put consolidators such as DHX out of business."

The agency warned, however, that if DHX bases its complaint exclusively on the allegation that the carriers' rate increases exceed the zone of reasonableness, its complaint would not succeed. "DHX must, to support a rate reasonableness complaint, indicate which particular multi-container rates it is challenging and why those rates, if outside the ZOR (zone of reasonableness), are unreasonable," the STB said.

The STB added that at this stage it could not say DHX could not prevail in unreasonable practice complaint. "Thus, we will not dismiss the complaint or grant summary judgment," the agency said.

DHX and the carriers have been ordered by the STB to consult with each other and jointly recommend a procedural schedule by Jan. 30.

Dechter said he is ready for what could be a long battle ahead, and is optimistic that he will prove his case to the STB.

"I feel very confident that we are right," Dechter said. "Otherwise, I wouldn't have taken the time to file the complaint."

The good, the bad, the ugly

Jones Act NVOs persevere in the best and worst of economic conditions.

By Chris Gillis

The large non-vessel-operating common carriers in the U.S. domestic offshore trades don't take competition lightly.

During the past 20 years, veteran operators in Alaska, Hawaii and Puerto Rico have carved out large pieces of business, which they closely guard by offering their clients efficient transportation service.

"It's tougher to get into the market today than it was 20 years ago," said Mike Landry, president of Span-Alaska Consolidators, a Seattle-based NVO that serves the U.S./Alaskan trade. "There has been lot of entry and exit in the market. Many smaller operations have been either gobbled up or have failed."

NVOs make their living by purchasing space from ocean carriers and retailing back to their customers for a small profit.

In addition to Span-Alaska, other large NVOs in the U.S./Alaskan trade are Pacific Alaska Forwarders, Lynden Transport, American Fast Freight and Carlyle.

Similarly, large operators, such as DHX, Hawaiian Express and Honolulu Freight Services, dominate the U.S./Hawaiian/Guam trade. Another 25 smaller NVOs pick away at the fringes of the business.

Bradley J. Dechter, president of DHX, described the U.S./Hawaiian/Guam trade as a tough market, which is much like an endurance test to the participating NVO.

The U.S./Puerto Rican trade also has a handful of large neutral NVOs, such as Arrowpac, Econocaribe Consolidators, and Magic Transport, which dominate the market, along side a large group of trucking-affiliated consolidators, such as USF Worldwide, APA Transport Corp., ABF, and New Penn. "It's super competitive," said Brad S. Broder, vice president of sales for Econocaribe, which has operated in the U.S./Puerto Rican trade since 1968.

Alaska's Upswing. Over the years, NVOs in the domestic offshore trades, also known as the Jones Act trade, have weathered the ups and downs of the markets.

Alaska has experienced steady growth in its economy during the past decade, which has given the NVOs a boost in the market.

"When oil prices reach $25 to $30 a barrel, there's a tremendous amount of activity in Alaska," Landry said. Span-Alaska, based in Seattle, moved about 5,000 TEUs to Alaska last year. "We expect this to continue in 2002. Our customers tell us they don't see a slowdown."

A healthy Alaskan oil business generates various types of freight volumes. In addition to oil equipment and parts, NVOs pick up large volumes of construction supplies and consumer goods.

But Landry knows that good economic times in Alaska can take a turn for the worst when oil prices tumble. "If oil prices go down to $10 a barrel, all bets are off."

The U.S./Alaskan market hit the skids after an economic boom in 1973-75 resulting from the construction of the Alaskan pipeline. The completion of the pipeline resulted in a mini-bust, and many NVOs and carriers had to either withdraw capacity or leave the trade altogether.

> ***"The carriers have taken the view point that it's better to work with us rather than against us. They look at us as a partner. We sell their service for them."***
>
> **Mike Landry**
> *president,*
> *Span-Alaska Consolidators*

Then oil royalty dollars started flowing back into Alaska in the early 1980s. This led to increased consumer spending and construction projects in the region. The carriers brought more capacity back into the trade. Then oil prices eroded significantly in the mid-1980s and the ocean transport business again faced hard times.

Since the cleanup of the *Exxon Valdez* oil spill in the late 1980s, the U.S./Alaskan trade has experienced a 2-to-4 percent annual growth rate.

A benefit from the economic swings in the U.S./Alaskan trade has been the strengthening of ties between the NVOs and the ocean carriers, Totem Ocean Trailer Express and CSX Lines.

"The carriers have taken the view point that it's better to work with us rather than against us," Landry said. "They look at us as a partner. We sell their service for them."

Tourist Flop. Since the 1950s, the U.S./Hawaiian trade has similarly been a magnet for NVOs. Because air freight to the islands is expensive, Hawaiian importers and consumers have come to rely on cheaper ocean transportation.

DHX emerged in 1980 as an offshoot of Dependable Trucking. In the mid-1980s, the NVO increased its place in the market by latching onto the real-estate boom in Hawaii. DHX helped to supply building materials to numerous hotel development projects, such as the Hilton Hawaiian Village — Rainbow Tower, Hyatt Maui, Hyatt Kauai, and the Embassy Suites in Maui. The company also worked on similar projects in Guam.

In 1990, the Hawaiian economy dived when Japanese and American investors backed off from the hotel business on the islands and tourism slowed down. Cargo volumes to Guam also suffered.

The NVOs in the Hawaiian/Guam trades were forced to cut their overhead costs. Some survived by receiving credit extensions from the ocean carriers.

Early last year, the Hawaiian economy showed small signs of recovery. The market then softened again in July and August, and substantially deteriorated after the Sept. 11 terrorist attacks on the United States.

"It's hard to determine if this is going to be a long-term restructuring or a blip on the economic radar screen," Dechter said. "My feeling is that this downturn will last a while."

Jones Act carriers Matson Navigation and CSX Lines still dominate the U.S./Hawaiian container trade, and many NVOs believe that tough times have pushed carriers to find ways to take back their full-container business.

While DHX's main business continues in the U.S./Hawaiian/Guam trade, the NVO has offset some of the trade's losses by entering the international ocean freight consolidation arena. The company acquired the customer list and key employees of neutral NVO Transtainer America in 1999

(continued on page 42)

Unregulated NVOs

Jones Act NVOs fall outside FMC tariff publishing rules and can sign service contracts.

WASHINGTON

Mike Landry, president of Span-Alaska Consolidators, doesn't understand the U.S. Federal Maritime Commission's tariff publishing requirement for non-vessel-operating common carriers.

He doesn't have to, because in the U.S. offshore domestic trades tariffs aren't required.

"It seems to me that it's an effort that costs money and offers no benefit to our customers," Landry said.

In 1995, the passage of the Interstate Commerce Commission Termination Act largely deregulated the so-called Jones Act trades. While the U.S. Surface Transportation Board monitors the competitiveness of the domestic offshore business, the agency does not require non-vessel-operating common carriers to publish tariffs. The STB also doesn't require the NVOs to be licensed and bonded like their counterparts in the U.S./international trades.

Some domestic NVOs will post a tariff with basic rates and terms through the U.S. Federal Highway Administration. For DHX, an NVO in the U.S./Hawaiian trade, filing a tariff with the FHA is part of its customer service program. "It's whatever we hold out to the general public," said Bradley J. Dechter, president of DHX.

But most NVOs believe the terms and conditions on the back of their bills of lading are what hold them accountable to their customers.

NVOs in the U.S./international trades and their Washington lobbyists have argued that the FMC should exempt the industry from having to publish tariffs, as required by 1998 Ocean Shipping Reform Act.

Another benefit for the unregulated NVOs in the Jones Act trades is their ability to sign service contracts with their customers. This is prohibited in the U.S./international NVO trades under OSRA.

While service contracts are permitted, it's not a common practice among NVOs in the Jones Act trades.

"Shippers are asking us to help them lower their costs," Landry said. "It's more about partnerships than prenuptial agreements."

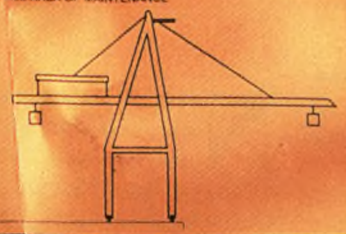
SERVICE HOURS 579

SERVICE	EQUIP IN	EQUIP OUT	MAKE	MODEL
—	0715	1515	—	N/A

EMPLOYEE NAME[S]

Tommy LaBoard,
Joe Hedinger,
Jim Cate

CIRCLE AREA OF MAINTENANCE



SERVICE DATE 1 15

CRANE TYPE —

COMMENTS

FOR OFFICE USE ONLY
Initials
Date

MECHANIC ID 2971 1 B

DATE LAST SERVICE 12-15

PART NO(S) N/A

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R Anderson
Employee's Signature

1-15
Date

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72-3201-9987V-W (R-119 04/01)

to start up operations in the South Pacific. DHX now offers weekly consolidation services to Australia, New Zealand, Singapore, Hong Kong, and is expanding to other destinations in the Pacific Rim.

Troubled Waters. NVO competition in the Jones Act trades has become the fiercest in the U.S./Puerto Rican freight market in recent years. Overcapacity and cutthroat pricing dog the trade, and NVOs have watched their average rates decline from about $2 per cubic foot (or hundred pound weight) 15 years ago to as low as $1.10 per cubic foot (or hundred pound weight).

"I've had to walk away from some business because the margins were just too low," said Ed Devaney, executive vice president of USF Worldwide Puerto Rico in Jacksonville, Fla., which handles more than 3,000 TEUs a year in the trade. The company became one of the biggest NVOs in the trade when it acquired CaroTrans International's Puerto Rican service in August 1999.

The capacity crisis has been exacerbated by the abundance of ocean and barge carriers in the market. They are Navieras/PRC, CSX Lines, Crowley American Transport, Trailer Bridge, and Sea Star. Some of the carriers are suffering financially and have reduced their rates, further deteriorating the profit margins of the NVOs.

In a cost-cutting move, Trailer Bridge terminated its direct Newark/San Juan service in January so that it could consolidate its mainland operations in Jadcksonville. The move is expected to improve the company's bottom line by about $2 million per quarter, the company said.

To make matters worse, Puerto Rico's termination of tax-free incentives (Article 936) for manufacturers six years ago has already taken its toll, with many high-tech and apparel businesses leaving the island.

One benefit that the NVOs in the U.S./Puerto Rican trade have over the other Jones Act operators is access to a wide range of container equipment, such as 40-foot and 53-foot containers and high-cubes. "When you're planning loads, you can more efficiently pick the equipment to match the loads," Devaney said.

In the long run, however, many NVO executives believe the only way to improve the U.S./Puerto Rican trade is to experience a major shakeout, which should help to trim excess capacity, induce reasonable transportation pricing, and recreate stability in the market.

"Now it's survival of the fittest," Devaney said. ■

NVOs rally forces

New lobby group wants consolidators to file manifest data directly to U.S. Customs.

By Chris Gillis

Carlos Rodriguez
counsel, NVO-Government Affairs Conference

"If the port security bill passes in the House as it did in the Senate, NVOCCs would have to provide sensitive commercial information to ocean carriers."

Non-vessel-operating common carriers have suffered at the hands of unsympathetic Washington lawmakers and better organized industry opponents for almost a decade. But that's about to change.

A new lobbying group has been formed to give the NVO industry some muscle on Capitol Hill, and to deal with federal agencies that enforce regulations and policies for the ocean freight consolidation business.

"Very frankly, we as an industry group are still smarting from the Ocean Shipping Reform Act of 1998," said Carlos Rodriguez, counsel to the NVO-Government Affairs Conference.

While OSRA cleared away most regulatory hurdles for ocean carriers and shippers, it left the NVO industry largely under the umbrella of the previous shipping rules. NVOs must still publish tariffs and are barred from the practice of signing confidential service contracts with their customers.

"The irony is that an earlier Senate version of OSRA contained a provision which would have allowed NVOCCs a similar ability to enter confidential service contracts as carriers," Rodriguez said. "Senior Senate staff members informed our counsel that they had inserted this provision themselves, not at the urging of any intermediary lobbying group, but rather because it was 'only fair.' Of course, as a result of lobbying efforts by carrier interests this provision came out in the final version of OSRA."

Rodriguez attempted to rally the NVOs immediately after OSRA's passage by gaining support from then House Judiciary Chairman Henry Hyde, R-Ill., to kill the legislation's ocean carrier antitrust immunity provision. The hope was that this reform would help to level the commercial playing field between NVOs and ocean carriers, and could lead to further reforms such as the elimination of costly tariff publishing requirements for NVOs.

However, the Coalition for Fair Play was short-lived. While legislation was proposed to eliminate OSRA's antitrust immunity provision, the effort sputtered when Hyde vacated his chairmanship on the House Judiciary Committee. Earlier this year the new committee chairman, Rep. F. James Sensenbrenner, R-Wis., vowed to take up the legislation and proposed hearings for the fall. This effort was swept aside by the Sept. 11 terrorist attacks on the United States.

Rodriguez now believes the antitrust immunity debate alone would not have been enough to revive the NVOs' position in Washington. OSRA certainly cost the NVOs money. But it didn't threaten their business enough to join forces, he said.

Manifest Mess. In December, the NVOs' ambivalence to Washington politics changed drastically when Customs in the port area of Houston-Galveston threatened to require NVOs to hand over their shipper and consignee information to ocean carriers for manifest purposes.

On Nov. 8, Customs in Houston/Galveston released a public information notice "to remind vessel operators, steamship agents, and other interested parties that the timely submission of an accurate and complete manifest on both inbound and outbound vessels is a Customs requirement."

The notice went on to say that carrier's

Alan E. Baer
president,
Ocean World Line,
acting chairman,
NVO-GAC

"No industry has to give up its information to a competitor to comply with government regulations. To have access to the industry's shipper and consignee information would allow the carriers to use rates to create a program to pick off the NVOs one by one."

cargo manifest must include all names of shippers, consignees, not the customs broker or "to order." Terms, such as general cargo, parts, groupage and consolidation, were not acceptable. Customs wanted the same rules applied to NVOs' house manifest and bill of lading information. In order to comply, the ocean carriers had to ask the NVOs for shipper and consignee data for inbound consolidations.

The agency has since agreed to stand down on this policy until further review. But the NVO industry fears that the potential for Customs to go forward with its demands could happen soon, especially with Congress and the Bush administration calling for more accurate and complete information on all cargo entering and leaving the United States to help thwart future terrorist attacks.

While NVOs want to do their part to fight terrorism and illegal trade, they don't want to sacrifice their business in the process.

"No industry has to give up its information to a competitor to comply with government regulations," said Alan E. Baer, president of Ocean World Line, and acting chairman of the NVO-GAC. "To have access to the industry's shipper and consignee information would allow the carriers to use rates to create a program to pick off the NVOs one by one."

"Ocean carriers have already gotten down to the lowest profitability on their containers," said Joseph T. Saggese, managing director of Consulting Services International, which will provide administrative support to NVO-GAC. "If the NVOs have to give up their commercial information, they'll go after it. This is an issue that goes from the smallest to the biggest NVOs."

Saggese

NVO executives are joining the ranks of the NVO-GAC. Players that expressed interest in participating include neutral NVOs, such as OWL; NACA Logistics Group; CaroTrans International; Econocaribe Consolidators; Shipco Transport; and Lilly & Associates International. Forwarder-affiliated consolidators showing interest include Danzas AEI; Phoenix International; Exel Global Logistics; UTi; and Emery, a Menlo Worldwide division. It's expected the group will consist of about 20 to 30 firms in the beginning.

"There's a much higher level of energy and discussion than I had seen with antitrust immunity," Rodriguez said. "It's very much a bottom-line issue. You don't need economic models to understand it."

A belief has also emerged in the NVO industry, particularly among the neutral operators, that representation exclusively focused on the ocean freight consolidation business is needed.

"Most industry associations have multiple agendas," Saggese said. "We as an industry have to go forward and take the bull by the horns."

Security Legislation. The NVO-GAC will turn its immediate attention to seaport and maritime security legislation pending in Congress, which is expected to serve as the blueprint for how the government will monitor the ocean freight transportation industry activities in the future.

The Senate passed its Port and Maritime Security Act legislation, S.1214, by unanimous consent on Dec. 20. Among the numerous proposed security enhancements, the bill calls for manifests to be electronically filed to ports before the cargo is cleared to enter. It also said that improperly documented cargo would be prohibited.

The House is expected to take up similar seaport and maritime security legislation when Congress returns in late January. NVO-GAC members will vigorously lobby House leaders and senior staffers involved with security legislation to ensure that the industry's position is heard.

"This is a short-window type of legislation," Baer said. "We're of the belief that we have to act now. We're in a full battle-stations position."

Rodriguez said the answer to security compliance for the NVOs is to have the ability to report house manifest and bill of lading information directly to Customs through the Automated Manifest System (AMS). "If the port security bill passes in the House as it did in the Senate, NVOCCs would have to provide sensitive commercial information to ocean carriers," he said.

AMS Access. For more than 15 years, ocean carriers have had the ability to file their master bill of lading and manifest data electronically to Customs.

Because Sea AMS uses the ANSI X12 electronic-data-interchange format, it does not have the ability to drill down to the NVO's house bill data. But that doesn't mean it hasn't been done.

The agency's Air AMS module uses the CargoIMP EDI format, which allows the system to handle import house waybill data from the air-freight forwarders and deconsolidators.

NVO executives said their systems capa-

NVO-GAC short-term action plan

- Immediately form a Washington-affairs non-vessel-operating common carrier group with a core membership of NVOs which would represent all major port areas (New York/New Jersey, Miami, California, Midwest and Houston) by no later than the third week in January.
- Immediately develop a congressional political strategy in order to counter the Port Security Bill provisions in the Senate bill, which if not altered, would result in a major setback to the NVO community by requiring NVOs to turn over their client lists to ocean carriers.
- To begin a dialogue with U.S. Customs to allow NVOs to participate in the Sea Automated Manifest System (AMS) which would allow NVOs to turn over customer information directly to Customs without providing the same to the ocean carriers.
- To have as many of the NVO-GAC members as possible apply for Sea AMS participation, which some NVOs are already in the process of doing.
- To have an organization meeting, preferably in Washington, before Congress resumes business in 2002, or soon thereafter.

Source: NVO-GAC.

bilities, especially through the Internet, have advanced significantly in recent years, and they are willing to develop ways to share cargo data with Customs.

"Most of the larger NVOs are already running software that links their various hub centers," Baer said. "To build a quick patch to Customs shouldn't be that big of a deal."

Customs has expressed interest in receiving house manifest and bill of lading data from NVOs for more than a decade. In September 1992 directive (No. 099 3240-075) to promote wider use of AMS, the agency said: "Customs will accept manifest transmissions from the various steamship lines, NVOCCs or other entities sharing space on the vessel ... All Customs personnel must continuously work with the trade to promote its participation in AMS ... This effort will culminate in AMS participation by all facets of the cargo trade community, i.e., carriers, deconsolidators, and freight forwarders."

NVO-GAC members believe that same spirit of openness is alive at Customs today, and the industry should take advantage of it.

"I think the mood at Customs has changed," Saggese said. "Customs wants more interaction. It used to just preach at the trade."

One way the NVOs could get their systems concerns in front of Customs is through participation in the Trade Support Network. The TSN is a group of about 150 industry executives selected by Customs to provide input and recommendations in the development of its future computer system, the Automated Commercial Environment.

"The TSN is exploring the ability to link the NVOs to ACE, but there are no neutral NVOs at the table," Rodriguez said.

Outbound Manifest. During the past two years, Customs has started to get a better understanding of the NVO, while developing a plan to get the industry to file export transportation data in the Automated Export System. The agency wants to receive this data electronically to more efficiently target "high-risk" cargo that may be leaving the country.

The plan was laid out in a document: *Proposed Enhancements to the Vessel Transportation Module to Include Non-Vessel-Operating Common Carrier Transportation Data.*

Since NVOs operate similarly to ocean carriers, Customs believes the industry could use a "sub-module" of the AES Vessel Transportation Module. Early last year, the ocean carriers started to fulfill pre-departure export requirements electronically through the module.

To accommodate the NVOs, however, the AES Vessel Transportation Module must be adjusted to capture NVO intermediary booking information and transportation data at the house and sub-house bill levels. A working group of about dozen NVO executives and Customs developed a plan, which they believe could efficiently accomplish the task.

This is the format for the plan:

- The booking message will be transmitted for all cargo received by the NVO regardless of whether the exporter/agent for the shipment is an AES participant. Often, a carrier's master booking information shows NVO freight listed as "consolidated" or "freight-all-kinds." This isn't enough information for inspectors, so the NVO booking message should provide a sufficient level of data.
- The "receipt of booking message" will be electronically sent to AES when all cargo for a specific booking has been received by the NVO.
- The "load plan message" will be transmitted within 48 hours of vessel departure by not less than 24 hours. This message will link the NVO's house booking number to the carrier's master booking number.
- The "manifest message" will be transmitted within seven calendar days after the actual departure of the vessel.

Under the proposal, Customs will develop an exemption statement to be placed on the master bill of lading filed by the vessel carrier that states "No Breakdown Manifest Required — AES Filer ID — Shipment Reference Number."

Customs said this would save the NVOs time and money by not having to prepare and attach all house bills to the master bill, and will ensure confidentiality of their customers from the vessel carriers.

The agency had planned to roll out the AES-NVO module by late 2002, but that will depend on budget and systems development priorities. For now, the effort appears to have stalled in the aftermath of Sept. 11.

"We regret that the AES-NVO module has come to a stop," said Hans Chr. Mikkelsen,

Once upon a time

IANVOCC's DeMember showed need for strong leadership to have successful lobby.

WASHINGTON

While the non-vessel-operating common carriers seek to re-establish themselves among shipping lobbying circles in Washington, they could take a big lesson from the pages of industry history.

Industry attorney Raymond P. DeMember, known as the fighter for the "underdog" NVO, formed the International Association of NVOCCs in 1972 when the industry found itself in a fight for survival and legitimacy.

His method of running a successful lobbying group was to keep the industry members focused on legislative issues that impacted their bottom lines and not to allow competitive issues between the NVOs to get in the way of the IANVOCC's agenda.

Some of the early members were Carolina Freight Carriers, Audnel American International, European Container Service, Trans Freight Lines, Econocaribe Consolidators, Distribution Services Ltd., ABC Freight International, Brennan International Transport and Direct Container Line.

During the early 1970s, the International Longshoremen's Association attempted to squeeze out the NVOs by placing a clause in their contracts with Atlantic and Gulf carriers that only ILA workers could stuff and strip mixed shipments of containerized cargo within 50 miles of a U.S. port. Many NVOs tried to find ways around it, but the business still missed its full potential under the ILA rule.

The IANVOCC waged war against the 50-mile rule, which was eventually struck down by the U.S. Supreme Court in the late 1980s.

DeMember then worked hard to get banks to recognize NVO bills of lading in their letters of credit, and helped shape the language that would define the industry for the first time in the 1984 Shipping Act.

The IANVOCC also helped seek the passage of the Non-Vessel-Operating Common Carrier Amendments of 1990, which contained the NVO bonding requirements.

At its peak, the group had about 100 members and an established identity in Washington politics and industry issues.

After DeMember died in early 1992, however, the IANVOCC membership began to breakdown through infighting and the group lost its focus. By the end of the decade, the group was reduced to a name on paper.

executive vice president of Shipco, a neutral consolidator based in Hoboken, N.J. Shipco is certain that its system could provide the necessary electronic data to meet the AES-NVO module's requirements.

Shipco and other NVOs in the working group believe that electronic exchanges of shipment information is the only way to prevent severe disruptions in NVO cargo flows at U.S. ports.

"Ultimately, we'd like to have an environment where Customs knows what cargo it wants to inspect before it goes into a container," Mikkelsen said. "This can only be done electronically."

Longevity. Rodriguez told the emerging membership that the NVO-GAC would not be a flash in the pan and that the issues would evolve and need tending even after security legislation is passed.

There are also other regulatory issues that threaten the bottom line of the NVO.

Looming on the horizon is the U.S. government's proposed revision to the 1936 Carriage of Goods by Sea Act (COGSA) and an interrelated international effort underway to develop new rules for governing legal responsibility and liability for lost or damaged goods.

In January 2001, an Organization for Economic Cooperation and Development Maritime Transport Committee workshop in Paris began to lay the groundwork for a new international maritime cargo liability treaty.

Rodriguez, who attended the workshop on behalf of the New York/New Jersey Foreign Freight Forwarders and Brokers Association, said it became apparent that the ocean carriers wanted to limit their liability to port-to-port moves and place the service contract environment above a new COGSA regime. The NVOs could lose the house bill/master bill of lading liability protections that they presently have under COGSA. These changes would have an adverse affect on NVOs, because carriers may try to shift liability onto the shoulders of the consolidators, Rodriguez said.

The U.S. government, after a review of the Comite Maritime International's draft International Carriage of Goods by Sea in January, is expected to present its position at the first session of the United Nations Commission on International Trade Law Working Group in New York mid-April.

In addition, NVO-GAC will continue to fight carrier antitrust immunity in OSRA and keep pressure on lawmakers with an interest in eliminating this practice.

"We have not abandoned these issues," Rodriguez said. "They may be long-term in nature, but they will need to be addressed for the future benefit of the NVO industry." ■

Canadian importers take on compliance

CSA program allows Canada Customs to better focus resources on high-risk shipments.

BY CHRIS GILLIS AND MARK MCHUGH

In an earlier time, Oryst Dydynsky would have been considered a dreamer in customs circles.

The former Canada Customs official pushed the concept that the agency's enforcement initiative should not be focused on importers who are already compliant with the law, but instead on the lawbreakers themselves. Dydynsky then helped to lead the effort at the agency to develop a program to make that happen.

The result was the creation of the Customs Self Assessment (CSA) program, which essentially entrusts qualified importers and their truckers to monitor their own cargo entry process from entry point to destination, while allowing Canada Customs to use its limited manpower and other resources to more efficiently target high-risk or unknown shipments.

Canada's top 1,000 importers represent more than 50 percent of the cargo volumes entering the country each year. Repeated analysis over the years by the agency has found that most of these importers' commodities are low risk to public safety and health. "CSA is for those importers who have demonstrated continuous compliance with Customs," Dydynsky said

Canada Customs said its CSA program helps to eliminate "unnecessary regulations and requirements, reducing costs and administrative burden for both government and business."

CSA is the first trade initiative to be implemented from the Canadian government's Customs Action Plan, which was started in April 2000. Dydynsky had hoped the CSA program would have been up and running by the time he retired in 2000 after 30 years at the agency. Year 2000-based systems concerns, in addition to legislative and budgetary issues, pushed the launch of CSA to December 2001.

Today, Dydynsky, president of the international trade division for Ottawa-based consulting firm ViaSafe, continues to promote the benefits of CSA to the Canadian importer and carrier industries. "Once this program is in place and rolling, approved importers and carriers will be able to work out their customs clearance with reduced effort," he said.

Oryst Dydynsky
president, international trade division, ViaSafe

"If you still move cargo with paper documents after 2003, you will either have to hire a third party to enter it into the system or wait for Customs to do it."

Rigorous Review. To participate in CSA, importers, carriers and drivers must apply to Canada Customs. The agency said the program's participation is based on "rigorous pre-screening and pre-approval of applicants coupled with strong compliance monitoring and enhanced systems."

Importers must attest that their systems comply with Canada Customs' specifications. These companies have the option to verify their systems linkages with though independent accountants or auditors. Using their own business systems, approved importers can use CSA to initiate trade data, fully self-assess duties owed, and make payments to Canada Customs.

"Not all shipments are revenue-generating for Canada Customs, but they are for shippers, because that's their business," Dydynsky said. "Shippers should have control over this process."

Similarly, carriers must demonstrate they're import management systems meet Canada Customs' CSA requirements. They must also show they have not had any major infractions with the agency for two years. In addition, drivers for the approved carriers must obtain CSA identification cards, which require background checks by the government.

Once a truck shipment reaches the border crossing, the driver has to only show his photo identification and lead sheet identifying the approved carrier and approved importer. "These three bar-coded data elements are captured by customs to verify approvals. When the documentation is approved, the shipment is allowed to proceed into Canada," Canada Customs said.

The importer must submit a reconciliation of duties, taxes and statistical data to Canada Customs on a monthly basis.

While Canada Customs promotes voluntary compliance through CSA, the agency will routinely audit importers' records. The agency has also implemented a new penalty system to ensure compliance is met.

The Administrative Monetary Penalty System promotes a graduated penalty system for both revenue and non-revenue-related infractions, which may be assessed at a set amount or as a percentage of the value of the goods involved.

If, for example, an importer fails to report all imported goods, it can be assessed $1,000 or 5 percent of the value for duty, whichever is greater, for the first offense. The penalty increases to $2,000 or 10 percent for a second offense, and $3,000 or 20 percent for subsequent occurrences. The maximum amount is $25,000 per violation. Canada Customs also maintains the right to end any company's participation in CSA for wrongdoing.

Automation Push. Canada Customs has initiated a marketing campaign to get companies onboard the CSA program as soon as possible. So far, more than 160 carriers, 20,000 truck drivers and more than a dozen importers have either applied or been approved to operate under the program.

Some of the first companies approved for the program are DaimlerChrysler, Ford, JDC Logistics, FedEx Custom Critical, Autoquik, Ottaway Motor Express, DaimlerChrysler Transport, Reimer/Roadway, and Wolverine Freight.

Bob Renaud, vice president of public and government affairs for DaimlerChrysler Canada complimented the agency for its development of the new cargo clearance program. "CSA is one of the important steps that CCRA (Canada Customs and Revenue Agency) has taken in addressing the growing crisis at the border," he said.

"It's a big step for Customs in our country, because they are saying, 'we trust you,'" said Mike McManus, director of customs operations for Hercules Trading. "We thought we would never hear those words come out of their mouth."

For the first year, CSA will focus on import cargo entering Canada from the United States. The program will then be expanded to airports and seaports.

Canada Customs is confident that its CSA program will accommodate the import industry's future needs. The agency said it sought input from the country's manufacturers, importers, carriers and customs brokers in the development of the program. It also consulted with industry groups, such as the Private Motor Truck Council of Canada, American Trucking Association, Canadian Trucking Alliance, Canadian Importers Association, and several Canadian customs broker associations. "It is a made-in-Canada solution," said Carol West, president of the Canadian Society of Customs Brokers, based in Ottawa.

Jim Philips, president and chief executive officer for the Canadian/American Border Trade Alliance, praised the CSA program for its ability to facilitate trade, while at the same time Canada Customs is able to uphold the government's border security mission.

Canada Customs believes that the only way to improve trade flows and security will come with complete automation of trade data. By mid-2003, the agency will manage the entire cargo clearance process off of electronic data.

"If you still move cargo with paper documents after 2003, you will either have to hire a third party to enter it into the system or wait for Customs to do it," Dydynsky said. "That could result in cargo clearance delays of two hours or more." ■

Internationally minded

Canada Customs puts international import clearance measures into national context.

OTTAWA

Canada Customs doesn't want to introduce a new import clearance process that's outdated shortly after implementation.

That's why the agency developed its Customs Self Assessment program and the other modernization aspects of its Customs Action Plan largely in line with the latest international initiatives to streamline and simplify customs clearance procedures.

The G-7 countries, of which Canada is a member, developed a data standard and electronic message format, which they have agreed to implement by 2005. Canada is also an active participant in the World Customs Organization, which provides modern procedures to modernize customs administrations through the revised International Convention on the Simplification and Harmonization of Customs Procedures, or Kyoto Convention.

Canada Customs said it has also kept U.S. Customs well informed about its modernization efforts. Since the early 1990s, Canada and the United States have been finding ways to improve trade flows along their shared border.

For years, the customs agencies have exchanged export and import data via the U.S./Canadian Data Exchange. In 1995, the governments created the Accord on Our Shared Border, which has allowed the customs agencies to consider better ways to share facilities and cargo-processing tools at several ports along the border.

The Canadian and U.S. governments recently signed a declaration to create a "smart border" between the two countries. The goal is to tighten security without hurting the flow of legitimate cargo and people.

Measures pertaining to cargo security in the declaration are:

- Establish complementary systems for commercial processing, including audit-based programs.
- Develop an integrated approach for processing truck, rail and marine cargo away from the border.
- Create criteria for the development of small, remote joint border facilities.
- Share customs data.
- Exchange information and analysis to target marine in-transit containers.

Both governments said they plan to meet regularly this year to implement the Smart Border Declaration as soon as possible.

American Shipper

American Shipper

Widespread urging from shipper and carrier executives drives David Howard to expand his regional magazine into the national publication *American Shipper*. The magazine serves as a neutral platform of communication between shippers and carriers and is now widely regarded worldwide as an authority on issues affecting the management and execution of international logistics.

Go to www.americanshipper.com or call (904) 355-2601 to subscribe.

AmericanShipper.com

American Shipper launches a website to meet the growing demand for information online. AmericanShipper.com is an essential resource for companies active in international trade and transportation, with daily news, industry analysis and data services.

To get informed and stay competitive, register at www.americanshipper.com.

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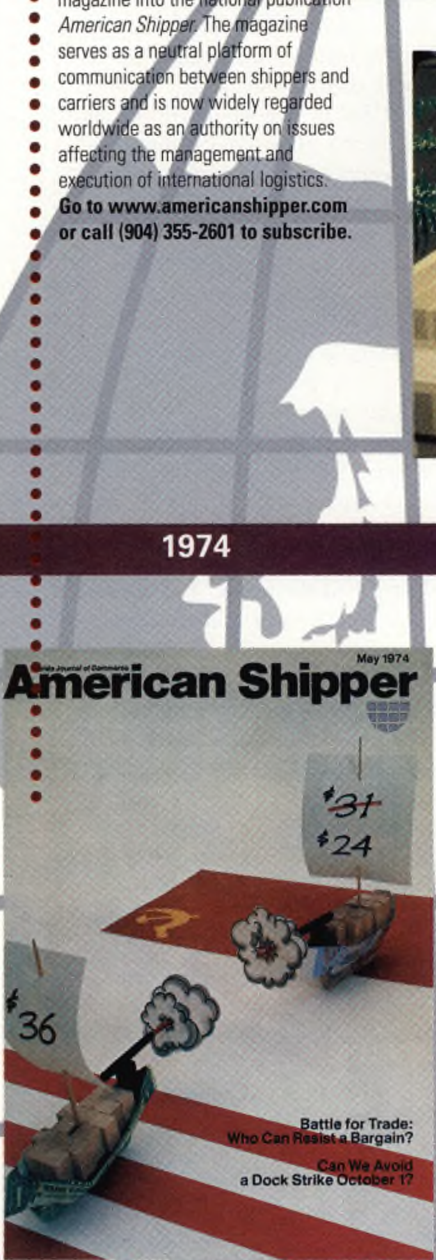

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then...

U.S. Customs reins in broker licenses

Agency cancels inactive licenses. Brokers want higher standards for license test takers.

By Chris Gillis and Mark McHugh

Clearing imports into the United States is a privilege, and the Customs Service intends to keep it that way.

That's why the agency has spent two years developing a centralized program to better manage its customs broker licensing process.

"When you have a decentralized process, you're going to have uniformity concerns," said Mike Craig, acting director of Customs' commercial compliance division in Washington. "We couldn't continue to operate this way."

Before 1984, the former Customs district offices issued broker licenses. This led to a chaotic system of license numbers.

In April 2000, Customs implemented its revised rules for brokers, known as Part 111 of the agency's regulations. The rules govern how brokers should conduct their business with importers. Many of the changes were required by the 1993 Customs Modernization Act and have been implemented by the industry.

With better internal broker management controls, Customs could narrow its sights on non-compliant and illegal operations, a task which has become increasingly important for the agency after the Sept. 11 terrorist attacks on the United States.

Customs estimates there are more than 12,200 licensed customs brokers, of which 9,500 are considered active in the U.S. import clearance business.

Every three years, the agency collects status reports from customs brokers. Industry operators also pay a $100 fee to Customs. Through closer scrutiny of these reports, in addition to more centralized controls, Customs has cleared several hundred customs broker licenses off its books. Agency revocations of broker licenses are due to a variety of reasons, such as the death of the license holder, mergers and acquisitions of broker operations, and failure of the broker to file an operations report.

> ***"When you have a decentralized process, you're going to have uniformity concerns. We couldn't continue to operate this way."***
>
> **Mike Craig**
> *acting director, commercial compliance division, U.S. Customs*

Customs has shut down some illegal operations through intelligence gathered from the broker industry. "We have found that brokers generally want to protect the reputation of their industry," said Scott Nielsen, acting chief of Customs' broker management branch.

New Players. During the past several years, the customs brokerage industry has undergone a transformation because of changes in regulations and new demands of the import business.

The Mod Act held importers more accountable to Customs' rules and their import operations, a process known as exercising "reasonable care." The legislation also opened the door to new business opportunities for brokers. These firms could expand their work beyond entry filing to providing consultation to importers to ensure they comply with Customs' rules.

But the rules, as they apply to offering compliance advice and assistance to importers, has also allowed other players, such as accounting and consulting firms, to permeate the industry. Some of the large non-broker firms with import compliance services are KPMG, Accenture, PricewaterhouseCoopers, Deloitte & Touche Consulting Group and Ernst & Young.

While many of the bigger firms have former Customs officials and licensed customs brokers, some have staff with little to no direct experience in the customs brokerage industry offering customs compliance services to importers.

Many customs brokers have complained about these firms to Customs and want the agency to take another look at what is considered to be "customs business." They also believe Customs should either hold these new competitors to the same oversight as licensed brokers for non-entry-filing work, or lighten the regulatory burden overall.

"It's really unfair to us as licensed brokerages, who bear the burden of regulation and statute, could be penalized for any infraction," said Jack Rafferty, director of trade and regulatory services for PBB Global Logistics, a Buffalo, N.Y.-based customs broker, and a member of the Northern Border Customs Brokers Association.

Rafferty

Test Taking. To become a licensed broker, individuals must pass an exam. The exam is administered in April and October by Customs. The test is considered by the agency to be a rigorous review of a person's knowledge of the broker business and the regulatory responsibilities that go along with it.

Many people do not pass the test the first time around. Individuals are allowed to retake the test as many times as necessary. "I met a person who took it nearly 20 times before she passed it," Nielson said.

"It's a good litmus test in your knowledge of the industry," said Don Luther, a trade specialist at customs and trade law firm Katten Mutchin Zavis, who recently took the exam and passed first time around. "Brokers have to be able to make decisions right away."

Luther

The pass rate has traditionally been about 25 to 30 percent. However, the results from the October 2001 broker license exam resulted in a pass rate of slightly more than 50 percent, the highest pass rate in recent history of the agency.

Customs said that 1,133 individuals took the most recent exam.

The broker license test is paper-based,

but Customs has considered the possibility of offering the test on the computer in the future.

After passing the exam, the individual must file a license application with Customs, which includes fingerprinting, personal credit check, criminal history, and an interview with the agency.

Broker Experience. While on-the-job experience helps many individuals pass the exam, some test takers rely on home-study programs to prepare. These programs often cost several hundred dollars to take.

One of these home-study programs is offered by Boskage Commerce Publications, based in Allegan, Mich. The company provides its students with three levels of programs. The first level is aimed at the applicant who has worked in the field or has even taken the exam and failed. The second and third levels cater to individuals with little or no experience in customs brokerage. During the study period, Boskage provides assistance to students with questions.

Robin Laraway of Boskage recommends that at least 200 hours of study should be spent prior to taking the broker license exam.

Many broker executives, however, are concerned about the lack of experience in the business before individuals take the exam.

"To be an effective broker, the licensing should be preceded by three to four years' experience," Rafferty said. He added that book smarts may allow someone to pass the exam, but it is probably not enough for that individual to work efficiently in the field. "It takes a lot more than that."

Harvey A. Isaacs, general counsel for the National Customs Brokers and Forwarders Association of America, believes Customs' broker exam lacks challenge in some areas. He said someone who has never had experience with brokering, or never seen the inside of a broker's office could pass the exam.

He also said that the exam does not test applicants on their knowledge of other government agencies, such as the Food and Drug Administration and Fish and Wildlife Service, involved in entry processing and what forms need to be filed in the process.

"There's no real-life component to the exam at this time," Isaacs said.

Isaacs suggested that an internship or period of experience in the broker industry should be required before taking the exam. It's uncertain whether Customs would promote this type of experience-based measure.

"Perhaps the NCBFAA could," Isaacs said. "That would make a lot of sense." ■

U-Freight expands Chinese network

SHANGHAI

The U-Freight Group has expanded its Chinese network through a purchase of a 50-percent stake in the Shanghai Rijin International Freight Co. Ltd.

The new affiliated company, which is based in Shanghai and has offices in Nanjing, Guangzhou and Wuhan, operates with a class one license and offers sea and air import/export freight forwarding and customs brokerage services.

U-Freight has established a network of branches in China over the past 10 years, under a variety of ownership structures. In addition to Shanghai Rijin, U-Freight is the principal shareholder in Shanghai Renaissance International Transportation Co. Ltd.

U-Freight's main Chinese operations function under the U-Freight China Express International brand, which has offices in Beijing, Tianjin, Dalian, Xiamen and Qingdao. U-Freight also has offices in Ningbo, Hangzhou, Shenzhen, Suzhou, Hong Kong and Macau. ■

Shipco's tight ship

NVO quietly sails ups and downs of ocean freight consolidation business.

BY CHRIS GILLIS

Shipco Transport is considered one of the United State's largest non-vessel-operating common carriers, but you wouldn't hear it from them.

Shipco's basic formula for success has been to mind its own operations and let other NVOs do the talking about the industry at large.

"It took a while before anyone considered us a threat," said Klaus H. Jepsen, president of the Hoboken, N.J.-based NVO. "We weren't out making a lot of noise. We just took care of our own business."


Jepsen

To many shipping industry analysts, Shipco is considered among the big three of U.S. neutral less-than-containerload NVOs today, including NACA Logistics Group and CaroTrans International. While Shipco won't divulge actual cargo volumes, it's estimated that the NVO handles more than 50,000 TEUs a year.

Neutral NVOs have traditionally earned their living by buying capacity from vessel operators as shippers and, in turn, retailing it to freight forwarders as carriers.

"In the U.S. market, many NVOs operate on the premise that customers will come in the front door and leave out the back," Jepsen said. "But we've always approached the market differently."

Most of Shipco's senior managers were indoctrinated in Denmark's conservative shipping business "If you lose customers there you don't easily find others to replace them," Jepsen said. "We stick to the belief that offering a high level of service is the only true way to keep customers."

Consolidation Roots. While Shipco dates its U.S. operations to June 1988, the company's parent, Copenhagen-based steamship agency Scan-Shipping, handled consolidations in the early 1970s.

In 1971, Scan-Shipping opened an office in New York, which in addition to providing liner-agency services, managed some consolidated shipments from Scandinavia to the United States. Eight years later, the company opened an office in Singapore and focused its consolidation work in the U.S. eastbound transpacific trade.

"At Scan-Shipping, there was always this desire to look outside of Scandinavia for new business opportunities," said Jepsen, who set up the company's operations in Singapore in 1979. The company began to use the name Shipco Transport for its emerging freight consolidation business.

Through most of the 1980s, Shipco rode on the wave of the booming eastbound transpacific trade, competing against other NVOs, which handled volumes of up to 25,000 TEUs a year. Then the market took a turn for the worst in 1987.

"The market went downhill rapidly," Jepsen said. "Many NVOs had over-committed volumes in the trade and got themselves into deep trouble."

Shipco's eastbound transpacific business similarly lost money during that time, and the company decided to reevaluate its freight consolidation business. "We needed to be more in control of our destiny," Jepsen said.

In 1988, Scan-Shipping created its U.S.-based Shipco NVO export service in New York to take advantage of the transatlantic freight market. "When we switched from import to export consolidations, we needed to be successful quickly. We didn't have the luxury of financial resources. We had to make money," Jepsen said.

To do this, Shipco became a neutral operator. "We turned to the forwarders for business," Jepsen said. "Our neutrality was important because the forwarders could turn the business on or off for an NVO in an instant."

The emerging NVO also built strong relationships with ocean carriers. "It's important to have the right relationship with the carriers," Jepsen said. "Our liner agency connections helped with this."

During the next 10 years, Shipco developed a network of more than 30 LCL receiving terminals in the United States, with its main gateways in New York, Miami and Los Angeles, and its secondary gateways in Chicago, Seattle, Atlanta and Houston.

Well-Rounded. While LCL shipments remain Shipco's primary business, the company hasn't hesitated to expand into other transport areas where its services could apply. In many cases, Shipco often became the first neutral ocean freight consolidator to venture into a new business territory.

In 1994, Shipco formed an air-freight division to become a "multimodal" NVO. Shipco was authorized to handle air shipments by the International Air Transport Association (Cargo Network Services) in 1995. A year later, the air-freight division in New York was segregated and moved to its own facilities close to Newark airport in New Jersey. Shipco Airfreight subsequently expanded office and cargo-drop off stations to Los Angeles, Chicago, Atlanta, Miami, Houston, Philadelphia, Boston, Cleveland, San Francisco and Seattle. The company opened an office at New York's JFK airport in June 2000.


Ekstroem

Shipco Airfreight works mostly with small air forwarders and provides access to thousands of destinations worldwide, said Kim Ekstroem, vice president of Shipco.

In 1997, Shipco created its project cargo department. This service covers customers

Shipco overview

Founded: New York in June 1988.
Headquarters: Hoboken, N.J.
Staff: 400 employees
Offices: 32
Office Locations:
North America: New York; Baltimore; Chicago; Charleston; Atlanta; Miami; Houston; Los Angeles; San Francisco; Seattle; Toronto; and Bayonne, N.J.
Europe: Antwerp; Rotterdam; London; Liverpool and Glasgow, U.K.; Copenhagen; Gothenburg; and Tallinn, Estonia.
Asia: Singapore; Colombo; Kuala Lumpur, Port Kelang, Penang; Johor Bahru, Malaysia; Jakarta; Bangkok; Hong Kong; and Tokyo.
South America: Santiago, Chile
Services: LCL, FCL, project cargoes and air-freight consolidation.

Source: Shipco Transport.

with a range of transport requirements, such as the need for 20-foot open-top containers or managing the movement of turnkey project shipments.

With the U.S. market's increased demand for products manufactured overseas, Shipco revisited its roots in the management of import consolidations. Today, the company manages both LCL and full-containerloads from ports of origin to the United States, including inland transport to final destination.

Shipco plans to use its network of 33 offices and overseas agents to handle more foreign-to-foreign consolidations. The company recently opened offices in Tokyo and Santiago, Chile.

"We're perceived as a global player and so we must be one," Jepsen said. "In the long term, it will be a strength for an NVO like us."

But Shipco's expansion in services and offices has not come through mergers and acquisitions with other NVOs. The company sticks to a business model that promotes steady internal growth.

"Our concept isn't to be everywhere, but in strategic locations or where circumstances dictate," Jepsen said. "We've grown organically in small increments. This way we maintain the soul of the company."

Shipco believes the fallout associated with many of today's NVO merger and acquisitions isn't worth it. "Our focus has been on finding the right people that fit with our philosophy and retaining them," Jepsen said.

Volume Building. What has changed for Shipco is its drive to build freight volumes. "You need critical mass. Otherwise you're not going to be successful," Jepsen said.

Consolidation among the U.S. neutral NVOs — such as the recent formation of Long Beach, Calif.-based NACA Global Logistics through the merger of Direct Container Line, Brennan International Transport and Conterm Consolidation Services — and the exit of direct market presence of other NVOs, such as Antwerp, Belgium-based Ecu-Line on the U.S. East Coast, has fostered a need among large players to build volumes to stay competitive.

"When we started Shipco, you didn't need critical mass," Jepsen said. "NVOs shared costs with other NVOs in the various trades. You can't do that today with fewer competitors."

Shipco has also shied away from building volumes through alliances with other NVOs. The company tried it in the mid-1990s as a member of the North Atlantic Alliance Association, but pulled out two years ago. The NAAA is a shippers' association of about 40 forwarders and NVOs, which combine portions of their cargo volumes to gain cheaper access to vessel capacity and better service from ocean carriers.

"Many of the smaller forwarders in the NAAA were also our customer base, and we essentially created better buying power for them by participating in the association," Jepsen said. "We couldn't see the logic in that. We could obtain comparable or better rates for these customers on our own."

Jepsen said Shipco has no plans to pursue or participate in alliances in the future.

"We want neutrality and freedom to make decisions without involving anyone else," he said. "It's very important in today's market to be able to maneuver quickly."

Digital Control. Shipco's latest focus is expanding the application of its Internet and electronic-data-interchange technologies to its NVO services. "Without a doubt, e-commerce is something which customers are now not only expecting but demanding," Jepsen said.

"In the old days when forwarders gave their freight to NVOs, it was like an information black hole," he added. "We're trying to eliminate the black hole."

Shipco developed a new Internet-based systems platform (www.shipco.com) completely in-house, and launched it in mid-January.

One of the key features of this multifaceted system is Shipco's live shipping schedule, which was rolled over from the company's previous Web platform. This feature provides customers with "real-time" sailing information based on their input of origin and destination information.

Another groundbreaking aspect of the system is the ability for Shipco's customers to book their LCL cargo online; a feature called "STi-Book."

"Once the cargo-related on-screen fields in the booking form have been completed and submitted, a confirmed booking number is automatically supplied," the company said. "This eradicates the need to await a booking confirmation by fax or e-mail, and means that the clients can then immediately proceed with their own paperwork, safe in the knowledge that their booking is already in Shipco's system and the number will apply to the shipment throughout the entire shipping process."

In June 2000, Shipco launched an online shipment-tracking program, "I-Trek!," which also has a role in the new system. Through this feature, shipments can be tracked through a variety of search criteria, such as a Shipco bill of lading number, lot number, booking number, place of receipt, or container number. The information can be downloaded directly and presented on spreadsheets for the customers' internal use.

Customers can also print their bills of lading in PDF format off Shipco's Web site. Shipco said its customers will soon have the capability to download and print any related documents generated by the NVO's cargo management system, such as dock receipts and ocean freight invoices.

For Shipco's air-freight customers, the new Web site provides an "airport locator" feature. By entering the name and state, or ZIP code of the origin city, the system will automatically provide customers with the mileage to the nearest airport. The company will add other online air-freight features to the system in the future.

"While the concept of international shipping is a simple one — transporting a box from A to B — the reality of it is more complex, involving multiple parties and multiple moves," Jepsen said. "With Shipco's new Web site, we bring it all together for the customer with the click of the mouse." ■

Shipco's diverse parent

COPENHAGEN

Shipco Transport is a product of the corporate vision of Arne Simonsen, chief executive officer and sole proprietor of Scan-Group.

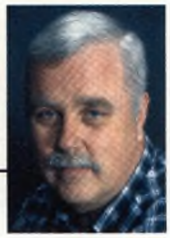
Simonsen founded liner agency Scan-Shipping in April 1969 as a one-man owned company until it became a limited company in 1977. While Scan-Shipping's main area for business has been Scandinavia and the Baltic region, its operations have expanded throughout the world, and other businesses such as Shipco were added over time.

In the late 1980s, Simonsen ventured outside the shipping business to establish a golf course in Nybogaard, Denmark, under the name Simon's Golf Club.

In 1994, Simonsen's office was also appointed counsel general for Singapore in Denmark. The Philippines and the Somali Democratic Republic bestowed a similar status on the firm.

Simonsen remains active in the day-to-day operations of Scan-Group.

Peter Baish



E-mail: pbaish@clearcross.com

AES mandatory? Who said mandatory?

1995 seems like such a long time ago. I was then the newly appointed "Process Owner" or director of Outbound for U.S. Customs. Besides establishing and organizing a new division in Customs, I inherited a major systems development effort, the fledgling Automated Export System (AES) project. Along with Foreign Trade Division chief Harvey Monk and his Census team, the AES development group was charged with replacing the derelict legacy export system with a modern reporting system that would be accessible from Customs mainframes.

Monk

The early days of AES were tough. Several exporters and freight forwarders were vocal in their opposition to the new system. Equally important were the differing views of the trade community who helped design the system that exists today. Certainly, a new world order in U.S. export reporting had begun. However, the detractors were afraid that draconian, under-the-table changes were planned. Rumors of major and costly changes such as export bonds being required, export cargo "releases" required before goods could be moved and — God forbid — that AES would become mandatory!

My good friend Harvey and I discussed this last allegation in depth. After huddling, we decided that AES would never become mandatory, at least in our lifetimes. Taking a view toward the behemoth ACS, Customs import system, we observed that it had never become mandatory. So after much thought and deliberation (about 30 seconds as I remember), we made a momentous joint Customs/Census statement to the trade and the press: AES would not become mandatory for at least five years!

Well, it's now 2002, and there's certainly a lot of water under the bridge since 1995. And guess what? AES is on its way to becoming mandatory. Sometimes, in reflection, I wonder what the fuss was all about. After all, Customs, Census and trade (with a big assist from the ocean carrier's surcharge for paper shipper's export declarations (SEDs) have brought AES to just about 80 percent of the currently eligible SEDs. As I remember, in 1995, AES covered less than 1 percent of eligible shipments.

Developing AES was not without some light moments. In 1997, GAO issued a report on AES entitled *Automated Export System: Prospects for Improving Data Collection and Enforcement Are Uncertain.* Certainly not the greatest title for a report, but I thought it was a lot better than the original title proposed by the GAO auditors which ended ... *Prospects for Improving Data Collection Are Limited.* I complained to the GAO auditors that the use of the word "Limited" really restricted the prospects for success and that a lot of hard work had gone into the system. Feeling my pain, (as much as GAO can ever feel someone else's pain), the auditors gave us a chance to come up with our own suggested title for the report. Borrowing a page from Garrison Keiler's *Lake Wobegone,* I suggested *AES — A Pretty Good Idea*" which I still think is a nifty title. The humorless auditors swiftly rejected it. Trying to salvage the opportunity, I suggested the word "Uncertain" be substituted, since it at least implied there was some hope for success for AES. The auditors bought the argument and to their credit changed the title. I remember calling my friend Harvey with the good news. I vividly remember Harvey's reaction: "Pete, you've got to be kidding! Both of those words stink!" Oh well, maybe Harvey was having a bad day that day and couldn't recognize the significance of my accomplishment.

The GAO report recognized the weakness of export reporting and enforcement. It stated in its opening paragraphs: "Since the 1980s, federal agencies responsible for compiling U.S. trade statistics and enforcing U.S. export laws have experienced serious problems in obtaining accurate and timely data on exports." Noting low SED counts, GAO foresaw the need for mandatory participation: "Although it introduced the system as voluntary, Customs recognized that achieving a high level of participation in AES would be difficult and wanted its use to be mandatory. In 1996, Customs sought to make AES mandatory for some users. However, AES was not made mandatory, in part because companies raised concerns about the impact of AES on their business practices, especially if they are required to enter data before shipments depart."

Mandatory filing, at least for some commodities, is imminent. In 1999, Congress passed and the president signed into law the tongue-tying "Proliferation Prevention Enhancement Act of 1999" that provides for mandatory reporting of dual use and military type shipments. An important distinction is that once the law is implemented, these shipments must be reported in AES even if a validated export license is not required.

The legislation leaves some hoops for the government to jump through and as a result, Census has been doggedly jumping through them dragging the other export agencies behind them. So far they've completed a feasibility study, a certification report, and a notice in the Federal Register. All that remains is to add seven new data elements to AES for State Department shipments, and publish a set of final regulations on behalf of the export agencies. Realistically, AES will become mandatory in late summer or the fall of 2002 for these dual use and military export commodities.

Good reasons abound for making AES mandatory. Logistically, automation stops the "hot potato" passing of the paper document along supply chain partners, saving everybody money and time. Along with better accountability and efficiency, more than 50 percent of paper SEDs have fatal errors and they cost the government around $1 to key in. At 240,000 paper documents a month that's a lot of money to be paying for junk! Another good reason is to accelerate the release of the monthly balance of trade figures, a key economic indicator of our country's economic health. The February 2002 trade statistics will actually be announced in April! This delay is caused by the inefficiencies of following the paper trail.

Most importantly, AES should be mandatory to allow the government to fulfill its national security responsibilities for exports: Controlling weapons of all types, fighting terrorism and protecting our sensitive technology.

Considering the reasons as stated above, total automation of the SED in AES has been proposed in a number of pieces of pending legislation. The "Export Administration Act (EAA) of 2001" proposed mandatory filing across the board and strengthened the enforcement provisions for false and late filing and failure to file. Enactment for this legislation has been delayed at least a year. The provision is still alive in another bill, S 1803 the "Security

Assistance Act of 2001." Section 404 of this bill proposes that "The Secretary of Commerce, with the concurrence of the Secretary of State and the Secretary of Treasury, shall publish regulations in the Federal Register to require, upon the effective date of those regulations, that all persons who are required to file export information under chapter 9 of title 13, United States Code, to file such information through the Automated Export System." The bill also contains provisions implementing new and increased penalties for late, false, or failing to file information in AES. This bill has passed the Senate. The House will probably pass some version of S 1803 this year.

Two other bills, the "Customs Border Security Act of 2001" (HR 3129) and the "Port and Maritime Security Act of 2001" (S 1214) require electronic advanced inbound and outbound manifests prior to entry (arrival) or clearance (departure) of vessels and aircraft. These manifest provisions will allow Customs to screen for high-risk cargo such as weapons of mass destruction, narcotics, illegal arms shipments, stolen vehicles, and bulk currency. These new provisions are absolutely vital to our national security and the well being of the good people of the United States.

I think that Harvey and I never really envisioned mandatory AES in our future. Neither did we envision the awful and heartbreaking events of Sept. 11.

Peter Baish is director, product management with ClearCross, a Reston, Va.-based software firm specializing in international trade logistics and materials compliance. He is a former Customs senior executive who was responsible for Customs export responsibilities as well the operational antiterrorism program.

Peter Powell

E-mail: staff@ncbfaa.org

NCBFAA and NVOs: partners in challenging times

Where is the NVO in NCBFAA? Everywhere, and if that's not enough, they are getting more prominent by the minute.

Perhaps — even with its terrible shortcomings – the Ocean Shipping Reform Act of 1998 got one thing right when it lumped forwarders, non-vessel operating common carriers and others together as "ocean transportation intermediaries." We are indeed in this together. And, as we survey the membership of the National Customs Brokers and Forwarders Association Inc. of America, we know that customs broker companies are likely to be forwarders, who in turn are equally likely to be NVOs. The marketplace has simply dictated that we broaden our reach and our customers have demanded that we meet all of their service requirements.

Homeland security has driven the point even further. As federal enforcement policymakers have made clear, achieving a high level of security requires us to look at an integrated supply chain. Each participant in the chain depends on the other, and is responsible to the other for comprehensive risk reduction. As the private sector plans — currently through the Treasury Department's Commercial Operations Advisory Committee (COAC) — for its role in trade security, all of us have grown to appreciate the others' unique role in the logistics chain. We have clearly seen the need to assist the other in remaining profitable while doing what is possible.

Since Sept. 11, NCBFAA and NVOs have been bound together in that effort. A case in point has been the evolution of port security legislation that passed the Senate as S.1214. A *sine qua non* for the bill has been transmission of data, sufficiently in advance of vessel arrival for Customs and other law enforcement agencies to run their risk analyses effectively. NVOs must be part of this, but they cannot permit proprietary data to fall into the hands of their competition, particularly the carrier. NCBFAA knew this and it was abundantly clear to the association's member NVOs. In coming to agreement with Senators Ernest F. Hollings, D-S.C.; John McCain, R-Ariz.; and Trent Lott, R-Miss.; NCBFAA was clear: NVO data filing must go directly to the federal agencies and proprietary data must remain in the hands of the government alone. Since passage of the bill, we have won assurances that any ambiguities in this regard will be clarified.

Now, going forward, NVOs will face unprecedented challenges, as the federal government will demand even more from them. The Department of Transportation wants to move the sphere of security across oceans and move its perimeter back to the foreign production facility or consignee. The demands on the NVO will be greater. The OTI will be asked for more, sooner. The government will require total visibility, earlier, for the contents of his container.

NCBFAA does not want to focus solely on damage control for its NVO members. As participants in efforts to revise the Carriage of Goods by Sea Act (COGSA), the association will focus heavily on revisions to NVO liability. And, in perhaps its most important stroke on behalf of NVOs, NCBFAA will soon be filing its petition at the Federal Maritime Commission, seeking a limited exemption in the filing of tariffs. This will finally level the playing field for NVOs with the carriers. By exempting strict rate tariff filing, NVOs will gain much deserved relief from FMC enforcement and, more positively, provide needed flexibility in the marketplace. Gone will be the costs — in money and time — that filing has come to represent.

Yes, as we continue to make ocean transportation less costly and more profitable — for our clients and ourselves, OTIs have a common bond. OTIs need to voice their concerns vigorously through a powerful, unifying organization. NCBFAA is striving to make that impact and gather others from the transportation community to its flag.

Peter H. Powell, Sr., a 40-year veteran of the transportation logistics industry, is the chief executive officer of C. H. Powell Co., in Westwood, Mass.

Transport / Ocean

By Philip Damas, pdamas@shippers.com

Liner shipping without carrier conferences?

It may happen.

The policy workshops organized by the Organization for Economic Cooperation and Development may lead to the end of conferences and discussion agreements between ocean carriers.

It is no longer utopian to consider a future without such practices, although nobody can be certain that lawmakers and transport policymakers will decide to end the long-established immunity of ocean carriers to discuss and set common rates any time soon.

Let's consider here what the effects of ending the carriers' immunity would be on competition, pricing by ocean carriers, and shippers' purchasing and contracting practices. Using anecdotal evidence, industry comments and subjective judgement on our part, rather than a mathematical model, we can foresee the following:

(1) Individual agreements are not affected

One thing that will not change, if carriers are prohibited from discussing rates, is the availability of individual contracts and agreements between shippers and ocean carriers. Conferences have not been able — notably since the U.S. Ocean Shipping Reform Act of 1998 was passed — to interpose themselves between a shipper and his or her selected conference carrier or carriers.

This loss of power of conferences has already happened.

(2) Remaining common benchmarks for rate levels go

Ending conferences and discussion agreements will also mean the end of common price benchmarks — or tariff grids — among conference carriers. Of course, conferences today are already largely unable to impose identical prices on all shippers of the same commodity — these practices disappeared more than 10 years ago. When almost all shipper/carrier contracts are confidential, it makes common rates even less realistic when individual competitive pressures naturally drive rate levels to different levels.

Given the changes that have already happened, you may even wonder whether the end of conference and discussion agreements will have a material effect.

But these carrier groups still have common "benchmark" rates — meaning target rates — by commodity, from which each carrier can freely discount when it conducts rate negotiations with shippers. Discussion agreements have voluntary "non-binding" rates that may or may not implemented by their individual carriers.

Ocean carriers within conferences and discussion agreements still seek to "harmonize" to some extent the prices paid by their respective customers, through tariff grids or minimum rates, and this would not be possible in a world without conferences and discussion agreements.

Ending the immunity of conferences and discussion agreements would put the last nail into the coffin of "common rates" among conferences carriers.

(3) Prices become truly confidential on both sides

One complaint of shippers is that carriers are still able to discuss amongst them rates that they have charged, or are planning to charge to shippers, particularly in the non-U.S. trades. (U.S. shippers can have formal confidentiality clauses in their contracts.)

Carriers can discuss amongst themselves clauses they will seek to introduce in shippers' contracts. They share market rates information between them — if not at the individual contract level (this may breach the confidentiality agreed with the shipper), then at least at the macro level.

A shipping market without conferences and discussion agreements would end these ingrained practices of conferring about price and contractual conditions that affect customers — the shippers.

Rates and agreements would then become totally confidential on both sides.

(4) New pricing leaders are required

Today, the main effect of conferences and discussion agreements is that they can send a strong pricing signal to the market by announcing common rate increases (rather than common absolute rates) and a common date of implementation of the increase.

Conferences and discussion agreements operate as "price leaders," while non-agreement carriers often follow and incorporate the pricing change.

This is also true for surcharges, when it is the conference and discussion agreements — rather than individual carriers — which announce new levels for surcharges, or the introduction and removal of new surcharges.

It is not suggested here that carrier agreements can impose common rate increases unilaterally, and recent history has shown that they have often been unable to implement such increases in adverse market conditions. But the pricing signal tool is there for carriers, and it can be effective in a strong market.

If the immunity of such carrier agreements is withdrawn, it totally changes the pricing philosophy of carriers.

The likely result? The largest carriers will have to do their own market assessment, individually, and take the lead for pricing changes.

It's already happened in the transatlantic about a year ago, when Maersk Sealand announced an individual westbound rate increase without waiting for the transatlantic conferences to discuss and agree on it.

But it may become harder for carriers to get the rate increases, because the industry is still fairly fragmented.

And the way freight rates are adjusted and re-negotiated may become more flexible and less driven by herd-like behavior.

It's also likely to narrow even more the differential between the rates charged to ship different commodities even when the service is virtually the same.

Without conferences, the market will move closer towards freight-all-kind rates – there should be a simplification of the different rate "classes" or levels. But value-added services provided to the shipper will not be affected and there will be differences in rates for these. It is not suggested here that just-in-time car part shipments will cost the same as wastepaper shipments once conferences and discussion agreements have been wound up.

Rough seas for Jones Act?

Rule revising coastwise lease financing law called protectionist.

By Robert Mottley

In 1996, Congress passed a coastwise lease finance law that permitted indirect foreign ownership of a Jones Act vessel if it was leased to a Jones Act-qualified U.S. citizen.

The law dispensed with a prior requirement that the owner of such a ship be a Jones Act-qualified U.S. citizen, but retained U.S. coastwise-qualified citizen control of such vessels. The Jones Act requires goods moving between consecutive U.S. ports to travel on U.S.-flag vessels.

"The coastwise lease finance law was intentionally and deliberately written broadly," said Tom Mills, an attorney with the firm of Winston & Strawn in Washington, D.C., in correspondence with Rear Adm. Paul J. Pluta, the U.S. Coast Guard's assistant commandant for marine safety and environmental protection. The correspondence was recently made public.

"The Senate had passed a restrictive version of the law in late 1995. That version was rejected by (a Senate-House) conference, and the Senate receded to the House position in the fall of 1996. The law does *not* require, for example, that the vessel owner be a leasing or financial entity. The law permits the vessel owner to be *an affiliate of a leasing or financial entity,"* Mills said.

Since the coastwise lease finance law went into effect, the Coast Guard has permitted at least 105 finance transactions affecting 875 ships. Many of those involved U.S. coastwise-qualified citizens who controlled foreign-owned Jones Act vessels, leasing those ships back to their affiliated foreign owners.

In November 1999, the National Vessel Documentation Center, which the Coast Guard supervises, issued a rule revising the requirements of the 1996 statute. The center required every vessel owner hoping to take advantage of the lease finance law to certify that the owner "does not derive the majority of aggregate revenues ... of a parent entity or subsidiary of a parent entity from the operation and management of vessels."

The center also stipulated that the vessel owner cannot be "primarily engaged in the operation or management of commercial foreign-flag vessels used for the carriage of cargo for unrelated third parties in violation of any statutes."

"Neither of these restrictive and ambiguous requirements can be found in the statute," Mills wrote to Pluta.

On May 2, 2001, the National Vessel Documentation Center said the form used for pre-existing certificates of being coastwise qualified was no longer valid. Henceforth, the center said that all such certificates must meet criteria set in the center's revised proposed rules, which require each applicant to certify that it is "primarily engaged in leasing or other financial transactions."

"The new certificate is in direct conflict with the statute," Mills wrote to Pluta. "The NVDC is again unilaterally rewriting the statute without any lawful basis."

Several vessel owners who had been leasing ships under the statute immediately charged that the center had succumbed to protectionist pressure, closing a small window that allowed foreign participation — at arm's length — in the Jones Act trade.

In the ensuing furor, the National Industrial Transportation League weighed in: "the wording proposed … is not consistent with the changes made in the statute, and unnecessarily restricts the criteria that must be met to document and re-document a vessel with a coastwise endorsement issued pursuant to 46 U.S.C. 12106(e)," the 1996 coastwise leasing statute.

Pluta, in response to Mills, said, "As is sometimes the case, the Coast Guard finds itself in the position of attempting to administer a new statute prior to the opportunity to promulgate rules. Although this is not an ideal method of operation, it allows us to provide our customers with the opportunity to take advantage of statutory initiatives without waiting for the often lengthy rulemaking process to be completed.

"The NVDC concluded that the term 'leasing or other financial transactions' in 46 U.S. 12106(e) was ambiguous," Pluta said. That left the NVDC with an option to stop issuing any coastwise endorsements under the lease financing provisions "until final regulations were issued," Pluta said, a position "which the Coast Guard believes is unacceptable."

"The appropriate forum for discussion of the relative merits of the Notice of Proposed Rulemaking is the public docket," Pluta said.

The Coast Guard has since extended the public's time for comment until Jan. 31. Interested parties may contact Pluta at (212) 267-2200, fax (212) 267-4839.

As 2002 began, a battle raged for the Coast Guard's ear. On one side were users of the perceived citizenship exception. On the other, certain U.S. companies anxious to keep all foreign competition out of the Jones Act trade.

Philip Grill, chairman of the Maritime Cabotage Task Force, expressed the latter view in a letter dated Oct. 20, to Adm. James M. Loy, commandant of the Coast Guard.

"If the Coast Guard is not vigilant in preventing abuse of the lease financing provision, a foreign investor could now own a 100-percent interest in both the 'U.S. owner' of the financed vessel and a 'U.S. carrier' operating that vessel in coastwise commercial trade under a time charter or other use agreement. It is this combination of interests which poses a threat to level competition in the coastwise trade.

"Any economic advantages available to that foreign investor under the tax and maritime policies of its own country now can become part of both the capital cost component of charter hire (e.g., accelerated depreciation or expensing of vessels, use of pretax funds for vessel construction, etc.) and of rates charged under the time charter. This opens the way for abuses such as transfer pricing to shelter earnings from U.S. taxes, and taking advantage of beneficial foreign tax regimes not available to U.S. operators," Grill said.

Some shipowners who have negotiated 105-plus vessel leasings thus far say this view is alarmist, and ignores the fact that the statute had been amended by a Senate-House committee to allow more business in the Jones Act trades.

"If the Coast Guard lets the restrictive NVDC language stand, the U.S. will be perceived as taking yet another protectionist stance," said Charlie Papavizas, a partner in Winston & Strawn. "That puts the U.S. behind the eight ball when defending the Jones Act in international trade discussions."

Emery W. Harper, a maritime consultant and attorney in New York who was involved in crafting the 1996 statute, said "the Coast Guard has an opportunity to strike a fair balance between these competing interests, and implement a law designed to permit access to both debt and equity capital where the strict coastwise citizenship standards would be met by the bareboat charterer rather than the title holder.

"To the extent that the perceived problem with the statute involves the chartering by a U.S. citizen bareboat charterer to a foreign-controlled affiliate of the owner for the third party carriage of cargo in the coastwise trade, the jurisdiction of the Maritime Administration, which has authority to approve or disapprove such use contracts to non-citizens, should be invoked," Harper said.

"Recourse to the Coast Guard for this type of relief might result in final regulations that distort the statute," Harper explained. ■

Carriers get marginal impact from capacity cuts

LONDON

Total container capacity supply by ocean carriers on the three main east/west shipping trades rose an average of 5 percent in 2001 despite the recent attempts of several carriers to remove excess capacity, according to a report released this week by ComPair Data Inc., the global ocean shipping research and information technology firm.

Several ocean carriers in the transpacific and Asia/Europe routes made capacity cutbacks in the last three months of 2001, according to the January 2002 World Liner Supply report from ComPair Data, leading to an average 1-percent reduction in east/west capacity.

"But those reductions did not outweigh the addition of substantial new vessel capacity early last year or the ongoing expansion of other carriers, which led to the overall annual capacity increase," ComPair Data said.

Results of the January 2002 World Liner Supply report show that transpacific shipping lines have expanded capacity by 3 percent between January 2001 and January 2002 — rising from 190,999 TEUs to 196,330 TEUs a week in the main eastbound direction.

Transpacific capacity is down 6 percent from the corresponding figures in October 2001, but up from capacity offered in January 2001.

The total one-way capacity of the three main east/west container trades — Asia-to-North America, Asia-to-north Europe/Mediterranean and North Europe-to-North America — increased from 381,506 TEUs a week in January 2001 to 400,529 TEUs a week in January 2002. This was despite a small cut in capacity during the past three months — from 406,619 TEUs a week in October to 400,529 TEUs a week now.

"Capacity growth has slowed down, but there are still concerns about a further rise in overcapacity in the major trades," a spokesman for compare Data said. "Intermediaries, shippers and carriers are now carefully watching the competitive pressures and vessel delivery and lay-up trends that are driving overcapacity, as this will have a major impact on the bottom lines of their providers and, ultimately, their own companies," he added.

In the Asia/northern Europe/Mediterranean trade, ocean carriers continued to add capacity in 2001, reaching a total one-way capacity of about 143,000 TEUs a week at the beginning of January. The report does not incorporate changes in capacity due to be implemented by carriers during January and February.

The alliances or carriers that have added the most capacity during the last 12 months are:

- The COSCO/"K" Line/Yang Ming alliance in the Asia/Europe trade (up 35 percent) and transpacific trade (up 18 percent).
- The Evergreen/Lloyd Triestino group in the transpacific (up 20 percent).
- The New World Alliance (APL, Hyundai and MOL) in the Asia/Europe trade (up 21 percent).
- Mediterranean Shipping Co. in the transatlantic (up 7 percent).

ComPair Data, a business partner of *American Shipper,* provides a free sample of the World Liner Supply reports and further information that can be downloaded at www.compairdata.com/wls.htm. ■

Transport / Air

By Mark McHugh, (202) 347-1678, FAX (202) 783-3919, e-mail mmchugh@shippers.com

Security, silence deafening

My father is a dentist. And so was his father. Naturally, these two are intimate with the art of pulling teeth. Myself, I found people a lot more interesting to talk to, so a pen in hand stimulates conversation more than a drill.

But, it seems these days anyway, if you want to get an answer from regional Federal Aviation Administration officials on the latest amendments to the "known shipper" ruling, you better know how to pull teeth. It appears to be the only way you will get information from them. Even then, they will say that you need to talk to someone else, like someone in Washington.

A recent call to the Washington FAA headquarters was revealing about how they deal with the new amendment ("EA C") to the known shipper ruling. On the FAA-end of the telephone was this response: "I have never heard of the known shipper rule — but what is your question?"

No wonder they don't want to talk about it — if they cannot educate their own people about their directives, it seems to follow it would be hard to get the word out to air forwarders and air carriers, too. But, these days, new rulings, new agencies and new laws — and even new jobs — seem to spring up faster than the time one can go thorough airport security.

Speaking of new jobs, new legislation has created space for around 30,000 new baggage screeners to check each and every bag that enters all planes. On top of that, the new Transportation Security Administration plans to install Federal Security Directors at the nation's largest airports (see related item).

But, it is necessary to give the FAA its due, regarding its policy of science. After all, the amendments attendant to the known shipper ruling are secure information. And, whether or not people are paying attention, the United States is at war. So passengers, as well as cargo, should be scrutinized when entering or leaving our shores. Shippers, too, would fall in that category for scrutiny.

But the FAA, a couple of years back, set the necessary tone of silence when dealing with matters of security. In a press release from Dec. 20, 1999, the following appears: "Generally, the FAA does not discuss threat levels or changes in security procedures, since to do so would undermine the overall effectiveness of the security program and heighten the potential risk to the public."

But, unfortunately, smaller companies out there are getting the point, too: as in a 'poke in the eye with a sharp stick' kind of point, to quote journalist Jack Germond. They need the FAA to give them better guidance in compliance, but they don't get any answers.

Dyan Erickson, an export traffic manager in Far Rockaway, N.Y., offers a grim forecast of the effects of the latest amendment to the known shipper ruling. She said it corners forwarders into doing security checkups that should really be someone else's jurisdiction. The consequences of non-compliance are unclear, but none too good, when you read between the lines and see that non-followers can amass civil penalty. "This is basically going to put the small forwarder out of work," she said.

Possible ramifications of this new ruling is that it will discourage people from going into the air-freight business, and discourage the public from using the air freight mode altogether.

"It is a real deterrent if there are so many regulations in place that significantly increase the costs of doing business, making air freight no longer a viable shipping alternative," said Mark Davis, principal of Mercury Aviation, an aviation consulting group in Alexandria, Va.

So, for now, air-freight forwarders are in the waiting room, trying to get clearer directives and clearer answers. Good dentistry requires patience, bright lights, and a couple of comfortable chairs.

Federal security directors to enforce airport security

During the first week of January, the new Transportation Security Administration posted a job description on the Internet to fill positions for the new job of federal security director ("FSD"), another new Washington acronym.

These new employees will be the bottom line of accountability for all aspects of security at our airports, said one Department of Transportation official at a December briefing. Better yet, he said they would serve as "diplomats," and will coordinate with local law enforcement agencies, as well as national agencies.

But let's hope these workers are more than just acronyms wearing suits, and walking around our nation's busiest airports. These new appointments will be individuals assigned to cover all security aspects at the nation's top airports. So they will be the ones to oversee all secure, or "sterile" parts of the airport, whether it's the cargo areas or even the security checkpoint area.

While these FSDs will be patrolling the busiest airports, what about the airports who are smaller, the ones who are not that busy?

Sen. Kay Bailey Hutchison, R-Texas, in November, was pushing the idea of federal oversight of America's busiest airports, referring to them as "hubs." Cover the big ones but do something about all American airports — we need security commonality. After all, terrorism has no ground rules.

Rep. Vernon Ehlers, R-Md., thought that restricting national oversight to just the larger airports is bunk. "That's simply not gonna fly," he told Hutchison and other members at a joint House-Senate hearing on Nov. 13.

With the Sept. 11 tragedy, and the following accounts of people slipping by airport security checkpoints, security should be second to none at every airport in America. To fill the security gap, TSA said they want to start filling the FSD positions at the nation's 81 largest airports, followed by recruitment for positions at the balance of the other 429 American airports. Finally, someone who would he held accountable for cargo and passenger security.

So when the DOT held a TSA December briefing and announced these new positions, they meant to show that airport security is now national security, and it's not something you assign to your local Wackenhut office. "This is a line-responsibility job in the new world," a DOT official said.

According to the TSA's Web posting, the candidates "must have demonstrated strategic leadership and the ability to rapidly drive sustained security and response capabilities." Let's hope so. It's not like someone who just got out of college with a degree in criminology can fill these new positions. After all, the salary, ranges from $104,800 to $150,000, and they want people with "mid-career experience in crisis planning," according to the announcement.

Hopefully, this will be a good investment of our tax money. Even more important is that it will not need early returns. After all, when looking at the numbers, it looks like the expenditures to pay for all those initial directors (that is, the first 81 out of America's largest airports) will run around $8.1 million, starting this month.

FAA grapples with definition

Forwarders, brokers, carriers alarmed with new rulings and little federal support.

BY MARK MCHUGH

Joel Ditkowski
vice president, Freight Brokers International Inc.

"What the FAA is doing is wrong. It's too time-consuming and costly. And it means going through a paper trail that means nothing."

A Federal Aviation Administration directive mandated to enhance security in air cargo, provides anything but that, the air cargo industry and some air forwarders say.

The FAA's known shipper ruling, after several amendments, revisions, and revisions of revisions, has been altered to the point of being incomprehensible, say air forwarders, air carriers, customs brokers – and even lawyers.

Industry representatives say they have gone to their FAA regional offices for help, only to be told that the Washington headquarters of the FAA is in charge, and that mum's the word.

Joel Ditkowsky, vice president of Freight Brokers International Inc., a customs brokerage house in Far Rockaway, New York, has been in the shipping business for more than 30 years, and is a member of several professional organizations. Ditkowsky has seen a lot of rulings and government trends, he said, but he finds one of the most recent FAA directives to be useless.

Ditkowsky, along with others in the air forwarding community, thinks that the most recent amendment to the known shipper ruling, FAA "Emergency Amendment 109-01-01 C," also known as "EA C," is unfair, and that it is just a trickle-down law issued in Washington that is ineffective and difficult to enforce.

"It's not going to prevent bad stuff from being loaded on a plane," Ditkowsky said. He added that local FAA help is hard to come by, and the FAA's regional offices just have to tow the line for a Washington FAA directive.

"I know the guys here can't do anything about it — their hands are tied," Ditkowsky said of the New York FAA office, which gets its orders from Washington. "They are only going to the beat of their master." He complained that EA C, which can impact all air forwarders regardless of their size, and places too much responsibility on the air forwarder to prove who is a "known" or "unknown shipper."

One thing is clear: if an indirect air carrier (IAC) intentionally falsifies information about who a known or unknown shipper is, they will face civil or criminal penalties.

But, who will catch them avoiding compliance is unknown, say some forwarders. In addition, the burden to certify who is a "known" or "unknown" shipper falls on the shoulders of the forwarders.

According to recent FAA language, a known shipper is a shipper who has a complete customer record and verifiable business history with a carrier or forwarder. The FAA, as recent as Oct. 15, stated that IACs may submit cargo to passenger airlines only if the goods came from a customer that has issued at least 24 air shipments (export) with that forwarder since Sept. 1, 1999.

In the most recent FAA language of EA C, which has been obtained from multiple sources, the document said that no cargo may be offered to a passenger carrier, unless the cargo is from a known shipper who has been visited (for the purposes of verification) by the IAC since Oct. 1.

Spokespersons for the FAA in Washington will not talk about the known shipper ruling, saying that it is a national security measure. An FAA spokesperson in Washington sums it up by saying, "we used to talk a little bit about these security measures. But since Sept. 11, they don't want me to say anything at all."

And air forwarders and carriers agree that nothing is exactly what they hear from the FAA on this issue, and it is leaving them in the dark. When they need help or interpretations from the FAA at the regional level, they don't get it. FAA in Washington, they say, is no help. Even the FAA needs help for its next move, said one attorney in the industry. "They're coming to me and asking me what they should do," he said.

Most air forwarders and carriers agree that not only is the security aspect of the ruling a little shaky, but they also say it is a waste of time and effort.

On a recent visit to an air forwarder's work site, the company had even gone as far as cordoning off their floor space into the categories of "known," or "unknown" for cargo waiting to be tendered. One air forwarder went as far as saying he didn't know how the FAA can prove that the forwarder has actually visited the site to verify phone numbers, contacts, addresses and so forth. "Look, I could just sit in my truck and fill out the stuff in my own time, and no one could prove it," the forwarder said.

And time, that irreplaceable commodity which hastened the importance of the air freight business in the first place, runs out when a forwarder has to send an employee to a site to verify that they have a professional history with the shipper.

Not only is time money in this case, but the waiting itself eliminates the effectiveness of on-time air delivery. This grinds down air forwarders, and it drags down airfreight traffic, said Peter DeBenigno, air cargo manager for Pace Motor Lines, in Stratford, Conn. He predicts that unless the ruling is more forgiving of the forwarder, it will take a bigger toll.

"It is damaging the air cargo industry, because it takes time," he said of the ruling." And people may not ship air, and that is going to destroy the industry."

"What the FAA is doing is wrong," Ditkowsky said. EA C, demands too much of forwarders, since they must verify who is a known or unknown shipper before tendering cargo for a carrier, he said. "It's too time-consuming and costly. And it means going through a paper trail that means nothing."

Dyan Erickson, an air export traffic manager for Freight Brokers International Inc., agrees. "Basically, it is all cosmetic," she said of the ruling. "Many of the shippers in the U.S. don't know about this. And this is basically going to put the small forwarder out of work."

Those in the industry don't even know if the ruling is even enforceable. To some industry participants, the known shipper ruling — particularly this latest emergency amendment — looks like government waste that goes into effect after disaster has hit.

"You keep digging and digging, and all you will find is that the government controls all this stuff," said DeBenigno. "They have to do something that is more structured, that would benefit all parties."

Even representatives from companies who want to bolster air cargo security criticize the ruling.

"Air cargo is a major vulnerability," said Ralph Sheridan, chief executive officer and president of American Science and Engineering, which manufactures X-ray technology for cargo, in Billerica, Mass. "What we have from the FAA is a lax 'know-your-shipper' program."

The importance of known and unknown shippers — and particularly what enters planes, whether they are passenger planes or all-cargo planes — has surfaced after several aviation disasters since 1988.

The focus on what goes on had intensified with the bombing of Pan Am Flight 103 in December 1988, and the bombing of French Airline UTA Flight 772 in September of the following year. In May of 1996, Valujet Flight 592 crashed in the Florida Everglades from a fire caused by hazardous material in the cargo hold, killing 110 people on board. In July 1996, TWA Flight 800 exploded off the coast of Long Island after it left Kennedy International Airport in New York. All 230 on board were killed, and the National Transportation Safety Board, along with other agencies, still have yet to determine what caused the explosion before the plane went down.

But, as the causes of these tragedies are shrouded in mystery, so, too, are the moves by the FAA, particularly when it comes to the known shipper ruling and any amendments to it.

"Technically, when they talk about the known shipper program, it is not something that is to be publicly divulged," said one industry analyst. "The FAA gets very concerned when individuals go out and talk about the program."

But the FAA's silence since Sept. 11 frustrates some air forwarders and carriers.

Michael Molfetta, director of information systems of Freight Brokers International, thinks the latest amendment, and the tight-lipped response, is a blow to the forwarding community. "I know something has to be done after the 11th (of September), but this is unfair," he said.

EA C has been issued to direct air carriers and indirect air carriers (IACs), but the FAA prohibits the release of material pertinent to the ruling. Under provisions of 14 CFR Part 191, no part of the document may be released without permission of the FAA, and unauthorized release of that information could result in civil penalty.

One FAA official defends the secrecy of rulings to the known shipper program. "This is 'need-to-know' information," said FAA Special Agent Joe Clark, a cargo security specialist for the FAA in Newark, N.J. "Your bartender and your girlfriend don't need to know this information."

"Many of the shippers in the U.S. don't know about this. And this is basically going to put the small forwarder out of work."

Dyan Erickson
air export traffic manager, Freight Brokers International Inc.

Some in the air cargo industry point to the political environment in Washington as the catalyst for quick — and what they sometimes understand as infallible — FAA activity. Already, President Bush in his first year as president has created two new agencies, the Office of Homeland Security, and the Transportation Security Administration, in addition to the Air Transportation Safety and System Stabilization Act (a financial relief package for the airlines), and the Aviation and Transportation Security Act, under which the TSA is established.

"The FAA is under a lot of pressure politically," said Anthony Calabrese, president of Cargo Network Services Corp., in Garden City, N.Y. Calabrese said he thought that in 1988, when a bomb in a suitcase caused the Lockerbie explosion, the FAA overreacted by immediately removing cargo from passenger planes. "So all of a sudden, you had this distinction that a cargo flight was safer than a passenger plane," he said.

Calabrese said he thought that being rooted in old rulings was detrimental to the economy, in addition to building a myth of 100 percent security and safety. "You cannot take cargo off the passenger aircraft and still keep the economy going," he said.

In the meantime, Ditkowsky and others await the next ruling from the FAA regarding any further "known shipper" rulings.

But IACs have not been sitting on the sidelines since September's first emergency amendment. Instead, some have banded together in an effort to engage the FAA with their own Washington-based industry association.

Carlos Rodriguez, Washington managing partner for Rodriguez, O'Donnell, Fuerst, Gonzalez & Williams, said that IACs had approached his firm this fall to form a group that would interface with the FAA, the Department of Transportation, and the TSA on the known shipper issue. The group is still forming, he said.

"There was a lot of confusion with regards to interpretation of terms of these regulations, which seem to appear daily," Rodriguez said.

Rodriguez said he thought that this new group is a new way for these IACs to get concerned, and to enhance security in a rational way. "We're eager to assist them in that direction."

In the meantime, suggestions and pleas abound. Ditkowsky suggested that the group to oversee and enforce the known shipper issue should be a governmental agency, like, the Census Bureau, the Office of Homeland Security, or the U.S. Customs Exodus Team.

Ditkowsky thinks that this new ruling is unfair to air forwarders, particularly to smaller companies like his, who cannot take on extra hires for known shipper verification, especially in the current nationwide hiring freeze. However, the government has plenty of employees for plenty security duties, he said. "We should not be in that position. At least (the government has) the people to do this."

Even a large, and established air carrier, has felt the pinch to meet compliance. "We have to try to help people on the phone, and know what to tell them, and what not to tell them," said Air France's Ann Wadman at Kennedy International Airport. "Nobody is going to accept anything unless they know 110 percent it's correct."

Ditkowsky offered that perhaps there should be a government agency set aside to examine cargo at the point of departure. He realizes this will take more time, but he thinks it could tighten cargo security. "If it delays cargo, it delays cargo."

So, as one group forms, and more suggestions surface, still others in the field see more possible solutions to enhance cargo security. Carl Soller, partner at Hodgson Russ Attorneys LLP, suggested that one way to ensure a shipment's integrity would be to enclose it with an electronic seal. Soller, who also serves as legal counsel for the JFK Airport Customs Brokers Association and other freight groups, has been in advising clients in the areas of freight security, among others, for years.

He doesn't see this, or other security measures, as an end-all, however. "If you put in the best plans, you will have someone that much more clever," he said. ■

Magaw to head TSA

Former Secret Service, ATF head says his experience is his leading edge.

By Mark McHugh

John Magaw, former director of the Secret Service, and the Bureau of Alcohol, Tobacco and Firearms, has been named by President Bush to head the new Transportation Security Administration for a five-year term.

Although Congress was in recess when Bush made the appointment, under the U.S. Constitution, the president has the right to make appointments while bypassing the normal congressional proceedings.

Magaw

Magaw, who is the acting executive director of the Office of National Preparedness (within the Federal Emergency Management Agency), will head the TSA, a new office borne of security measures installed by the President and Congress after Sept. 11. The agency will take over transportation security nationwide.

Speaking at a December hearing, Magaw told senators that his experience as a Secret Service agent would lend itself well to managing security in all modes of American transportation and shipping.

He said that he would lead and encourage a cohesive integration of national officials that oversee all transportation modes.

"Transportation security is an enormously important issue," he said. "It affects every element of our society. The work of the Transportation Security Agency is to restore the confidence of the traveling public and commercial shippers while protecting the system from daily threats."

Sen. John D. Rockefeller IV, D-W.V., challenged Magaw to quash terrorism, while needling him on three issues: the implementation of explosive detection systems to screen baggage, the screening and employ of 30,000 new federal baggage screeners, and the use of biometrics in the security chain.

Magaw assured Rockefeller and others he could meet the challenge, if he were chosen for the five-year position. He added that the TSA workforce would undergo heavy scrutiny, particularly the federally mandated positions for 30,000 baggage screeners.

"This workforce will operate in a flat, flexible, agile and responsive organization, and will use the best technology to move critical information around the system in real time," he said.

Sen. Jon McCain, R-Ariz., ranking member of the committee, offered a stern warning to Magaw to not fall prey to persuasive lobbying.

"You can't let the major airlines drive your agenda, Mr. Magaw," he said.

Magaw joined FEMA in December 1999, as the Senior Advisor to the Director for terrorism preparedness and has also served as acting director and acting deputy director.

He served in the Secret Service for 26 years. Before being named director of the Secret Service, he oversaw all protective operations for the president and first family and was deputy special agent in charge of the vice presidential division and head of the Washington field office.

Magaw promised that the TSA under his watch would be a hands-on operation.

"This workforce will operate in a structure that meets the needs of all players in transportation, at every level of every organization, and at every site in every mode," he said.

Although Magaw's appointment by Bush was seamless, he encountered at least one hurdle in a Senate proceeding last month. One dissenter initially voiced disapproval, questioning Magaw's "judgment and competence."

Sen. Arlen Specter, R-Pa., said he was dissatisfied with the ATF's involvement during the Ruby Ridge, Idaho standoff. Magaw headed the ATF at the time.

In the conflict, two people were killed by federal agents in Ruby Ridge. The event prompted an investigation of federal government agencies. "My proposal here is to try to get a concession of impropriety," Specter said to the committee and Magaw. ■

Amerijet International rebounds

Cargo airline bounces back from bankruptcy protection following restructure.

By Mark McHugh

Only four months after it first filed for court protection, the all-cargo airline Amerijet International Inc. has emerged from Chapter 11 bankruptcy reorganization.

David Bassett, Amerijet's founder, chairman and chief executive officer, and H.I.G. Capital, a private equity firm and venture capital investment firm in Miami, now jointly own Amerijet International. Bassett owns one-third and H.I.G. Capital owns two thirds. Future plans hold for Bassett's and H.I.G.'s ownership to be diluted ultimately, and that an employee stock plan will emerge, in which the employee stock ownership plan could eventually amount to 10 percent ownership of the company.

"The outcome is ideal," said Bassett. "I don't just believe in miracles, I count on them."

Bassett said that, due to the loss of an Emery contract, and the slowing economy, Amerijet filed for Chapter 11 protection on Aug. 22. after more than 25 continuous years of operation. He said that, almost immediately following the filing, Amerijet began discussions with H.I.G. for a restructuring plan.

Soon thereafter, Amerijet and H.I.G. filed a reorganization plan with the Federal Bankruptcy Court in Miami, and the plan was approved by Nov. 15.

By Dec. 21, Bassett said he and H.I.G. closed the transaction for Amerijet to emerge from Chapter 11 protection.

"Nice Christmas present, huh?" Bassett said. "We were able to preserve a solid company and some 400 South Florida jobs."

Not only did most of the lower level jobs in the company remain intact, the reorganization barely touched management-level jobs.

"They emerged with their entire management team intact," said Linda Greck,

David Bassett
founder, chairman & CEO, Amerijet International

"Relationships make business work. You can have the best price in town, but if you're a jerk nobody wants anything from you."

Amerijet spokesperson.

However, one adjustment in the lineup was that Amerijet had to reduce its fleet of Boeing 727-200 planes from 12 to five planes. Bassett added that this was a reasonable measure, since 50 percent of his fleet had stood idle since the loss of a contract with Emery.

Bassett said the reorganization did not impact the company's scheduled route system throughout the Caribbean, Mexico and Latin America, nor its charter and worldwide cargo services.

Amerijet, based in Fort Lauderdale, Fla., operates its main cargo hub in Miami and has 26 foreign stations. In addition, Amerijet has worldwide cargo service to more than 550 destinations.

Bassett said he was ready to enter the new year with a bit of good news to add to the air cargo industry. A pilot himself, he was inspired to go into the air-freight business after his childhood. His parents were missionaries, and his father was an aviation bush pilot, he said. Of forming his own air-freight business, he said, "for me, I just continued to do what I grew up with, which was moving essential supplies by air to remote areas."

Doug Berman, managing director of H.I.G. Capital, said, "We are extremely excited to be partners with David Bassett and the entire team at Amerijet. Amerijet has a long history in South Florida."

Bassett said the employee stock option was something he had always wanted to see happen, adding that company ownership doesn't have to be top-heavy.

"Relationships make business work," he said. "You can have the best price in town, but if you're a jerk nobody wants anything from you." ■

Changing with the times

Airlines at JFK International optimistically expand, renovate cargo facilities.

BY MARK MCHUGH

Despite a slide in air freight volume that began last January, a recession, and a terrorist attack in Manhattan that led to a war, JFK International Airport in neighboring Queens has tenants who are readying and refurbishing themselves for better times.

Jim Larsen, manager of air cargo business development of the Port Authority of New York and New Jersey, looked around at the new Korean Air Cargo facilities and an adjacent construction site, while going through a list of organizations that have, or are undergoing touch-ups or complete overhauls at JFK, including Continental Air Cargo, Lufthansa, the U.S. Postal Service, United Airlines Cargo, Japan Airlines, Alliance AirLines.

"For the past decade, we have been adding to our warehouse space to keep up with the times," Larsen said. "We didn't wait for everything to fall apart."

But the New York/New Jersey region, in spite of a decrease of 17.5 percent in air cargo activity over the first three quarters of 2001, still accounted for 24.3 percent of all import volume and 17.6 percent of the total volume nationwide, according to the Port Authority of New York and New Jersey.

Larsen said that, first and foremost, JFK is an air cargo powerhouse, and that most likely it will remain that way.

"We are a major hub and we will continue to be," he said. "People want to come to New York."

There are certainly tenants who intend to remain in New York, and they are refurbishing their digs to prove it.

Continental Air Cargo has placed a great deal of confidence in its JFK operation, investing $27 million in a new facility at JFK, which the carrier hopes to open in June.

The space will be a thorough complement to Continental's new 180,000 square foot cargo facility in Newark, opened last April, said Dana Bates, Continental spokesperson. The two new facilities represent a $67-million investment by the air carrier. Furthermore, Continental plans to build a new $30 million cargo facility in Houston.

More importantly, Bates said, the new facilities will bring all of Continental's JFK

Jim Larsen
manager of air cargo business development, Port Authority of New York and New Jersey

"For the past decade, we have been adding to our warehouse space to keep up with the times. We didn't wait for everything to fall apart."

cargo operations under one roof.

"Because of the scope of our operations, we have had to operate out of two buildings — one for import, one for export," she said.

Continental's new facility will offer about 8,000 more square feet of office space, with a cargo area of more than 54,000 square feet and 16 cargo doors (which is 10 more than they have at their existing JFK site), in addition to six scales, compared to five at their current JFK facility. For an additional security measure, the site will have a protected and enclosed high-value freight storage area.

JFK International

- Air cargo area: 1,700 acres
- Serves more than 100 scheduled and non-scheduled carriers
- Northeast region's U.S. Customs headquarters
- 4.5 million square feet of warehouse and storage facilities, including climate-controlled areas and areas for inspection and assembly
- Served by hundreds of long- and short-haul trucking companies
- Seven miles from LaGuardia, 20 miles from Newark International, and 15 miles from downtown Manhattan.

Continental made sure that their investments in JFK and Newark were based on careful analysis, Bates said, while adding that the new JFK facility is the result of several years' planning.

"JFK is a key station to Continental's cargo division. It is among Continental's top four stations contributing to the airline's cargo revenue," Bates said.

A similar development just down the road is under construction for Lufthansa Cargo, Alliance Airlines and Cargo Service Center, a cargo service provider recently acquired by D.Logistics AG.

The development of the nearly 434,000-square-foot site, commonly known as Tract 8 and 9A, is under the watch of Airis Corp.

"We were the first private sector developer to develop, construct and finance an aviation facility at a port authority facility," said Ron Factor, Airis' executive vice president, and one of the company's principals.

When the new facilities at Tract 8 and 9A are completed, the three companies will have access to 101 truck docks and enough space to accommodate six 747s at the same time.

One added feature in the architecture, added Airis, is a roof design with a clerestory window to allow natural light to flow into the cargo areas, which should enhance worker productivity while lowering energy costs.

The project, which started in August, is slated for completion in June 2003, Factor said. But, the building will have to be done in increments that will coordinate with construction regulations. "We are in the process of obtaining building permits, and we will receive the first one in January 2002," he said.

Factor said that air cargo carriers have to update facilities to keep up with the incredibly swift nature of the air cargo industry. So they either refurbish what they already have, or leave and start anew. A quick drive through JFK on Van Wyck Drive will prove this, as there are many vacant cargo buildings on both sides of the road. "A lot of them have run the course of their service life, and then it is time to move on. That is where we step in," he said of Airis Corp., and other aviation construction companies.

Larsen added that there were other sites that had undergone some major cosmetics at JFK. United Airlines Cargo, he said, is in a facility about three years old that uses current technology and architecture.

Larsen, who came to JFK in 1960, said that when most people think of JFK, think that the airport, like Manhattan, has reached its physical saturation point and has meager land space for new projects, or even refurbishing projects.

"It's a myth that we are out of land," Larson said of the 1,700-acre facility. "These parcels are all over the airport."

There is also another portion of land, commonly referred to as "East of the Fours," an area of about 120 acres, that could possibly be attached to JFK. He also mentioned an area of land hosting three empty hangars on North Boundary Road. A public process has begun on biddings for that site, he said. The area, which houses around 325,000 square feet, had been owned by AEI and FedEx at separate times.

In another part of JFK, known as the "80 Series," he pointed out several buildings that could be redeveloped. Not far from there is a building known as "Building 208." A former Pan Am site, there are 400,000 square feet there waiting for a tenant.

Empty buildings or not, JFK participants are confident that their facilities are the best for air cargo nationwide.

Korean Air plays it safe

Airline boosts automation, security at JFK International's largest cargo facility.

NEW YORK

Tom Aroksaar works in such a high-tech and secure environment, that it's possible that one day he may be able to view his air cargo facility on his home computer if one of his security staff wants him to check out any suspicious occurrences.

"That way, I will be able to dial-in from the house — that will determine if I drive in or not," said Aroksaar, deputy general manager of cargo operations at Korean Air's JFK International Airport facility.

Korean Air's new site, only one year old, boasts modern storage bins and secured areas where entry to certain areas may only be gained through authorized cards. Not only is this site the largest facility at JFK, it is the most advanced cargo facility ever built, according to Korean Air.

The automated bins are part of its automated storage system that no human being could dare crawl into with the intent of pilferage or tampering — if they want to come out in one piece.

It has a camera system that allows a security manager in the crow's nest to peer at an employee's facial expression in the parking lot when they get out of their car to begin their day's work.

Aroksaar likes that security can be tight, even when maximum cargo volume is chugging through. He can monitor every cargo employee at every minute that they are on the job, because whenever they swipe their card, he knows where they were, and at what time they got into that area. This allows his security staff to go and do their job, all at one place.

The 188,000 square-foot facility can handle large volumes at peak times. "We can handle 3 747s simultaneously. We can handle an MD-11, a DC-10, a 747, an A300-Airbus, and a DC-8," he said.

But, more importantly, control and access are the keys to the facility's success, which can handle up to around 120 flights a week. "I think this is a very controlled environment," he said. "I can control your access, I can give you Carte Blanche, or I can give you 'warehouse-only' access."

To show their capability to move high volumes, he spoke of the Tuesday after Thanksgiving last year, when his staff moved cargo from 380 trucks and more than a million pounds of freight on one day. To facilitate this fast movement, the site has been using an automated monorail system that can transfer bins between various systems at speeds of up to 130 feet per minute.

The automated storage bins on site, which are part of the Automated Storage/Retrieval System (AS/RS) system, have drawn attention from others at JFK, and Aroksaar, too, is garnering attention. The entire bin system is integrated in one way or another, and, like a moveable Rubik's Cube for cargo, the system is intact and swift. "Unfortunately, we don't have a lot of buildings like that," said Bob Caron, deputy chief of police for the New York/New Jersey Port Authority. "It's an excellent system. Tom is definitely on the right track."

Caron, while praising Korean Air's site, added that not only did high security deter theft and tampering, but also JFK's own cargo version of a citizen patrol system. Titled "Operation KAT-NET," the system encourages cargo employees to turn in colleagues who steal from their employers.

JFK also had the good fortune last year of recovering more than $280 million in items that were lost and recovered or found, according to a recent study by the Port Authority of New York and New Jersey.

All of this security, however, is moot when compared to the eyes of a concerned employee. Pointing down to an undercover and anonymous worker who shuffled his feet on Korean Air's cargo floor, one of Aroksaar's security staff showed the one of the oldest and most-trusted stewards of security. "We still have what we call 'rovers,'" he said. ■

FAA sets rules for cockpit doors on cargo planes

WASHINGTON

The U.S. Federal Aviation Administration has given the airline industry 45 days to outfit cargo and passenger planes with cockpit doors with temporary internal locking devices.

This Jan. 11 ruling falls under the Special Federal Aviation Rule (SFAR), which is concurrent with the Aviation and Transportation Security Act.

Beginning last October, the FAA issued a series of SFARs authorizing short-term door reinforcement by providing airlines and cargo operations with temporary relief from certain FAA standards. The major U.S. airlines voluntarily installed short-term fixes to doors on 4,000 planes in 32 days. The SFAR stated that a long-term fix that meets FAA requirements must be installed within 18 months.

The rule sets new design and performance standards for all current and future cargo planes that have cockpit doors, or commercial planes with 20 or more seats in commercial service.

Specifically, the rule:

- Requires strengthening of cockpit doors. The FAA rule uses an impact standard that is 50 percent higher than the standard developed by the National Institute of Law Enforcement and Criminal Justice. Additionally, the FAA ruling is using a standard sufficient to minimize penetration of shrapnel from small arms or a fragmentation device.
- Requires cockpit doors to remain locked with an internal locking device that can only be unlocked form inside the cockpit.
- Controls cockpit access privileges.
- Prohibits possession of keys to the cockpit by crew members not assigned to the cockpit.

Before Sept. 11, the FAA and the International Civil Aviation Organization (ICAO) were working to strengthen international security standards for airplanes. This ruling expedites the work of an Aviation Rulemaking Advisory Committee (ARAC), a group that was assigned to develop harmonized security-related design provisions.

The FAA will administer a federal grant program to help the U.S. air cargo and air carrier industry fortify the cockpit doors. The FAA said funding may be provided through grants or cost-sharing arrangements, in conjunction with $100 million appropriated by Congress.

The FAA estimates total cost to airlines running from $92.3 million to $120.7 million over a 10-year period.

The final rule and SFAR are available on the Internet at: www.faa.gov/avr/arm/nprm.htm. ■

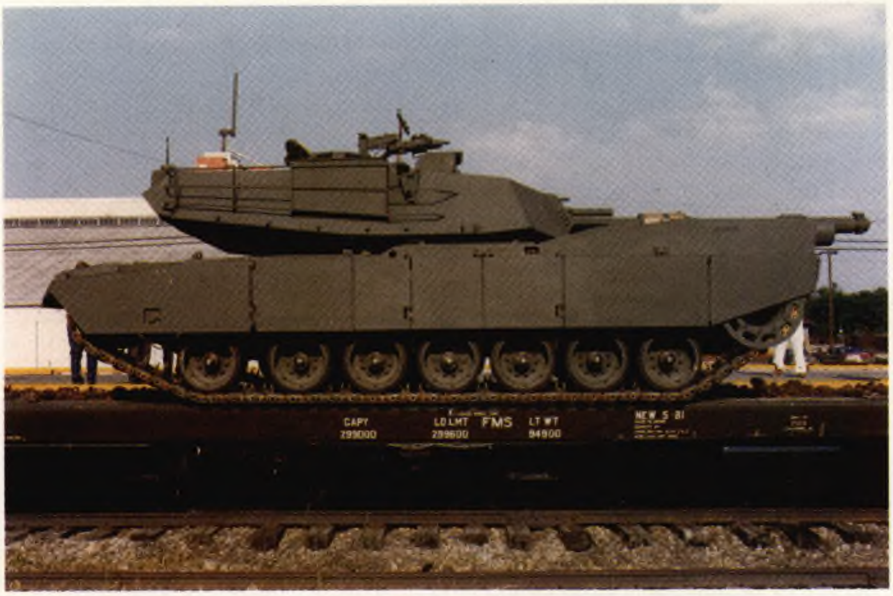
FAA ruling approves regional FedEx hub

WASHINGTON

The Federal Aviation Administration gave final approval to Federal Express Corp. to build a $300-million air-cargo package-sorting center at Piedmont Triad International Airport in central North Carolina.

The FAA issued a record of decision (ROD) on Dec. 31, for the express carrier's proposed mid-Atlantic hub, scheduled to open in 2006. The ROD will allow the airport to build a new 9000-foot runway, connecting taxiways and associated navigational aids and roadwork to support the air cargo hub.

The Piedmont Triad is a 12-county region anchored by the cities of Greensboro, High Point and Winston-Salem. The region has a strong manufacturing, distribution and logistics base. ■



MTMC has outsourced all administration, ordering and maintenance of military own railcars.

MTMC outsources railcars to IntelliTrans

Military requires specialty equipment as well as wider access to commercial boxcars.

BY CHRIS GILLIS

For years, the U.S. Military Traffic Management Command has managed its own rail equipment, but now the agency will rely on a private-sector third party to help do the job.

MTMC, the surface transportation logistics unit of the armed forces, recently outsourced all administration, ordering, and maintenance of military-owned railcars to Atlanta-based IntelliTrans.

"We had to ask ourselves: Is managing a railcar fleet part of our core competency," said Tom Hicks, MTMC coordinator. "It was determined that we had to adopt commercial business practices."

Hicks

MTMC has considered outsourcing its railcar fleet for several years, a program known as the Defense Freight Railway Interchange Fleet. Last year, the agency became serious about carrying it out.

The military's fleet consists of about 2,200 railcars, the majority of which are flatcars and tank cars. The fleet's inventory includes 566 heavy-duty railcars capable of transporting large M-1 tanks, and more than 200 special-purpose units, such as depressed center railcars and cabooses.

MTMC put out a request for proposal to the private sector in April 2001, and one by one, railcar management firms demonstrated their services to the agency. "IntelliTrans seemed to be the most advanced," Hicks said.

IntelliTrans, founded in 1992, provides supply-chain systems to manufacturers and commodity companies to more efficiently manage their assets and inventory.

MTMC's contract with IntelliTrans, which was signed Dec. 7, will run for two years and will have three one-year renewable options. The two-year contract base period is valued at $1.9 million.

"It's a genuinely collaborative project with MTMC," said Richard M. Gerstein, chief executive officer and founder of IntelliTrans. "From the highest levels (at MTMC), there's an incredible openness. That's what intrigued me to try to work with the agency."

"This is a big change," Hicks said. "We are outsourcing our work."

IntelliTrans' system will provide Defense Department shippers with the ability to forecast, order railcars, track cargo in transit, and access a repository of cargo data.

The system will also provide MTMC overall "near real-time visibility" of the rail procurement and dispatch process and the ability to make faster decisions with its railcar management.

"We will be able to integrate Department of Defense railcars and commercial railcars," Hicks said. "This will allow us to better use them."

Another major benefit of the contract will be MTMC's enhanced ability to arrange for rail transportation during contingencies. "The contract will greatly improve our ability to manage the surge requirements of a wartime scenario," Hicks said.

Gerstein said IntelliTrans would help MTMC to create "new standards" to manage its railcar needs. "Our goal is not have MTMC staff surfing the Internet all day," he said. "When a railcar is ordered by a Defense Department shipper, it will be there."

MTMC's Global Distribution Division, headed by Navy Capt. Kevin Walter, oversees rail transport operations from Fort Eustis, Va. The agency's manager for rail maintenance is George Gounley, and Ed Brown serves as MTMC's rail traffic manager.

For now, tracking data on MTMC's railcars, which are marked "DODX," is entered in IntelliTrans' system from the field. The company plans to eventually outfit all of MTMC's railcars with wireless tracking technology, Gerstein said.

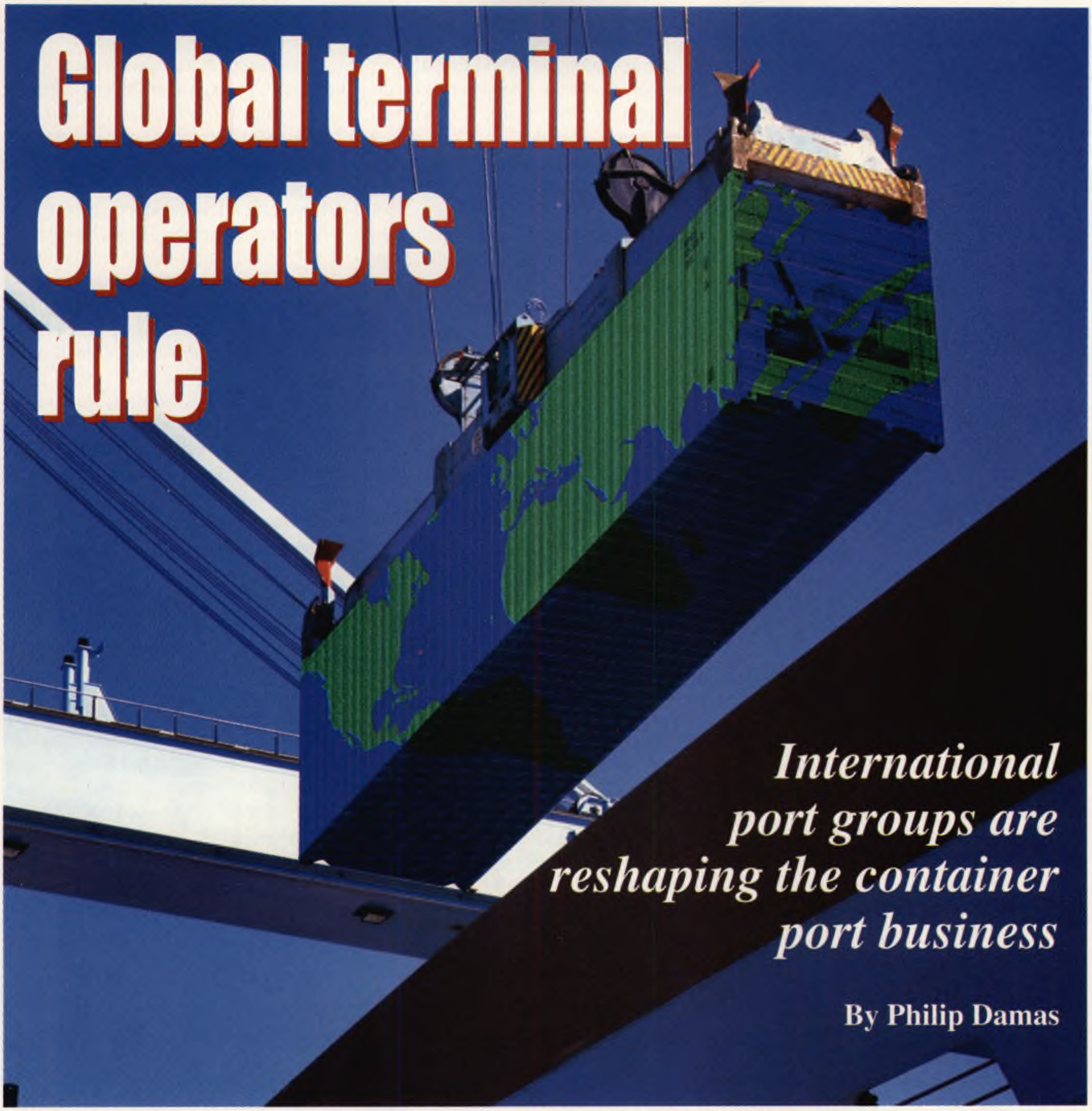
Since 1998, MTMC has shifted more to the use of third-party contracting. Three years ago, the agency outsourced the management of its privately owned vehicle transport program to Woodcliff Lake, N.J.-based American Auto Logistics.

Last year, MTMC awarded a one-year contract to Eagle Global Logistics to manage military cargo transportation throughout Florida, Alabama and Georgia. The agency also plans to replace outdated internal transportation management systems with modified, off-the-shelf software products.

Most recently MTMC launched a plan to outsource its ocean container management to a third-party service provider. (November *American Shipper,* pages 72-73). The military operates a fleet of about 70,000 general and specialty freight containers.

"We're not saying to outsource just to outsource," Hicks said. "We're moving more to adopting commercial practices and using existing products so that the government doesn't have to reinvent them." ■

Global terminal operators rule



International port groups are reshaping the container port business

By Philip Damas

The container terminals business has gone global.

Port authorities and government authorities responsible for ports all over the world are increasingly turning to a handful of global terminal operating groups, who are winning most of the bids for the operation of new container terminals or the renewal of terminal concessions and leases.

These major players are specialized port groups with considerable specialization and international expertise in container terminal management and development. And their success is coming at the expense of smaller, local stevedores.

The "global terminal operators" are:

- Hutchison Port Holdings, the Hong Kong-based subsidiary of Hutchison Whampoa Ltd.
- PSA Corp., the state-controlled operator of the port of Singapore.
- APM Terminals, the ports arm of Denmark's A.P. Moller group and a sister company of Maersk Sealand.
- P&O Ports, the ports arm of the United Kingdom's P&O group and a group affiliate of P&O Nedlloyd Container Line.
- Eurogate, the German port group.
- Stevedoring Services of America, the Seattle-based company.
- CSX World Terminals, the ports arm of the CSX transport conglomerate.

The international scope and scale of these international container terminal groups vary, but they collectively control 37 percent of the global container port handling volume (see Table No. 1).

Other major regional port operators, such as Ceres in the United States, Associated British Ports and Mersey Docks Harbour Co. in the United Kingdom, and International Container Terminal Services Inc. in the Philippines, have also internationally expanded their activities.

What's more, there is an unmistakable move towards market concentration in this business, as global operators win new terminal contracts, acquire smaller competitors and supplant local operators.

Last year, Hutchison Port Holdings accelerated the consolidation trend by acquir ing most of the international terminal business of International Container Terminal Services Inc., the Filipino-based port group, and gaining approval from the European Commission to acquire sole control of the large Dutch container terminal operator Europe Combined Terminals.

But, Hutchison was not the only global terminal group to play a role in reshaping the global port business. All the other global operators have expanded and acquired new port operations in the last three years (see Table No. 2).

With the takeover of the international container terminals of International Container Terminal Services, Hutchison moved into Africa, the Mideast, Mexico and South America. Hutchison took over the company's eight container terminals in Argentina, Mexico, Saudi Arabia, Pakistan, Tanzania and Thailand.

Hutchison is also constructing new container terminals in Kwangyang, Korea, and Laem Chabang, Thailand.

Does Hutchison aim systematically to have terminals in each geographic area?

"We don't go after geography — we look at each port on a stand-alone basis," John Meredith, group managing director of Hutchison Port Holdings, told *American Shipper*. "We have no concept of a grand plan, where we see an empty space and say 'we must have a flag there.' "

Hutchison Port Holdings, the world's largest container terminal group, has tripled its global container handling volume in the last six years, from 8.4 million TEUs in 1994 to 25.3 million in 2000. The Hong Kong-based group was also one of the first terminal operators to go international about a decade ago, alongside P&O Ports.

Hutchison is the dominant port operator in the port of Hong Kong, the world's largest container port. PSA Corp. has a monopoly over port activities in the port of Singapore, the world's second-largest box port.

A sign of Hutchison's internationalization over the past decade is that only about 35 percent of Hutchison's global container volume comes from its home market in Hong Kong.

Singapore-based PSA set up its International Business Division in 1996. It aims to handle at least 10 million TEUs outside of Singapore by 2007, and earn at least one-third of its revenue from overseas projects.

While container terminal operations in Singapore — PSA's core business — posted an increase in throughput of 7 percent in 2000, to 17.04 million TEUs, operations outside Singapore expanded their total volume by 59 percent, to 2.73 million TEUs in 2000.

PSA operates the port of Singapore as what has become the world's largest transshipment hub. The port comprises 37 berths, operated as one integrated facility.

In 2001, PSA said it would take over the two largest container terminal operators in the port of Antwerp for more than $400 million. PSA bought a majority stake in Belgian-based Hesse Noord Natie. Hesse Noord Natie incorporates the former activities in the ports of Antwerp and Zeebrugge of Hessenatie N.V., a wholly owned subsidiary of Compagnie Maritime Belge, and Noord Natie.

Hesse Noord Natie handles about 4 million TEUs a year and has 22 berths, including six container berths, in Antwerp and Zeebrugge. The company provides port and logistics-related facilities and services, including container handling, roll-on/roll-off, general cargo, fruit handling and storage.

The transaction valued Hesse Noord Natie at 638 million euro ($600 million). PSA acquired 71 percent of the shares in Hesse Noord Natie.

The deal marked Singapore-based PSA's entry in the northern Europe container terminal market.

"Consolidation is not unique to this business," said Robert Scavone, regional director, Americas of P&O Ports and president of P&O Ports North America Inc.

In 1999, P&O Ports took over International Terminal Operating Co., its first U.S. venture. This acquisition was quickly followed by the purchase in 2000 of Gulf Services Group, a major stevedore in Louisiana, and Fairway Terminal Corp., a large stevedore and terminal operator in Texas.

"All these companies go back several decades," said Scavone. "Three independent companies have become one."

Scavone said P&O Ports, which made its initial foray into the United States, is now active in 22 U.S. port locations.

P&O Ports' international port activities go back to 1984, when the port arm of Britain's P&O group bid to operate the Kelang Container Terminal in Malaysia. P&O Ports, initially based in Australia, has

Table No. 1

World coverage of major container terminal groups

(Based on number of marine container terminals operated or leased)

Port group	Global port volume handled (in TEUs)	World # of ports/ terminals	Presence of groups by region						
			U.S./ Canada	Mexico/ Central America/ Caribbean	South America	Asia & Mideast	Europe	Africa	Oceania
Hutchison (Hong Kong)	25.3 million	29	No	6 ports	1 port	17 ports	4 ports	1 port	No
PSA (Singapore)	19.8 million	11	No	No	No	7 ports	4 ports	No	No
APM Terminals (Denmark)	13 million	28	11 ports	No	2 ports	9 ports	5 ports	1 port	No
P&O Ports (U.K.)	8.3 million	27	6 ports	No	1 port	11 ports	4 ports	1 port	1 port
Eurogate (Germany)	7.7 million	9	No	No	No	No	9 ports	No	No
Stevedoring Services Of America (U.S.)	6 million	14	9 ports	3 ports	2 ports	No	No	No	No
CSX World Terminals (U.S.)	3.5 million	9	No	1 port	1 port	5 ports	1 port	No	1 port
Total of 7 major groups	**84 million 37% of world volume**	**127**	**26 ports**	**10 ports**	**7 ports**	**49 ports**	**27 ports**	**3 ports**	**5 ports**
World TEU port volume	**230 million**								

Notes: In addition to the container terminal activities shown in the table, port operators may also provide container-handling stevedoring services on shared or common-user terminals, and breakbulk port activities in ports not counted above.

Sources: Global terminal operators and research by American Shipper.

since become a multinational port operator with regional headquarters in every continent. It employs about 8,000 staff worldwide.

About half of the global terminal operators are part of wider conglomerates:

- Hutchison Port Holdings is a subsidiary of the vast Hong Kong-based conglomerate Hutchison Whampoa Ltd.
- APM Terminals belongs to A.P. Moller, which is listed on the Danish stock market.
- P&O Ports is part of the stock market-listed P&O group.
- CSX World Terminals is one of the operating arm of the publicly listed CSX Corp. conglomerate.

PSA, Stevedoring Services of America and Eurogate are entirely port businesses. PSA is not listed on the stock market, and is controlled by Singaporean state entities. Stevedoring Services of America is privately owned.

Barriers To Entry. P&O Ports said in a document compiled last year that there are "significant barriers to entry" in the international port business. These include credibility of the product offering and for project pre-qualification, experience in terms of personnel, know-how, systems and procedures, access to capital, and geographic and cultural factors.

Table No. 2

Consolidation, globalization among port operators

(1999 - 2001)

1999

- A.P. Moller (APM Terminals) acquires the U.S. container terminals of Sea-Land.
- A.P. Moller (APM Terminals) signs a joint venture agreement to build and operate a container terminal at the Port Said entrance of the Suez Canal, Egypt.

- German operators BLG-Bremer Lagerhaus-Gesellschaft, of Bremen, and Eurokai, of Hamburg, merge to create Eurogate. Eurokai also has a stake in Italy's Contship Italia and in the Italian transshipment hub of Gioia Tauro.

- CSX forms CSX World Terminals as a stand-alone terminal operator.

- Hutchison group acquires a stake in Europe Combined Terminals, the main operator of the port of Rotterdam, The Netherlands.

- P&O Ports moves into North America by acquiring International Terminal Operating Co. (ITO)

- PSA wins a concession to operate a container terminal in Sines, Portugal.
- PSA opens a transshipment container terminal in Aden, Yemen.

- Stevedoring Services of America is appointed by Matson Navigation to run the terminal and stevedoring operations of Matson Terminals Inc. in Seattle, Oakland and Los Angeles.

2000

- A.P. Moller (APM Terminals) acquires a stake in the green-field container terminal of Tanjung Pelepas, Malaysia
- A.P. Moller (APM Terminals) signs a 25-year lease with the port of Los Angeles to operate the 485-acre Pier 400 container terminal.

- Hutchison group acquires a stake in Westport, a container terminal in Port Klang, Malaysia.
- Hutchison opens a transshipment container terminal in Balboa, Panama.
- Hutchison, COSCO and partners sign a joint venture agreement to build and operate a container terminal in Shanghai, China.

- P&O Ports expands in the United States with the takeovers of Gulf Services Inc. and Fairway Terminal Corp.
- P&O Ports and the oil group Shell announce a plan to develop a 3.5-million-TEU-capacity container terminal at Shell Haven, in the United Kingdom.
- P&O Ports signs a joint venture agreement to operate a container terminal in Qingdao, China.

- Stevedoring Services of America, Americana Ships and the city of Texas City announce a plan to build and operate a large deep-water container terminal in Galveston Bay, Texas.
- Stevedoring Services of America signs a 15-year agreement with the port of Oakland for a new 150-acre container terminal expected to be open in 2002.

2001

- A.P. Moller (APM Terminals) acquires the remaining 33-percent shareholding in the Rotterdam container terminal Maersk Delta B.V it did not own from Europe Combined Terminals.

- Ceres moves into Europe by opening the Amsterdam Paragon terminal.

- CSX World Terminals buys a stake in Terminal Port Services, C.A., of Puerto Cabello, Venezuela.
- CSX World Terminals signs a joint venture agreement to develop a container terminal in Busan, Korea.

- ICTSI, the Philippines-based international port group, wins a concession to operate the port of Suape, Brazil.

- Hutchison acquires the international container port business of ICTSI, of the Philippines.
- Hutchison announces a deal to develop a container terminal in Ningbo, China.
- Hutchison signs agreements with the Shenzhen government to develop phase III of Yantian International Container Terminals, China.
- Hutchison obtains the agreement of the European Commission, subject to conditions, for the full takeover of Rotterdam container terminal operator Europe Combined Terminals.
- Hutchison, Hanjin Shipping and Hyundai Merchant Marine win a concession to operate a container terminal in Kwangyang, Korea.

- P&O Ports wins a concession to operate the container terminal in Chennai, India.

- PSA acquires the Belgian port operators Hessenatie and Noord Natie.
- PSA signs a joint venture agreement to develop a container terminal in Guangzhou, China.

A 1-million-TEU container terminal requires a capital investment of more than \$100 million, according to P&O Ports.

P&O Ports believes the industry is moving from international fragmentation to "project-based competition" and "consolidation opportunities." It also sees a decreasing role of the public sector, with the associated move towards privatization, and green-field developments — known as build-operate-transfer contracts.

In a report published last year, the investment bank WestLB Panmure said that only a handful of private-sector port groups are willing and eligible to build new container terminals, meaning that the world's container terminal capacity is increasingly controlled by fewer operators.

The report — *Container Terminals — Boxed in or boxed out?* — said "four companies are beginning to dominate this industry, courtesy of their access to the necessary capital and their requisite track record and expertise." These companies are, the report said, Hutchison Port Holdings, PSA Corp., P&O Ports and Maersk Ports (now renamed APM Terminals).

The investment bank said the global container terminal business is "a high growth industry with high returns, operating behind significant barriers to entry."

Global Competition. Private-sector companies have become more involved in the operation and development of container terminals in both developed and developing countries than in the past, partly thanks to a wave of privatization initiatives in the last decade.

"Most of the ports which could be privatized have been, or are in the process of being privatized," Meredith said. "There's not very much left."

China has opened its ports to the private sector and foreign investment, he said. India has more potential for private-sector port activity, "if it opens its economy more."

In South Africa, where the country's government has considered privatizing ports in recent years, there has been "resistance to privatization," Meredith said.

Future growth at the Hutchison Port Holdings group will come from organic growth or niche ports, he said.

Meredith said the United States, Japan and Taiwan are markets where containers terminals are generally leased to shipping lines, rather than to independent terminal operating companies, contrary to other countries.

But there are still many new management or expansion projects for Hutchison and the other major terminal groups, as shown by their ongoing whirl of activity.

"We don't go after geography —we look at each port on a stand-alone basis. We have no concept of a grand plan, where we see an empty space and say 'we must have a flag there.'"

John Meredith
group managing director, Hutchison Port Holdings

"When we enter a tender, more often than not, we expect to find a representative of Hutchison and a representative of PSA," said Curtis Foltz, vice president, Latin America at CSX World Terminals. But on smaller, niche projects, there is less global competition, he added.

"In today's day and age, we clearly don't have the critical mass of Hutchison," Foltz said. But CSX World Terminals "can leverage a lot of our current expertise."

CSX World Terminals expects to increase its number of terminals again to the 30 or so sites that used to be run by Sea-Land before the split between Maersk and CSX World Terminals. "It's only a matter of time," Foltz said.

Foltz sees a continuing privatization of ports in Latin America, noting privatization plans by the governments of Peru, Ecuador, Honduras and Costa Rica.

In the last two years, CSX World Terminals has announced three major projects: the Caucedo terminal in the Dominican Republic, a deal concerning Container Terminal 8 in Hong Kong, and a new container development in Busan, Korea.

Stevedoring Services of America, the largest U.S.-based independent container terminal operator, is also expanding its international marine terminal activities. Its new container terminal in Chittagong, Bangladesh is under construction. Stevedoring Services of America is also working on a project for a new terminal in El-Sokhna, Egypt, at the southern end of the Suez Canal.

At the same time, the APM Terminals group is building a new transshipment container terminal at the northern end of the canal.

Further afield, a consortium that includes Stevedoring Services of America, Hutchison, International Container Terminal Services Inc. and others, is reportedly bidding to operate a container terminal in Melbourne, Australia. If the consortium wins the bid, this will represent Stevedoring Services of America's and Hutchison's first container terminal in Oceania, and a new competitor to P&O Ports in one of its traditional market strongholds.

PSA runs an international network of container terminals and other port ventures in 10 ports mainly in the Far East, the Indian Subcontinent, the Mideast and Europe. Its international port activities are in Dalian and Fuzhou, China; Muara, Brunei; Aden, Yemen; Pipapav and Tuticorin, India; Genoa and Venice, Italy; and Antwerp and Zeebrugge, Belgium.

PSA also has projects for new terminals in Guangzhou and Jiangyin, China; Incheon, Korea; Kita-kyushu, Japan; and Sines, Portugal.

Eurogate, the large German terminal operating group, is the result of the merger in 1999 between BLG-Bremer Lagerhaus Gesellschaft of Bremerhaven/Bremen and Eurokai, of Hamburg. Until then, terminal operators in Bremerhaven and Hamburg saw themselves as arch rivals.

Eurogate said it has overcome the traditional "home base mentality." The German group also owns a stake in Contship Italia, the major Italian port and intermodal group, and through it, in the Italian container transshipment hub of Gioia Tauro. With an annual group container traffic of more than 7 million TEUs, Eurogate is one of the largest international container port groups, but its activities are solely confined to the European continent.

Eurogate reported a 20.5-percent increase in its global port throughput for 2000, to 7.7 million TEUs.

The figure includes the handling volume of the group's container terminals in Germany, Italy and Portugal. Eurogate said its 20.5-percent volume increase compares with a general market growth rate of only 7.5 percent.

Eurokai recently acquired the Terminal Darsena Toscana in the port of Leghorn, Italy.

Eurogate said it is Europe's biggest cargo-handling company, with a workforce of 4,000 employees. It is also "the third-largest independent container terminal operator in the world," behind the Hutchison Port Holdings and PSA Corp. groups, Eurogate said.

In 1999, Eurokai, the Hamburg-based terminal that eventually merged into Eurogate, acquired the 66.4-percent share it did not already own in the capital of Contship Italia, the Italian port and logistics group.

Contship Italia owns La Spezia Container Terminal and Gioia Tauro, two of the largest container terminals in the Mediterranean.

Eurogate has just started operating the container terminal of the port of Rijeka, Croatia, under a management contract that became effective on Jan. 1. This means that Eurogate now operates container terminals in Bremerhaven, Hamburg, La Spezia, Ravenna, Leghorn, Salerno, Gioia Tauro, Lisbon and Rijeka.

Same Battlefields. In several regions, the global port operators are pitted against each other. They either bid for the same container terminal, or operate separate, neighboring terminals that target the same cargoes.

An intense competition has arisen in China, Southeast Asia, and to a lesser extent, in the Caribbean and the United States.

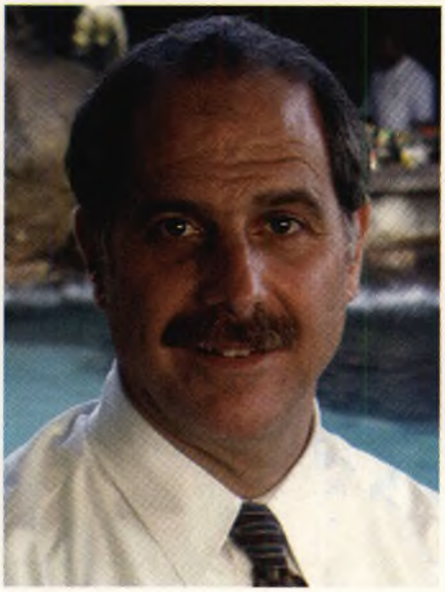
In 2000, container shipping giant Maersk Sealand, the sister company of APM Terminals, moved its Southeast Asian transshipment hub from Singapore, the dominant port in the region, to the neighboring Malaysian port of Tanjung Pelepas.

This move was linked to the decision of APM Terminals (and the A.P. Moller group at large) to buy a 30-percent stake in the port of Tanjung Pelepas and effectively become a major competitor to PSA's Singapore operations.

Maersk Sealand, the largest customer of PSA in Singapore, dealt a heavy blow to the Singaporean port group by switching virtually all of its container services calling at Singapore to the new Malaysian port, representing about 2 million container moves a year of business.

The port of Tanjung Pelepas handled 2.05 million TEUs in 2001, a five-fold increase over the 418,000 TEUs handled in 2000.

Under an agreement with the port of Tanjung Pelepas, APM Terminals took over the management of the operations of the Malaysian terminal. The move also made the Malaysian port one of the largest hubs within the Maersk Sealand global network. Maersk Sealand aims to move 10 million TEUs within a few years at the Tanjung Pelepas hub port in Malaysia, according to Asian press reports.



"Consolidation is not unique to this business."

Robert Scavone
regional director, Americas, P&O Ports North America

In Southeast Asia, Hutchison started positioning itself as a competitor to the dominant port of Singapore and to the fast-growing port of Tanjung Pelepas in 2000. It acquired a 30-percent stake in Westport, based in Port Kelang in Malaysia. The Westport port complex in Malaysia occupies a huge area of 1,280 acres of waterfront land and is now Hutchison's largest terminal in terms of area.

According to Westport, the venture aims to become "a megahub center" in the region. Therefore, all three top global terminal operators — Hutchison, PSA and APM Terminals — are fighting for market share in the Singapore/southern Malaysia area.

'New' Global Operators. The A.P. Moller group established APM Terminals in 2000 as a stand-alone division within the group. A.P. Moller had operated terminals mainly to serve Maersk Sealand's needs, within the individual country subsidiaries of the group.

CSX World Terminals was established in 1999 when CSX Corp. split the former Sea-Land Services into three units:

- International container shipping and U.S.-based terminals, sold to A.P. Moller/Maersk.
- Domestic container shipping, which became CSX Lines.
- Non-U.S. terminals, now run by CSX World Terminals.

CSX World Terminals now operates container terminals around the world, but with the notable exception of the United States. CSX World Terminals' main activities are in Asia. Based in Charlotte, N.C., the company has a total annual volume of 3.5 million TEUs.

Although there are still clear links between APM Terminals' container transshipment terminals and the liner network of its sister company Maersk Sealand, the group is gradually moving towards attracting more third-party business.

APM Terminals, through Maersk Inc., will open its new giant container terminal in Los Angeles in August. The Pier 400 terminal will eventually occupy 484 acres and will be "the world's largest proprietary container terminal," according to the port of Los Angeles. Phase 1 construction of the Pier 400 facility includes a 192-acre container yard and 4,000 feet of shipping berths.

In the New York area, APM Terminals and Maersk are expanding the group's container terminal in Port Elizabeth. To be completed in 2003, the large facility will feature an area of 350 acres, a total berth length of about 6,000 feet and 12 new post-Panamax cranes.

APM Terminals recently announced a plan to purchase 616 acres on the Elizabeth River in Portsmouth, Va. Details of this new and potentially large operation are unknown.

A joint venture between APM Terminals, Europe Combined Terminals (now owned by Hutchison) and various Egyptian interests is building the Suez Canal Container Terminal at Port Said East, at the northern end of the Suez canal, under a concession agreement with the government of Egypt.

For this project in Egypt, and for their container terminal joint venture in the port of Yantian in China, APM Terminals and Hutchison are partners — whereas they are usually strong competitors.

The Egyptian terminal, designed to handle about 1.7 million TEUs a year, is scheduled to start operations in mid-2003.

"Suez Canal Container Terminal at Port

Said East has a unique geographical location, and hopes to attract major shipping lines as a transshipment hub for not just the East Mediterranean, but also the Central Mediterranean and the Black Sea," said Philip Littlejohn, managing director of Suez Canal Container Terminal. The terminal will also seek to secure local Egyptian business, he added.

The 148-acre terminal will be along a 3,900-foot quay, which can accommodate four large vessels. It will also feature a draft on the berth of 54 feet and nine ship-to-shore gantry cranes with an outreach of 22 containers across, "enabling the terminal to handle vessels larger than any currently in service," Littlejohn said.

APM Terminals is engaged in several other projects. It was recently selected as the preferred bidder to run the container terminal in Kingston, Jamaica. Last year, the Danish port group inaugurated a container terminal in Aarhus, Denmark; purchased a 14-percent equity share of Gujarat Pipavav Port Ltd. in India; inaugurated two new deep-draft berths in the port of Yokohama, Japan; and acquired a further 33-percent share in the Maersk Delta terminal in Rotterdam.

Having bought the share of its former partner, Europe Combined Terminals, in the Maersk Delta terminal in Rotterdam, APM Terminals intends to offer services to carriers other than Maersk Sealand in the future, thereby competing against the Hutchison-controlled terminals in the port of Rotterdam. However, at present, the Maersk Delta terminal does not have capacity for new customers, a spokesman for Maersk Delta said.

APM Terminals has bought stakes in many container terminal developments in recent years: in Yantian and Dalian, China; Tanjung Pelepas, Malaysia; Laem Chabang, Thailand; Pipapav, India; Salalah; Gioia Tauro, Italy; Bremerhaven, Germany; and in the new Suez Canal container facility in Egypt.

The Tanjung Pelepas joint venture has attracting growing volumes. APM Terminals said the two-year old container terminal facility handled its 2-millionth TEU in October 2001, after only 750 days of operation.

CSX World Terminals is also growing and expects to expand its activities in future, both in terms of geography and in terms of the number of terminals operated. This policy also applies to Latin America, when the group has a foothold through its interests in the Dominican Republic and in the port of Puerto Cabello, Venezuela.

"As part of our strategy for Latin America, we'd like to have a presence ... on the West Coast of South America, in Central America and in Mexico," Foltz said. The group is considering several projects in those areas.

CSX World Terminals and local partners are developing a $250-million greenfield deep-water container terminal in Caucedo, in the Dominican Republic. The terminal's first phase will feature two container berths and an annual handling capacity of more than 750,000 TEUs. The terminal is expected to be commissioned in the second quarter of 2003. The berth initially will be (2,000 feet long and dredged to 46 feet to handle large post-Panamax vessels.

"Most of the ports which could be privatized have been, or are in the process of being privatized. There's not very much left."

John Meredith

"The real beauty (of the project) is that the Dominican Republic has a large indigenous cargo base," Foltz said. But the Caucedo will also cater for transshipment cargoes in the Caribbean.

"It will clearly compete against Kingston in Jamaica", Foltz said, adding that the Caucedo terminal won't be a direct competitor to the Manzanillo terminal in Panama.

The Manzanillo terminal is run by Stevedoring Services of America.

Meanwhile, the container terminal of Kingston will almost certainly be run by APM Terminals, which was selected by the port authority of Jamaica last October as the "preferred bidder." This means that most of the global port operators — CSX World Terminals, Stevedoring Services of America, APM Terminals and Hutchison — will soon be active in the Caribbean/ central America container transshipment market. Hutchison runs container terminals at the Pacific and Atlantic ends of the Panama Canal and the Freeport container terminal in the Bahamas.

Last year, CSX World Terminals acquired a 50-percent stake in Terminal Port Services, C.A., of Puerto Cabello, Venezuela, from Venezuelan transport company H.L. Boulton & Co. The company has been renamed CSX World Terminals Boulton Puerto Cabello. CSX World Terminals now oversees the management of the container facility.

In Europe, CSX World Terminals has a relatively minor presence. In November, it also announced the sale of its minority interest in the container terminal of Hamina, Finland.

Ongoing Growth. All the major global terminal operators are expanding.

The Hong Kong-based Hutchison port group and the Korean shipping lines Hyundai Merchant Marine and Hanjin Shipping have finalized an agreement with the Korea Container Terminal Authority to develop and operate a terminal in the port of Kwangyang, Korea.

Under the terms of the agreement, a consortium comprising the three companies has a 30-year lease for seven berths in the port of Kwangyang, as part of its phase two development. The consortium will also have preferred rights to negotiate with the Korea Container Terminal Authority to develop the next phase of the container facilities in the port.

"Upon the completion of phase two, Kwangyang port will have the size and capacity to compete with the port of Pusan," said Chung Woo Taik, South Korea's Minister of Maritime Affairs and Fisheries.

The expansion project will be developed on 210 acres of land. When completed, it will have a quay length of 6,400 feet and a handling capacity of 1.75 million TEUs.

P&O Ports continues to win port concessions around the world. In 2001, it was appointed to operate facilities in the Indian ports of Chennai and Kandla. The group is also working on several major projects in New York, Shekou and Shellhaven.

In 2000, P&O Ports and sister company P&O Nedlloyd took over a 158-acre container terminal in Port Newark, under a 30-year lease. P&O Ports aims to complete a program of expansion of the facility, renamed Port Newark Container Terminal, at the end of this year. The expansion project will increase the annual capacity of the terminal to 1 million TEUs.

"We are handling business at the same time (in the terminal)," said Scavone, at P&O Ports North America. The Newark terminal is a common-user facility run by P&O Ports and P&O Nedlloyd.

P&O Ports' U.S. activities are concentrated on the East and Gulf coasts only.

The nature of P&O Ports' U.S. activities vary by port. For example, the company acts as a stevedoring services contractor in Norfolk, whereas it leases its own terminal in Newark, Scavone said.

Last year, the Maryland Board of Public

Works formally approved new six-year contracts with P&O Ports to manage the Seagirt and Dundalk Marine Terminals in Baltimore. Activities in the port of Baltimore feature among the company's largest in the United States

P&O Ports North America also services all cargo sectors in the United States, including containers, roll-on/roll-off and automobiles, bulk, breakbulk and reefer, and it handles cruise liners. Scavone estimates that about 45 percent of P&O Port's U.S. activities are container stevedoring and container-related business such as the operation of container freight stations.

P&O Ports is a partner in Port of Miami Terminal Operator Co., the port's only multi-user container facility. The port of Miami has recently retained P&O Ports North America to advise on the redevelopment of its container activities.

Scavone said P&O Ports North America employs "the equivalent of" 5,000 workers in the United States. Of this number, about 2,000 are permanent union labor, and several thousands are non-permanent union workers.

P&O Ports North America would consider the possibility of developing greenfield port projects. "But it's always going to be more expensive in a mature region like this," Scavone warned.

In the United States, the company has grown mainly through takeovers, organic growth, and by expanding existing terminals.

The P&O Ports group has revamped its organization and appointed regional headquarters around the world. The Americas activities of the group are run from New York by Scavone, a former executive of Sea-Land Service, who was appointed the first president of P&O Ports North America in May 2001.

Growth is the key word to describe today's top global terminal operators. These groups now have reached a maturity and business scale that can attract the attention of investors (see "Global port operators — big business").

North American Gaps. Hutchison, PSA and CSX World Terminals currently operate no container terminals in North America, whereas they are active on most other continents (see Table No. 1).

U.S. container terminals tend to be leased and operated by shipping lines, which run them largely as operations dedicated to their ships and those of their alliance partners, rather than as common-user terminals.

But if Hutchison, PSA and CSX World Terminals follow P&O Ports by entering

Global port operators — big business

The scale of those global container terminal operators can easily be underestimated.

Growth factors, such as rising containerized trade volume, the takeover of competitors, and investments in new port projects, have created billion-dollar organizations in the port business.

Each major global terminal operator has operations spread across the world, large capital investment budgets and several thousand employees.

In 2000, Hutchison Port Holdings had revenues of HK$14.2 billion ($1.8 billion). PSA Corp.'s and P&O Ports' group revenues also exceeded $700 million in 2000 (see Table No. 3).

They are solid "old economy" multinational companies. The container port business produces good financial returns — a fact that explains the continuing investment and expansion of these groups.

In 2000, PSA Corp. posted an operating profit of S$1.1 billion ($662 million) — representing no less than 47 percent of revenue. Hutchison's operating profit from ports and related services amounted to an incredible HK$5.3 billion ($685 million) — 38 percent on revenue. Operating profit margins at P&O Ports are also high, particularly when compared to the poorly performing container shipping line industry.

It is significant that in 2000 the P&O group made more money from its ports business, with a port operating profit of $153 million than from its 50-percent interest in P&O Nedlloyd Container Line, which gave it an operating profit of $99 million.

Within the CSX transport conglomerate, CSX World Terminals is also substantially more profitable than CSX Lines, the domestic container shipping line of the group. In 2000, CSX World Terminals earned an operating profit of $71 million on revenues of $305 — an operating profit margin of 23 percent. This profitability measurement can also expressed as a 77-percent operating ratio. By contrast, CSX Lines only broke even, with a 2000 operating profit margin of 0 percent.

Eurogate, the large European container terminal operated based in Germany, had group revenues of DM648.5 million ($309 million) in 2000, and group profits DM42 million ($20 million).

In a report published last year, the investment bank WestLB Panmure said "container terminals are the safest place to invest across the logistics supply chain."

"Earnings before interest and tax margins are the highest in the supply chain, ranging from 19 percent (P&O Ports) to 47 percent (PSA) in 2000," the investment firm said. "This partly reflects the limited competition because many terminals are a local monopoly or part of a local oligopoly."

The major global port operators also have a large borrowing capacity.

In 2000, PSA raised S$1.1 billion ($660 million) in 10-year bonds, the second tranche of a big financing program. When the group raised a S$600-million tranche of the financing program, it said it was the single-largest unsecured Singapore dollar corporate bond to be issued.

Also in 2000, Hongkong International Terminals Ltd., a subsidiary of the Hutchison group, secured HK$5 billion ($642 million) in loans through the HSBC Investment Bank Asia Ltd. and Citicorp International Ltd.

Table No. 3

Selected profit figures on port operators

Major port group	2000 revenue	operating profit	operating margin
Hutchison	HK$14.2 billion ($1.8 billion)	HK$5.3 billion ($685 million)	38%
PSA	S$2.5 billion ($1.4 billion)	S$1.1 billion ($662 million)	47%
P&O Ports	£532 million ($793 million)	£103 million ($153 million)	19%
CSX World Terminals	$305 million	$71 million	23%

Sources: Port groups and research by *American Shipper*.

the North American ports market, a significant shakeup could ensue.

Hutchison operates the offshore Freeport transshipment container terminal in the Bahamas, close to Miami, which may have been a stepping stone to consider moving to the mainland for the first time.

Since selling the former Sea-Land U.S.-based terminals to Maersk, CSX World Terminals has no U.S. terminals of its own. However, it is present through its subsidiary World Crane Services, which contracts its services to several terminals in Alaska and other states.

Foltz said CSX World Terminals intends to operate a U.S. container terminal in the future. "It wouldn't surprise me if we had a regained presence in the U.S. in 2002," he said.

Stevedoring Services of America, based in Seattle, is one of the top American port groups. It operates no fewer than nine marine container terminals on the West Coast of North America. Including general stevedoring, breakbulk and rail operations, it operates at 150 sites worldwide.

Besides operating container terminals in the United States, the company also runs container terminals in Panama (Manzanillo International Terminal); a terminal in Manzanillo, Mexico; and multi-cargo terminals in Veracruz, Mexico, and San Antonio and San Vincente, Chile.

Ceres is another major North American port operator that competes against Stevedoring Services of America and P&O Ports. Last year, Ceres moved into Europe by opening the Ceres Paragon container terminal in Amsterdam, The Netherlands. The company sought to differentiate itself from other port operators by designing an innovative "indented berth" for large containerships. The berth enables containerships to be worked on both sides simultaneously.

China, Hong Kong Focus. China is regarded as a strategic area for growth by the major port groups — and competition for new projects there is consequently fierce.

In southern China, Hutchison, P&O Ports and PSA are now all vying for business.

PSA recently signed an agreement with Guangzhou Harbor Bureau to form a joint venture company to operate a container terminal in Guangzhou. Under the agreement, the joint venture company, Guangzhou Container Terminal Co. Ltd., will manage and operate three container berths in the port. Guangzhou Harbor Bureau will hold 51 percent of the company and PSA 49 percent.

Guangzhou, located north of the Pearl River Delta, is the largest and most prosperous city in southern China. The city has a population of 6.7 million people. Its port is China's fifth-busiest container port, with a total throughput of 1.43 million TEUs in 2000.

For PSA, the Guangzhou venture is one of several major container terminal developments in China. PSA also runs container terminals in Dalian and Fuzhou.

"When we enter a tender, more often than not, we expect to find a representative of Hutchison and a representative of PSA."

Curtis Foltz
VP, Latin America, CSX World Terminals

PSA's container terminal in South China is expected to compete against the neighboring Yantian container terminal operated by Hutchison port group and APM Terminals/Maersk Sealand, and against the Shekou Container Terminal run by P&O Ports.

China was PSA's first international foray when it set up its International Business Division in 1996. The Singaporean group then agreed to develop a container terminal in the north Chinese port of Dalian.

With their eyes on the long-term growth prospects of Chinese cargo volumes, the major port operators are dedicating resources and capital to the development of projects along the coast of mainland China and in Hong Kong.

Last year, Hutchison signed an agreement with the Ningbo Port Authority to jointly operate and develop a terminal in the deep-water port of Ningbo, located near Shanghai.

Hutchison Port Holdings acquired a 49-percent interest in the joint venture company, which operates a terminal called Ningbo Beilun Port Phase 2. The existing terminal occupies four 11 acres of land and features three container berths, a quay length of 3,000 feet and depth alongside of 44 feet. Hutchison said that Ningbo Beilun, a natural deepwater port, handled more than 900,000 TEUs last year.

The joint venture investment is one of the latest of a large number of terminals and projects of the Hutchison Port Holdings group in mainland China. In addition to the new Ningbo venture, the Hutchison group has activities in the Chinese ports of Gaolan, Jiangmen, Jiuzhou, Nanhai, Shanghai, Shantou, Xiamen and Yantian.

Hutchison said the Ningbo development "represents the government's welcoming towards international investors and the continued restructuring of China's transport infrastructure projects."

In November, Hutchison also signed agreements with the Shenzhen government and Yantian Port Group to jointly develop the third phase of Yantian International Container Terminals, which will add 2 million TEUs in handling capacity at the mainland Chinese port.

The HK$6.6 billion ($850 million) project, scheduled to start early this year, will develop 222 acres of land and add four deep-water container berths to the existing five berths. The added berthing will total 4,600 feet, and have a water depth of 52 feet.

Once the addition is completed in 2006, the 513-acre Yantian will likely become Hutchison's largest container terminal complex in the South China/Hong Kong region in terms of total area occupied, ahead of its Hongkong International Terminals facility in Hong Kong. APM Terminals also has a stake in the Yantian container terminal.

The expansion will add 2 million TEUs of annual capacity, bringing the port's total capacity to 5 million TEUs.

Hutchison believes the deep-draft port of Yantian has an edge over the shallower Pearl River Delta ports because it can handle large containerships.

Yantian International Container Terminals was opened in 1994 and has seen a meteoric growth in cargo volumes, from 13,000 TEUs in 1994 to more than 2 million TEUs in 2000.

Asked about the massive growth of port

of Yantian in South China and the diversion of containerized cargoes from Hong Kong, Meredith said there was "a pent-up demand for exiting direct from China."

"Most of the factories are across the border (from Hong Kong)," he added.

Meredith believes that mainland Chinese ports and the port of Hong Kong can co-exist. "We see Hong Kong as an exporter of services," he said. "We are using Hong Kong as a base, as our source of capital and expertise." Hutchison Port Holdings itself is a major exporter of services in Hong Kong.

Meanwhile, P&O Ports received in March 2001 the approval to develop the second phase of Shekou Container Terminal, also located in south China.

In Hong Kong, CSX World Terminals is an investor in Asia Container Terminals Ltd., a major operator in the port. In November, the company increased its interest in Asia Container Terminals from 10 percent to 29.5 percent.

In 2003, CSX World Terminals expects to revamp its activities in the port of Hong Kong, by swapping its interest in the Container Terminal 9 facility under construction to own and operate Container Terminal 8 West. At that time, CSX World Terminal will control and operate three container berths in Hong Kong.

Group Synergies. CSX World Terminals seeks to transfer expertise and pool technical resources between its various international operations.

"We have core groups of operating global engineers, industrial engineers, civil engineers and system experts," Foltz said. "These groups have ongoing optimization reviews every quarter." Their goal is to spread "best practices" among the group, and Latin American terminals may therefore adopt practices honed by Asian terminals.

Hutchison also compares various productivity measurements between its international terminals. For example, its terminals in Hong Kong have a throughput of 22,000 TEUs per acre, compared to 6,000 TEUs per acre at the Europe Combined Terminals in the port of Rotterdam. The group recognizes that there are differences between these two ports, but it believes that the Rotterdam terminals can close the gap.

Commenting on being part of the P&O global port group, Scavone said that membership of a large entity gives its local operations access to additional resources.

"We get a lot in comparison to what we would look like if we had to stand alone," he said. He noted access to information and operating systems, operational know how and project implementation expertise.

For example, P&O Ports brought people from South America, Australia and the United Kingdom to help develop P&O Ports' North America container terminal project in Newark.

"It's a lot of expertise we can draw upon," Scavone said.

Significantly, Scavone also stressed the benefit of having relationships with "global clients."

But while specialization and the transfer of know-how will make container ports more efficient even in the least technologically developed ports, it appears there are still barriers to progress in the ports business.

In recent years, several major port operators have been confronted with corruption or malpractices when submitting bids in Argentina, the Philippines and other countries.

And there are markets that are notoriously difficult to penetrate, such as Japan.

While shipping lines have been able to lease terminals in Japan, under restrictive conditions, the major independent global

Linking ports and logistics

Like other businesses in the transport sector, global port operators are increasingly active in the provision of logistics services, particularly by operating logistics centers and container freight stations.

In December, CSX World Terminals opened a 10,800-square-meter logistics center in Shenzhen, China, through its subsidiary ATL Logistics Centre Hong Kong Ltd.

The he new venture, ATL Logistics Centre Yantian Ltd., can accommodate about 11,500 cubic meters of cargo daily. ATL Logistics Centre Yantian Ltd., in cooperation with Shenzhen Qi Yang Industrial Development Co. Ltd., operates the customs-approved export warehouse for export cargo consolidation, with dedicated inspectors from the Customs Bureau stationed within the facility.

CSX World Terminals, through its affiliate ATL Logistics Centre Hong Kong, operates in the port of Hong Kong the world's largest container freight station.

P&O Ports plans to develop a port and logistics center at Shellhaven on the river Thames, called London Gateway. In the Australia and New Zealand region, P&O Ports recently acquired the Australian ports logistics service provider Smith Bros Terminal Pty. Ltd.

Hutchison is reported to be considering investing in the Distripark complex of logistics centers in the port of Rotterdam.

Besides providing port services, Eurogate is active in the operation of intermodal container trains, container freight stations and related logistics services such as warehousing. Through its affiliate Contship Italia, the Eurogate group also owns Sogemar, a logistics company which provides inland transport, warehousing and customs clearance services to shipping lines in Italy.

Eurogate runs intermodal container terminals in Italy via Sogemar, and in Germany via the boxXpress.de joint venture, said Roland Boesker, press officer. The goal of the group this year will be to interconnect the German and Italian container trains across the Alps, he said.

Meanwhile, PSA Corp. and China Merchants Holdings have formed a logistics joint venture in China. Named China Merchants-PSA Logistics Network Co. Ltd., the company is a joint venture between PSA-China Logistics Pte Ltd., a subsidiary of PSA, and China Merchants International Freight & Forwarding Co. Ltd. (Shanghai), a member of the Chinese group China Merchant.

China Merchants-PSA Logistics Network provides a range of logistics services from inventory management to distribution. The company has set up regional distribution centers in Shanghai, Guangzhou, Wuhan, Chengdu, Tianjin and Dalian. The company is licensed to provide domestic freight forwarding services for the distribution of goods throughout China.

PSA said that China Merchants-PSA Logistics Network will tap on PSA's and China Merchant's freight forwarding network and links with the shipping lines to ensure that customers' goods will be "seamlessly distributed to their markets throughout China."

In 2001, PSA Corp. and a subsidiary of China's Guangzhou Harbor Bureau set up a joint venture company to provide third-party logistics services for multinational companies in South China. PSA and the Guangzhou Harbor Bureau also have a plan to set up a container terminal joint venture in the port of Guangzhou.

port operators have only recently been involved in operating container terminals in this country.

PSA was recently been named the preferred bidder for the Hibiki container terminal in the port of Kita-kyushu, southern Japan. Global container operators will be watching how PSA fares in this market. The exception may be the A.P. Moller group, which already runs container terminals in Japan through its shipping line arm Maersk Sealand.

Japan has long been criticized for its restrictive port and labor practices. It is an open secret in shipping that labor unions and local mafia-type groups exert a joint control on Japanese ports.

Risks. With their increasing scale, global terminal operators are getting close to situations of potential market domination.

In November, the European Commission has approved, subject to conditions, Hutchison's full takeover of Rotterdam container terminal operator Europe Combined Terminals.

The EC said Hutchison's original takeover plan "would have led to the creation of a dominant position on the market for the provision in northern Europe of stevedoring services for transshipment traffic carried by deep-sea container vessels."

Hutchison would be bigger than its three closest competitors combined — Hamburger Hafen- und Lagergesellschaft, Eurogate, both of Germany, and Hessenatie, of Belgium. Hutchison, apart from its involvement in Europe Combined Terminals, also controls the deep-sea ports of Felixstowe and Thamesport in the United Kingdom.

However, Hutchison has offered undertakings that will enable significant competition to emerge on the relevant market, the EC said. Hutchison has agreed to sell Europe Combined Terminals' 33-percent share in the Maersk Delta container terminal, a joint venture in the port of Rotterdam with the A.P. Moller group.

It will also guarantee that sufficient capacity will be available "to enable an independent terminal operator to emerge as a serious competitor to Europe Combined Terminals in the port of Rotterdam."

Subject to the parties' full compliance with the submitted undertakings, the EC has concluded that the acquisition will not lead to a dominant position on the relevant market.

Last year, Eurogate managing director Thomas Eckelmann told the port of Hamburg's magazine that the competitive environment in Europe is totally different from Hong Kong — the home base of the Hutchison group — and from PSA's home market of Singapore.

Both Hutchison and PSA "can make 20 or 30 times as much profit in their home ports" as can terminals in Europe, he said.

Eurogate complained that European companies were unable to compete with the price paid by PSA to acquire the container terminal operators of the port of Antwerp. Eckelmann said Eurogate had put in an offer "up to the very limits," but PSA "paid almost double."

Eurogate describes itself as "a European terminal and transport network." Eurogate offers not only stevedoring and port services, but also intermodal transport to and from its different ports. The German port group, like PSA, CSX World Terminals and P&O Ports, are also increasing their activities in the field of logistics (see "Linking ports and logistics").

Independents vs. Lines. Global port groups that operate independently of container shipping lines say that their model of operations is better.

Conglomerates that own both port and shipping lines subsidiaries point to the synergies between the two different activities.

Meredith, at Hutchison, said he sees a variety of types of operators of container terminals. Some shipping lines also operate terminals, he noted.

Asked whether carrier-owned port groups are a competitive threat to independent port operators, Meredith answered: "I don't know of any shipping group operator ... that actually has third-party business."

"I don't think it's a very good economic model," he added.

Referring to Hyundai Merchant Marine, Meredith also observed that certain shipping lines are selling their terminals.

Are there advantages in operating independently of a shipping line?

"We've seen the benefits as we stepped away from Sea-Land — that is being totally focused on the end result of running efficient terminals," Foltz said. Carrier-aligned terminal operators may be "distracted" by other constraints such as vessel utilization and networks, he added.

CSX World Terminals is "a neutral, unbiased terminal operator," he stressed.

But P&O Ports and APM Terminals work for shipping lines other than P&O Nedlloyd and Maersk Sealand, their respective affiliates.

Ownership of container terminals is regarded as a way for container shipping lines to substantially reduce their port costs. Many shipping lines operate dedicated container terminals to serve their own ships, particularly in North America and in Asia.

But disagreements over the need for carrier-controlled dedicated terminals between Maersk Sealand/APM Terminals and PSA in the port of Singapore and reportedly between Maersk Sealand and Hutchison in the United Kingdom have shown the underlying conflict for control between independent operators and carrier-aligned operators.

Furthermore, several carriers are moving into the container terminal business, aiming to control their port operations, lower their costs, or work for other carriers. Recent examples include China Shipping Container Line and CMA CGM, both of which have set up new port development subsidiaries. Americana Ships has a major container terminal project in Galveston Bay, Texas. Hapag-Lloyd is developing a terminal in Hamburg. P&O Nedlloyd is increasing its relatively small portfolio of terminals.

The question now is whether the arrival of more shipping lines in the container terminal arena will reverse the process of market concentration witnessed so far between major global operators. The exception to this trend of increasing passion for container terminals, though, seems to be Hyundai Merchant Marine. The heavily indebted Korean carrier has said it is considering selling its container terminals.

Although competing for the same container terminal development bids around the world, PSA and P&O Ports cooperate on some technical aspects of their businesses. They both acquired a stake in P-Serv Technologies Pte Ltd., a track-and-trace technology company focused on the sea and land sectors.

PSA said the deal is "a major collaboration for two of the world's largest port operators." This will enable both to share information and provide real-time, door-to-door visibility for sea and land cargo, the company said. P-Serv Technologies provides its services under the trademark "eLogicity." PSA also has an electronic commerce subsidiary, Portnet.com Pte. Ltd., which incorporates Singapore's large port community network system.

Under an agreement signed by the three parties, P-Serv Technologies will provide the infrastructure and project management to implement track-and-trace services. PSA and P&O will market the eLogicity service to their customers through their respective ports and logistics businesses.

But while this joint information technology initiative shows a willingness from two of the major global port operators to cooperate on the technical side, there is no sign that any of these groups are prepared to slow down their commercial efforts to acquire a bigger piece of the global container terminal business. ■

Corporate Appointments

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Logistics

McHugh Software International Inc.

The supply chain management service provider has appointed John G. Jazwiec as chief executive officer.

Jazwiec, formerly chairman and CEO of Infoblox Inc., succeeds Ritch Durheim, who retired in December after 23 years with Waukesha, Wis.-based McHugh.

Savi Technology

The Sunnyvale, Calif.-based provider of real-time logistics services for supply chain asset management, has named two supply chain software and consulting services executives to its executive team.

Stephen Zujkowski has been named vice president of business development and strategic accounts–public sector, responsible for growing non-military public sector accounts. Former president and chief executive officer of Qiva, a provider of transportation management, trade compliance and logistics execution systems, he also spent eight years with Andersen Consulting (now Accenture).

Melvin Poi has been named vice president, sales and marketing-ASEAN, responsible for developing Savi's business in key Asian regions. Poi was general manager-ASEAN for Ariba Singapore. Prior to that, he was vice president, Asia Pacific operations for Tradex Technologies Corp., which was acquired by Ariba. He also held management positions with Infinium Software Asia Pacific Inc., SAP Asia Pacific, SSA Asia and IBM.

Forwarding

BDP International

The Philadelphia-based forwarding and logistics provider has appointed Thomas F. Donahue III as general manager of BDP's regional office in San Francisco.

Donahue, a 20-year logistics veteran, had been general manager of the Eagle/Circle office in San Francisco. He will be responsible for BDP and BDP Transport in northern California and the Pacific Northwest.

Sandler, Travis & Rosenberg, P.A.

Lenny Feldman, former senior attorney for U.S. Customs, has been appointed counsel to Miami-based trade and customs law firm.

While at Customs from 1991 to 2000, Feldman served in the Penalties, Value and General Classification Branches. He led U.S. and international delegations to consult and train foreign customs and trade officials in South America, Europe, Asia and the Mideast.

His specialty at Customs was complex valuation, classification, origin and penalty issues as well as risk assessments and compliance management.

Feldman was also lead staff attorney for the NAFTA Task Force for Country of Origin Marking Rules, the Customs Port Enforcement Evaluation Implementation Team and the International Affairs Process Improvement Team.

From 2000 to 2001, Feldman served as chief compliance officer and vice president of trade and logistics software development company, From2 Global Solutions.

Maritime

China Ocean Shipping Co.

Liu HanBo, vice president of COSCO (Hong Kong) Group Ltd., one of the group's largest subsidiaries, has taken the additional role of managing director of COSCO International Holdings Ltd.

COSCO International Holdings is listed on the Hong Kong stock market and has total assets of about $500 million. It owns property and industrial interests.

Crowley Maritime Corp.

Steve Petersen has been named senior vice president and general manager of Crowley's newly formed energy and marine services group based in Seattle.

Peterson, who has been with Crowley since 1972, will relocate to Seattle from Jacksonville. He was senior vice president and general manager, East Coast and international operations.

Crowley said in October it was reorganizing Crowley Marine Services subsidiary into three distinct operating groups: energy and marine services, ship assist and escort services, and petroleum services.

Reporting to Peterson in the energy and marine services group are Nate Asplund, director of business development and energy logistics, based in Houston; Eric Evans director of finance, relocating to Seattle; Jim Macaulay, director of West Coast marine operations in Seattle; and Chris Peterson, who has been promoted to general manager, contract services and relocating to Seattle.

OMI Corp.

Mark A. Lowe has been named vice president of legal administration.

Prior to joining OMI, Lowe served as vice president and general counsel to OSG Ship Management. He was with OSG for 31 years.

OMI, based in Stamford, Conn., is a large international tanker owner and operator. The fleet consists of 32 vessels.

OT Africa Line

The West African carrier, has named several managers to its U.K. and European based operations.

Romain Berard has been appointed African sales manager, based in London. He joins OTAL from Delmas, a subsidiary of the Bolloré Group, OTAL's parent company, where he was U.K. northbound manager.

Diane Mussault joins OTAL as northbound sales manager. He worked for Bolloré companies SDV in Ghana and Delmas in the United Kingdom and Paris. Based in France, she replaces Jonathan Marshall who has left the group.

In addition, Richard Smith has been appointed trade manager for the Netherlands, a new position for OTAL. Smith has been with OTAL for nine years.

Air

World Airways Inc.

has rejoined the company as chief operating officer. He replaces Andrew "Gil" Morgan who has left his post as president and COO. Hollis Harris, chairman and chief executive officer, assumes the duties and title of president.

Ellington was World Airways' vice president of operations and deputy chief operating officer from June 1999 to September 2000. He spent more than 30 years with Delta Airlines and was vice president of flight operations and director of flight standards and training for American Trans Air.

Ports

PSA Corp.

The Singapore-based port group has appointed a second president alongside current group president Khoo Teng Chye.

Ng Chee Keong, former deputy president, has been promoted to group president. He will take charge of the "strategic business group," which comprises the container terminals, international business and logistics division, together with two wholly owned subsidiaries, PSA Marine and Portnet.com.

Khoo will remain responsible for the "strategic development group," which comprises the corporate office, engineering division, finance division, human resource division and information technology division.

Service Announcements

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Safmarine to add Europe/Canada service

Safmarine, a liner shipping unit of the A.P. Moller Group, said it will introduce a new service between North Europe and Montreal, with relay to Toronto and the U.S. Midwest.

The Big-Leaf Maple service will use three containerships of 2,700 to 2,800-TEUs.

Montreal is linked directly with Felixstowe, Rotterdam and Bremerhaven, while Antwerp, Le Havre, Toronto, Detroit, Chicago, Boston, Cleveland and New York are served via relay under Safmarine management and with through bills of lading.

Relay options to West Canada are available and in Europe intermodal connections to Scandinavia, the Mediterranean region and central/East Europe are offered.

IES, IEX consortia merge services

Carriers from two consortia in the Europe/Mediterranean/Indian Subcontinent trade have merged their two existing weekly services into a single joint one.

The IES consortium of the Shipping Corp. of India, Yang Ming Marine and Zim Israel Navigation Co., and IEX consortium members Evergreen Marine Corp., Kawasaki Kisen Kaisha and Malaysia International Shipping Corp., will combine their respective services into one new service called the Indian Subcontinent Europe Service.

The new ISE service will use seven ships, of approximately 2,600 TEUs, with each carrier contributing one vessel and the seventh vessel being shared by SCI and Zim.

The previous IEX service used six ships of around 2,600 TEUs. The former IES service used seven ships of around 2,000 TEUs. The merger of the two services to create the new ISE service represents a cut-back of 104,000 TEUs in annual one-way capacity in the trade.

The port rotation for the new ISE service will be Barcelona, Felixstowe, Hamburg, Rotterdam, Port Said, Colombo, Nhava Sheva, Port Said, Barcelona, Felixstowe, Hamburg and Rotterdam.

MSC adds Savannah port calls

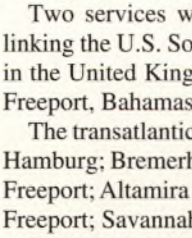
Mediterranean Shipping Co. said it will begin calling at the port of Savannah, Ga., commencing Feb. 1.

Two services will be available: MSC's transatlantic service linking the U.S. South Atlantic with ports in northern Europe and in the United Kingdom, and a Latin American service calling in Freeport, Bahamas. Freeport is one of MSC's hub ports.

The transatlantic service has a rotation of Antwerp; Rotterdam; Hamburg; Bremerhaven; Felixstowe; Le Havre; Charleston, S.C.; Freeport; Altamira and Veracruz, Mexico; Houston; New Orleans; Freeport; Savannah; Charleston; and back to Antwerp.

In the Latin America service's rotation is New York, Newport News, Baltimore, Charleston, Savannah, and then on to Freeport.

Lines combine east/west services



Yang Ming, COSCO Container Lines and "K" Line will combine their existing Asia/Panama Canal/U.S. East Coast "AEX" container service and their U.S. East Coast/Mediterranean "TAS3" service in March into a single Asia/U.S. East Coast/Mediterranean/U.S. East Coast/Asia "pendulum" service.

The new Asia/U.S./Mediterranean "AUM" service will utilize 12 ships of about 3,800-TEU capacity. Yang Ming said this will allow the carriers to save one vessel, compared to the previous two-service arrangement.

The revised operation will allow Yang Ming, COSCO and "K" Line to provide a direct weekly service from Asia to Boston, and create a direct weekly eastbound link from the port of Boston to Mediterranean ports. The port of Boston is not currently served directly by any container service in the transpacific and Mediterranean trades.

The rotation of the combined weekly AUM service will be Tokyo, Qingdao, Shanghai, Yantian, Hong Kong, Charleston, Norfolk, New York, Boston, Valencia, Naples, Genoa, Barcelona, New York, Norfolk, Charleston, Tokyo, Qingdao and Shanghai.

According to ComPairData, the global liner shipping database on the Internet, the service restructuring of Yang Ming, COSCO and "K" Line will not affect their present transpacific capacity. By contrast, the new AUM service will have a 70-percent higher weekly capacity than the present "TAS3" loop in the U.S./Mediterranean trade. The TAS3 service uses ships averaging 2,226 TEUs, according to ComPairData.

A source close to COSCO in Italy said the Chinese carrier will have a large space allocation on the AUM transatlantic service, and may terminate its smaller New York/Halifax/Mediterranean "Genyex" service, which utilizes two small vessels.

Yang Ming and "K" Line have also recently announced the introduction of another large "pendulum" service. The "PSW-1/AES-1" service will have a rotation of U.S. West Coast/Asia/Europe/Asia/U.S. West Coast, using 12 ships of 5,500 TEUs. It will replace the current "K" Line "CALCO-A" transpacific link and the Yang Ming "Asia Express" Asia/Europe loop.

Several other carriers have also combined single-trade services into "pendulum" services in an attempt to save on vessel and port costs.

WTSA, TSA raise Japanese port charges

Carrier members of the Westbound Transpacific Stabilization Agreement and the Transpacific Stabilization Agreement will raise their terminal handling charges covering Japanese ports for shipment from the United States, Canada and Mexico, effective Feb. 1.

The increased terminal charges are $175 per 20-foot container dry, $228 per 40-foot container reefer, $242 per 40-foot or longer container dry and $315 per 40-foot or longer container reefer.

WTSA members include: APL, COSCO Container Lines Ltd., Evergreen Marine Corp., Hanjin Shipping, Hapag Lloyd Container Linie, Hyundai Merchant Marine, "K" Line, Maersk Sealand, Mitsui O.S.K. Lines, P&O Nedlloyd, NYK, OOCL and Yang Ming.

The carriers of the TSA are APL, CMA CGM, COSCO Container Lines, Evergreen, Hanjin Shipping, Hapag-Lloyd, Hyundai, "K" Line, Maersk Sealand, MOL, NYK, OOCL, P&O Nedlloyd and Yang Ming Marine.

United Alliances shortens transpacific service

United Alliance members Hanjin Shipping and Senator Lines have cut back their joint weekly transpacific PNX service from six ships to five and dropped Japanese ports of Tokyo and Osaka from the service.

The new PNX port rotation is Yantian; Hong Kong; Kaohsiung; Kwangyang; Busan; Seattle, Wash.; Vancouver, B.C.; Busan; Kwangyang; Keelung; Hong Kong; and Yantian.

Since mid-December, "K" Line and Yang Ming have taken space on the PNX service operated by Hanjin and Senator.

U.S./Indian Subcontinent lines to discuss rates

Virtually all the shipping lines engaged in the trade between the Indian Subcontinent and the U.S. East Coast have set up an agreement umbrella that will allow them to discuss rates and charges.

The "Indamex/Transpacific Stabilization Agreement Bridging Agreement," filed with the U.S. Federal Maritime Commission for approval, creates a large group comprising the 4 carriers of the joint U.S./Indian Subcontinent Indamex service via the Suez canal and the 14 shipping lines of the Transpacific Stabilization Agreement.

The umbrella agreement will allow carriers "to exchange information and to discuss and reach non-binding agreement on various matters including rates, charges, rules, and equipment in the trade from India, Pakistan, Bangladesh, and Sri Lanka to the United States East Coast," a submission to the FMC said.

"The agreement does not authorize common tariffs or service contracts, but does authorize the parties to discuss and agree on voluntary guidelines related to service contracts," the FMC submission added.

Indamex comprises CMA CGM, Contship Containerlines, Safmarine and Shipping Corporation of India.

The carriers of the TSA are APL, CMA CGM, COSCO Container Lines, Evergreen, Hanjin Shipping, Hapag-Lloyd, Hyundai, "K" Line, Maersk Sealand, MOL, NYK, OOCL, P&O Nedlloyd and Yang Ming Marine.

CMA CGM is the only carrier that belongs to both the Indamex agreement and the TSA. The A.P. Moller group is also active in both groups via its carrier subsidiaries Maersk Sealand and Safmarine.

Ecu-Line adds service to Bolivia

Ecu-Line, the non-vessel-operating common carrier, has added fortnightly service from Antwerp to the Bolivian destinations of Cochabamba, Oruro, Santa Cruz, Sucre and the capital La Paz, via the Chilean port of Arica.

Groupage containers unloaded in Arica are on-forwarded via truck to final destination. On-carriage is possible to Iquique.

The service, provided through Hapag Lloyd, as a transit time of 29 days.

Ecu-Line operates its offices in Santiago de Chile, Chile, and Santa Cruz, Bolivia. The NVO also has operational offices in the ports Valparaiso, San Antonio, Arica and Iquique.

MSC starts Caribbean service

Mediterranean Shipping Co. (USA) Inc. has started a weekly Caribbean service linking Rio Haina, Dominican Republic; Kingston, Jamaica; and Port au Prince, Haiti; with Miami via Freeport.

Med Shipping uses Freeport as a hub for cargoes transshipped to the Americas and overseas.

The carrier is also providing a second loop that will serve the eastern Caribbean destinations of Trinidad & Tobago, Barbados, St. Lucia, Guyana and Suriname.

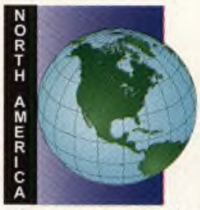
LanPeru adds New York/Lima service

LanPeru, as part of a code-share agreement with fellow oneworld alliance member LanChile Airlines, has introduced non-stop service between New York and Lima, Peru.

The service departs New York's John F. Kennedy Airport on Monday, Wednesday and Friday at 11 p.m., arrives in Lima the following morning at 7 a.m., an continues on to Santiago, Chile. Return flights depart Lima on Monday, Wednesday and Friday at 11:59 p.m. and arrives in New York the following morning at 7:40 a.m.

Trailer Bridge ends Newark/San Juan link

Trailer Bridge Inc., the U.S. mainland/Puerto Rico shipping line, said it has terminated its direct Newark/San Juan service.



The carrier is concentrating its mainland vessel operations in Jacksonville after discontinuing its direct vessel link from the Northeast, served via the port of Newark, N.J.

The direct Northeast sailing represented approximately 28 percent of the company's total vessel capacity, but a lower proportion of revenues. During the first nine months of 2001, the Northeast capacity utilization was only 51 percent southbound and 8 percent northbound.

Ending the Northeast service is expected to improve the company's bottom line results by about $2 million per quarter, Trailer Bridge said.

Dose of reality

We had such high hopes at the end of the 1990s and even coming into last year.

E-commerce was going to solve our problems. Ocean carriers were eagerly awaiting delivery of larger ships to take advantage of booming world trade. The air-freight industry seemed to be growing into its own. Multinational logistics giants were building empires envisioning "one-stop-shop" global logistics networks.

Reports of the time were filled with optimism, mostly, and almost every logistics case study you came across had a happy ending. I'll wager that for every success in logistics a dozen failed projects came before it. Like in Hollywood, hearing only about happy endings distorts our perception of reality, until, as in 2001, reality comes biting.

We should have known sooner, perhaps, that we were due for bitter medicine when industry debates began to center around fuzzy, feel-good words like visibility, partnership and collaboration. Industry discussions now center on the very real effects of falling rates, layoffs, overcapacity and shrinking information technology budgets.

Our greatest hope at the beginning of 2000 and 2001 was that the gaps between shipper and carrier, between theory and reality, would start to narrow. Instead, they seem to have widened.

Before any real lasting progress is made towards collaboration (meaning working together to achieve the mutual goal of reducing logistics costs) or visibility (meaning establishing an electronic infrastructure for shipment information flow for purposes of measurement and optimization), two basic truths will have to change.

One has to do with simple economics. If I go to the supermarket and tell the butcher I want tenderloin for the price of ground chuck, I get ground chuck. When a shipper goes to a carrier and says he wants collaboration and better information flow at scrap metal shipping rates, he gets scrap metal — and he gets it late.

Shippers should not expect premium service at commodity prices, and carriers should not provide it. Carriers cannot make the effective investment needed to provide advanced information services on current operating margins.

If you look at the success stories, in most cases, shipper and transportation provider have established contractual terms that allow for sharing of the benefits of lower logistics costs. That structure gives the carrier or 3PL the financial incentive required to improve service and lower operating costs.

If you don't provide that incentive then you ought to get used to ground chuck.

The second truth has to do with culture. The long tradition of global commerce has changed. For the most part, the days are gone when ships sailed the seas with pride in extending their national influence around the world. That the greatest trading nation in the world, America, has virtually no international merchant fleet is the best example of the passing of this honorable tradition. The early "cowboy" days of air freight, spoken of with reverence by industry veterans, have passed as well.

Make no mistake; rightly proud merchant marines still leave their homes for months at a time to deliver the world's goods. They brave storms and faulty machinery miles from shore. Pilots still risk landings in far away places. But, in today's logistics plans, the ship and the plane are nothing more than vehicles to serve the shipper — small pieces in a complex global delivery network.

Many transportation carriers, certainly the most successful ones, realize this. They are in business to serve the shipper, who ultimately controls their destiny.

Still, many carriers fail to realize this basic fact and treat their customers as necessary evils. They endeavor to keep as much information from their customer as they can and only relinquish when threatened. Likewise, some shippers devise plans and establish expectations that do not adequately take into account the physical limitations of the world's trade infrastructure.

These are dysfunctional corporate cultures that are undoubtedly destined for extinction in the coming decade, with or without the companies that currently practice them.

Look at the successful transport firms and you quickly notice that a new corporate culture is taking over, one marked by pride in customer service and in expanding global trade. Successful shippers have teamed with their logistics providers to share more information on their business, so better plans and realistic goals can be created.

Any discussion of today's logistics industry that does not consider these issues disregards the complexity and mystery that makes global transportation and trade interesting and exciting.