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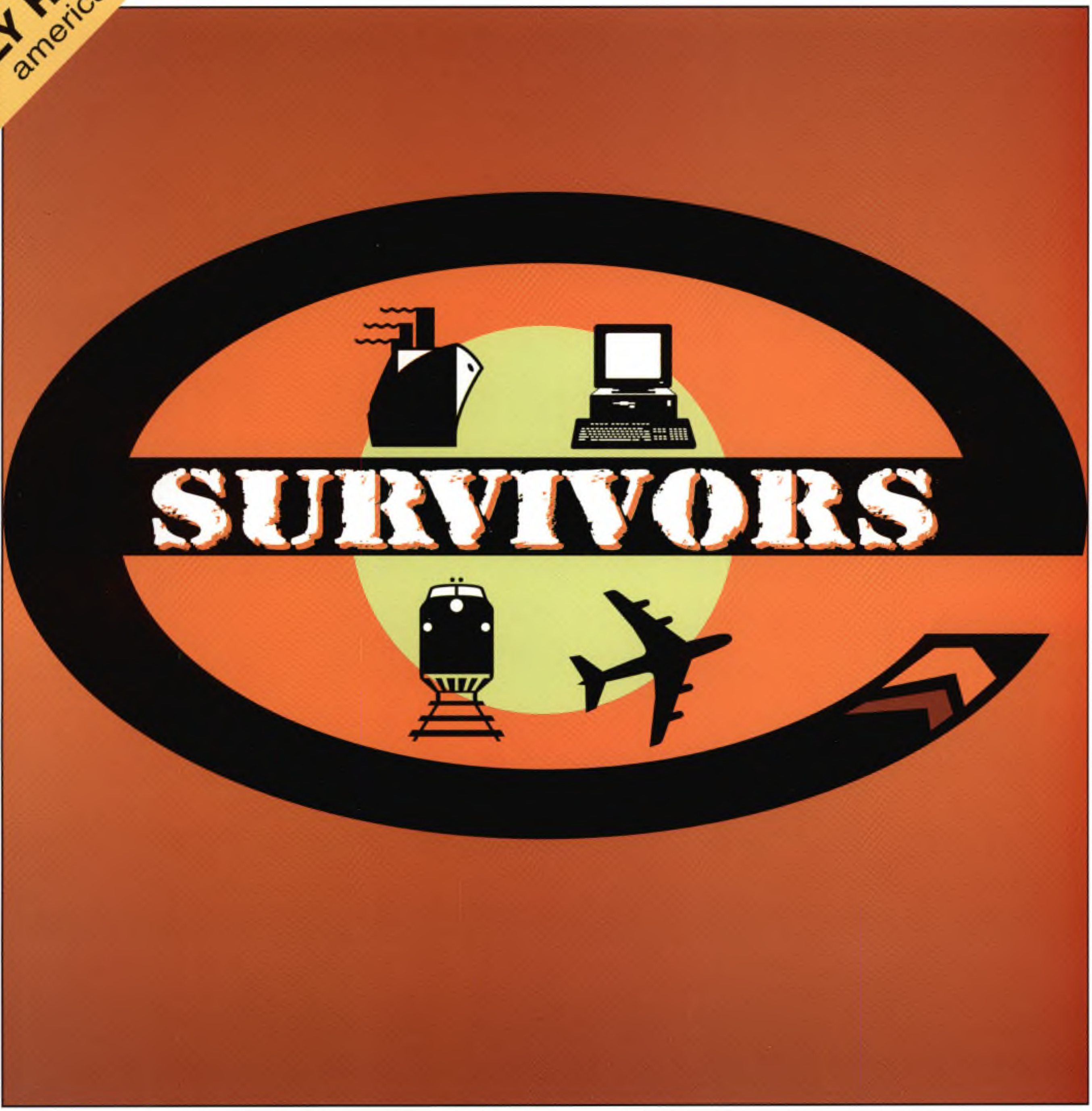

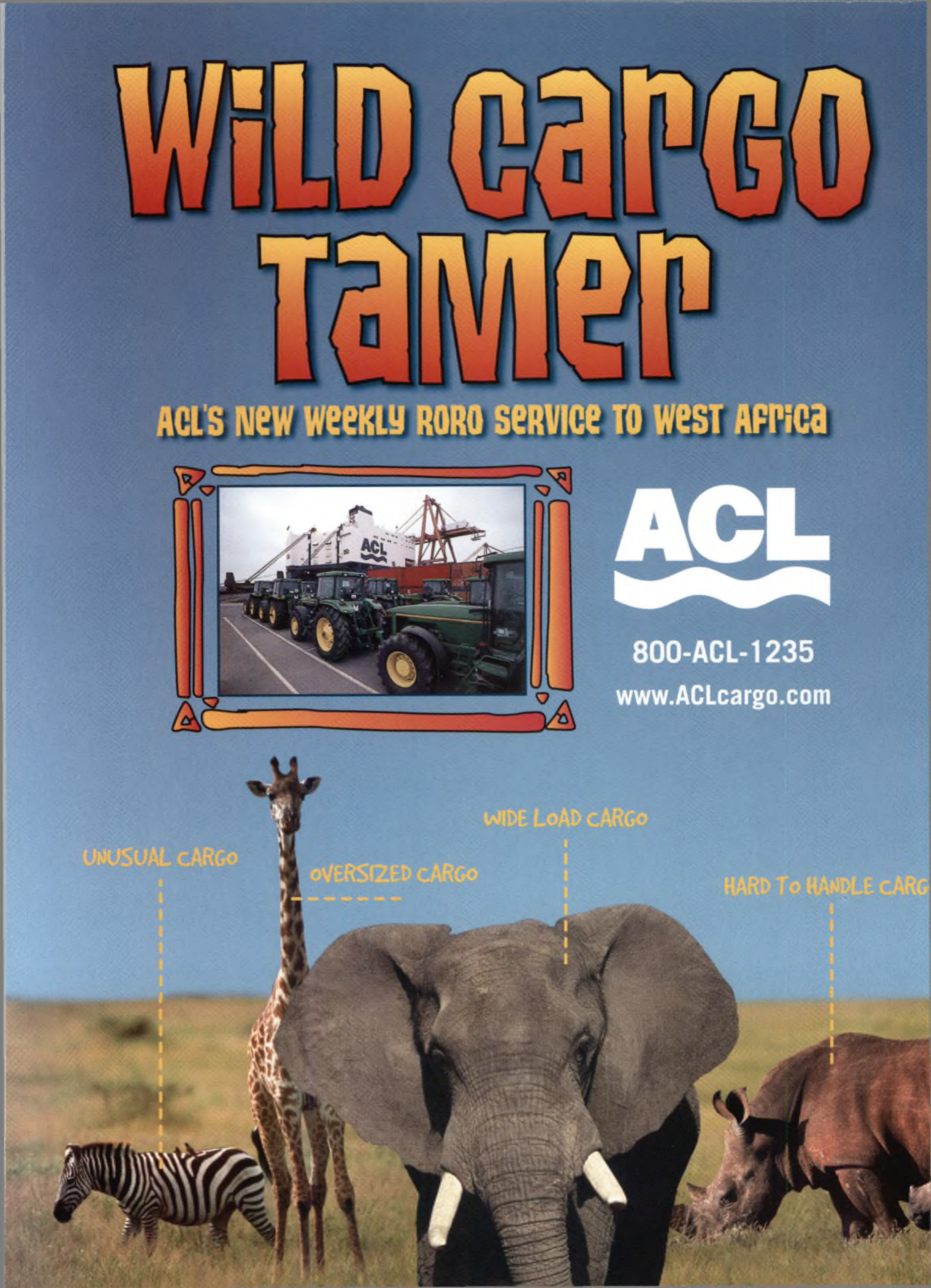
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American Shipper
Vol. 43, No. 5 May 2001

On the Cover

The electronic commerce climate has changed dramatically, with weaker players sent packing, and the remaining competitors under increasing pressure to perform. Which transportation, warehousing and supply chain Internet software providers will survive the shake-up? Gordon Forsyth asks what may be a more important question: Will the Internet live up to its initial promise to bring equality of information to companies of all sizes?

Kevin Lynch, chairman and CEO of Nistevo Corp, has been in the curl of the collaborative logistics wave. Founded in 1997, the company's chief goal was building software "which recognized that, at some point, packages were going to get smaller and move faster, so that more of a company's product would be moving more often." What's more, Nistevo protects its customers' proprietary data in a collaborative environment.

U.S. military transportation strategists already believe that commercial logistics firms could do a better job at managing defense cargo movements, but they want proof. Using the military's U.S. Southeast logistics installations as the testing grounds, the Military Traffic Management Command, the surface transportation logistics unit of the armed forces, awarded a one-year contract to Eagle Global Logistics.

Edward Hanley and Rod Vulovic, executives with U.S. Ship Management Inc., owner and bareboat charterer of U.S.-flag containerships to Maersk Sealand, see ship owners moving to larger containerships and longer charters. And, in a new wrinkle, larger shippers are contemplating time chartering vessels on their own, as a more cost effective and more reliable alternative to booking their cargo with carriers.

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Comments & Letters

Brokers' services shouldn't be a 'giveaway'

This is in response to a Comments and Letters item in your April issue, "Giving away the business," by Chris Gillis (page 4).

While I agree with the writer that customs house brokers have long been giving away their expertise in many areas in order to make minimal profits from entry fees, I do not agree with the last line of the comment, in which the writer eludes to a "good luck" attitude when it comes to now charging for a brokers' expertise.

I have long advocated to any broker, importer or exporter that would listen, that brokers are in a unique situation when it comes to counseling importers and exporters. The Customs Modernization Act of 1993 gave importers and exporters three experts to draw information from: trade lawyers, trade consultants and customs brokers.

In this group it is the broker that is filing the entry and, therefore, has to have the most information concerning how the importer is doing business, so that the broker make the correct assessment on both valuation and duty payment.

Any broker who is worth his salt is expertly versed in both the Harmonized Tariff and U.S. Customs regulations. With this knowledge, the broker should have the same right and advantage to charge fees comparable to both lawyers and consultants. It is only when brokers start to realize their worth that this "giveaway" attitude will finally disappear.

Bill Julich
president,
Delmar International
Jamaica, N.Y.

Good times ahead for giants of the sky

The Antonov Design Bureau's goal to finish building the second world's largest commercial cargo plane is more than just a novelty for the Ukrainian aircraft manufacturer.

The AN-225 has a payload of 250 tons and room on its back to handle a cargo "pod." The first plane was designed and built in the late 1980s for the former Soviet Union space program. The plane made its debut to the world's airline industry in 1989 at the Paris Air Show.

The behemoth AN-225 caught the attention of air carriers, but lacked general market interest. It also fell victim to the economic devastation of Soviet Union's collapse. A second plane sat in pieces at the Antonov Design Bureau's manufacturing plant in Kiev.

But all of that is about to change. The Antonov Design Bureau, along with financial support from British cargo airline Air Foyle, is assembling the second AN-225, named the *Mriya* (Ukrainian for "Dream"), with the purpose to transport commercial cargo.

The Russian heavy-lift air-transport business got its start with the AN-124, a former Soviet military transporter with a 150-ton payload. The planes have become commonplace in the transportation of heavy, outsized cargo throughout the world. About 20 AN-124s are in commercial operations today.

Executives of the airline industry's three AN-124 operators, Volga-Dnepr Airlines, Antonov Airlines (Air Foyle) and Polet, forecast steady growth not just for heavy-lift cargo but also for general hi-tech freight.

Late last year, Sony found itself in a capacity crunch with traditional airline services as it planned for the delivery of its PlayStation II video game units to overseas markets. Sony turned to Volga-Dnepr to charter AN-124s. Sony reportedly experienced a 5-percent decrease in losses and damages to its cargo that it would have otherwise experienced with traditional airline services.

The problems for the AN-124s and A-225s, however, will be increasingly restrictive

runways and tighter cargo areas of airports. But here to, the time may be right with former military air bases around the world becoming the future commercial centers of tomorrow. *(Chris Gillis)*

Bush promotes hemispheric trade bloc

President Bush told executives and government officials at a meeting of the Organization of American States in Washington April 17 that his administration backs the development of a hemispheric trade bloc encompassing North and South America and the Caribbean.

The U.S. government is working with 34 countries to develop the so-called Free Trade Area of the Americas. Negotiations on the FTAA are scheduled for completion in January 2005. "It will make our hemisphere the largest free trade area in the world," Bush said.

Industry groups with an eye to expand trade opportunities and to make cross-border cargo flows more efficient throughout the hemisphere applaud the Bush Administration's commitment to the Free Trade Area of the Americas.

"We welcome this policy from the administration, and we hope it continues to be backed by serious action," said Francisco X. Santeiro, managing director of global services in Latin America and the Caribbean for Federal Express, and chairman of the customs committee for the Conferecia Latino Americana de Companias Express (CLADEC).

"We're pleased with the progress that this is making and that it is high on the president's priority list so early in the administration," said Alan Atkinson, spokesman for the Joint Industry Group. "We have high hopes for a successful outcome for the FTAA."

To help in the development of trade agreements, Bush is pursuing fast-track authority to allow him to negotiate trade deals, which he would submit to Congress for vote.

"Trade promotion authority gives our trading partners confidence that they can rely on the deals that they negotiate," Bush said. "It allows us to seize opportunities to expand the circle of trade and prosperity."

The president said his administration will also continue to pursue bilateral trade agreements with countries, such as Chile, Singapore and Jordan. "My administration is committed to pursuing open trade at every opportunity," he said. *(Chris Gillis)*

OECD may take lead in antitrust issue

Will it be just another year of huff and puff over the future of ocean carriers' antitrust immunity in the U.S. Congress?

Rep. Henry Hyde, who represents hundreds of non-vessel-operating common carriers in his Chicago-area congressional district, is no longer the chairman of the powerful House Judiciary Committee.

Although Rep. F. James Sensenbrenner, the new chairman of the House Judiciary Committee, reintroduced legislation in this Congress to repeal the ocean carrier industry's long standing right to discuss and agree on rates, the bill has failed to garner political support.

The general view is that the antitrust issue will be preempted by the Bush administration's tax and budget proposals.

Shippers of the National Industrial Transportation League continue to hold back on the issue, even though they were against continuing the antitrust exemption during the early days of debate over ocean shipping reform. However, as part of a compromise reached with the ocean liner industry, the NIT League backed off on the issue and continues to stay out of the debate — at least in the United States.

Service contracts are flourishing and everyone is happy so far with the results of the Ocean Shipping Reform Act, the NIT League says.

However, in Europe it's a different story. The NIT League, like other shipper groups from around the world, supports the review currently underway before the Organization for Cooperation and Economic Development.

Perhaps Bob Voltmann , executive director of the Transportation Intermediaries Association hit the nail on the head, when he recently predicted that the antitrust issue, one way or another, will be resolved across the pond by the OECD before it is resolved by the U.S. Congress. *(Tony Beargie)*

Are MarAd's days numbered?

When the Bush administration proposed transferring the U.S. liner program, known as the Maritime Security Program, to the Department of Defense and slashing Title XI shipbuilding funding, many feared that this policy switch meant the end of the Maritime Administration.

Officials are quietly talking over a smooth transition "just in case" the Bush proposal prevails.

And Transportation Secretary Norman Mineta does not appear to be fighting to save MarAd for his department's turf.

Also, Mineta said he was having problems recruiting someone to take over as the new Maritime Administrator.

MarAd officials insist the agency will survive. After all, MarAd would still have the Ready Reserve Fleet, U.S. cargo preference programs, the Jones Act, port and intermodal development, state maritime schools and the U.S. Merchant Marine Academy under its roof.

Meanwhile, the industry is baffled over the proposed transfer, especially in light of Bush's pro-maritime statements made during the course of the presidential campaign.

They also may be counting on support from Bush chief of staff Andrew Card, who played a role in getting the current Maritime Security Program off the ground, when he served as Secretary of Transportation under Bush's father. *(Tony Beargie)*

Littered field

In the aftermath of first-quarter reports, the logistics landscape is strewn with the bodies of wounded or mortally stricken dot-coms. Feverish deals are being struck every day, as remaining companies attempts to partner find few takers among possible clients who have heard it all in the last year.

For many companies, the carnage was self inflicted. It's enough to note one highly hyped dot-com that, at its peak, had 56 people on its payroll and not one revenue stream from a paying customer. After the bubble burst, only a handful of executives remained to dispose of the wreckage. The venture capitalists who underwrote the company had sat back while the dot-com stocked itself with prominent industry names at six-figure salaries. Finally, their patience over, the venture boys yanked the rug.

This is hardly an isolated case. While one feels empathy for those who have lost their jobs, there is also a sense of incredulity that anyone would have hired so many employees before a shred of profitable business came in the door. *(Robert Mottley)*

FMC polls industry on OSRA

Shippers' responses focus on discussion agreements, voluntary guidelines. Small lines see revenue losses.

By Tony Beargie

Shipper responses to the U.S. Federal Maritime Commission's analysis of the Ocean Shipping Reform Act carried a unanimous message: Keep a close watch over discussion agreements.

Despite this concern, shippers and carriers continue to see the two-year-old reform act as largely positive for the industry.

The National Industrial Transportation League, the nation's largest shippers' association, said it is still too early to determine OSRA's long-term impact on liner shipping. But for it's "working largely as intended and has led to significant benefits for both shippers and carriers."

However, the NIT League questioned whether guidelines followed by carriers over rates, surcharges and services "are truly voluntary," or if they provide a tool to discipline the market.

While the NIT League has not heard a shipper complain of a carrier's refusal to negotiate on service contract terms, there is concern over the rising number of surcharges announced by carrier discussion agreements and imposed by their members.

"For example, carriers operating under discussion and conference agreements in the U.S. trades have recently sought to impose surcharges for carrier-supplied chassis, container repositioning, issuance of bills of lading, fuel and for peak season shipments," the NIT League said. "Many shippers view these surcharges as inappropriate revenue enhancing mechanisms that bear no relation to the actual costs of the carriers."

The NIT League's views reflect those of smaller shippers and transportation intermediaries who took aim at discussion agreements and voluntary guidelines, but at the same time gave OSRA a passing grade.

"Discussion groups are dinosaurs that should go away," said Thomas W. Craig, general manager of the LTD Shippers Association, Glenmoore, Pa.

Protected by antitrust immunity, carriers are able to publicly announce rate hikes and a wide variety of surcharges "That collusion, while legal, is contrary to the spirit of OSRA and of confidential contracting," Craig said.

He called for an FMC investigation to determine whether discussion agreement carriers "are overstepping their antitrust protection."

> ***"Those who still lament about not knowing someone else's ocean rates should consider calling, 1-800-get-a-life."***
>
> **Thomas W. Craig**
> *general manager, LTD Shippers Association*

Discussion agreement activities also stifle free-market pricing and contract negotiations, Craig said. For instance, he charged that members of the Transpacific Stabilization Agreement have failed to develop one-on-one pricing through direct negotiations. "Instead, they have chosen to basically follow the announced TSA price guidelines in their contract negotiations."

The first year of OSRA brought a $900 general rate increase and new surcharges, "all decided by the Transpacific Stabilization Agreement," said the Toy Shippers Association.

The National Customs Brokers & Forwarders Association of America said the surcharges and rate increases seem to cut across all trades, but the problem is more acute in the Far East.

The NCBFAA said it would be hard to see how shippers or ocean transportation intermediaries could benefit from discussion agreements, since their purpose "is to perpetuate cartel-type activities."

"Almost by definition, discussion agreements are intended to create market distortions and the 'voluntary guidelines interfere with a truly competitive marketplace," the NCBFAA said.

The Washington-based World Shipping Council, a trade association of 42 liner carriers which account for about 90 percent of the U.S. ocean liner trade, said discussion agreements provide rate and trade stability and confidence in the carrier community for strategic investment decisions.

The ability to discuss and exchange trade information helps carriers improve business planning, encourages better capacity utilization and helps develop "rational pricing policies," the WSC said.

Guidelines suggested under discussion agreements are "completely voluntary," the WSC said.

Big chemical shipper DuPont said the FMC needs to consider whether regulations "to protect shippers" are required for discussion agreements operating in trades where members control more than 30 percent of the market. However, DuPont said it has not experienced problems nor gained benefits from discussion agreements.

NVO Discrimination. Carlos Rodriguez, representing the New York/New Jersey Foreign Freight Forwarders and Brokers Association, named four trades where non-vessel-operating common carriers have suffered discrimination at the hands of discussion agreements and conference carriers.

In the South American trades, NVOs were targeted by both the East and West Coast of South America Discussion Agreements during the 1999-2000 shipping season, Rodriguez said. Discussion agreement members set NVO benchmark rates that were followed during most of the shipping season, and while rates eventually dropped, "they never should have been at the levels set by the voluntary guidelines" because the trade was and continues to be overtonnaged. "The marketplace was distorted by the discussion agreement activities."

In the transpacific eastbound trade the chaos eased in the 2000-2001 shipping season, NVOs were again subject to voluntary price and service conditions agreed to by members of the Transpacific Stabilization Agreement, Rodriguez said.

In the transatlantic, members of the Trans-Atlantic Conference Agreement and non-conference lines imposed an equipment repositioning surcharge in late 1999, Rodriguez said. Though discussion agreements are not permitted in the this trade, TACA and the independent carriers appear to be acting as discussion agreement carriers, he said.

In the U.S./Mideast trades members of the association report discussion agreement imposed surcharges during the first two years of OSRA, Rodriguez said.

Rodriguez called for close monitoring of discussion agreements by the FMC. The very nature of such agreements is "inherently anticompetitive" when it comes to freight rate structures and add-on charges.

Confidentiality. Craig, of LTD, rated

the right to negotiate confidential contracts directly with ocean carriers "as perhaps the most positive change with OSRA.

"Confidentiality permits us to better meet our requirements, without all of the 'me-too plagiarism' that tainted the pre-OSRA negotiations," Craig said. Before OSRA, public pricing information "stifled creativity and placed false barriers into negotiations."

"That obsession on the price someone else pays is something unique to maritime shipping," Craig said. "Conference contracting practices also fostered this obsession. Having to know other companies' rates needs to die its own death if shippers and carriers are to move forward with creative contracting. Those who still lament about not knowing someone else's ocean rates should consider calling, 1-800-get-a-life."

The World Shipping Council said the shift from conference controlled, to one-on-one confidential contracts has facilitated more flexible and customer-responsive contracting.

Global and multitrade contracts are expected to grow, but most contracts are still confined to single trade lanes, the WSC said. But the growth of global contracts (containing foreign-to-foreign movements) could be less common than multitrade contracts, since most shippers appear to prefer keeping their U.S. contracts separate from their foreign-to-foreign contracting arrangements, the WSC said.

Direct, confidential contracting has promoted more customization of contract terms, with shippers seeking service quality and carrier commitment terms, the WSC said.

Maersk Sealand said individual, confidential contracts have enabled the company to tailor contracts to shippers that would otherwise be left out. This has allowed the carrier to expand its customer base, and to accommodate niche shippers with special market needs.

The carrier said it has seen an increase in multitrade and global contracts under OSRA, due to the ability to contract across trades without conference conflicts.

Also, the shipping line said it can more readily accommodate shippers needing short-term contracts or contracts for small volumes.

The NCBFAA agreed that service contracting has grown under OSRA largely because it is now easier to contract directly with the carriers, and that more carriers are now willing to sign contracts for smaller volumes, and changes to contracts are now made more easily, the association said.

More multitrade and global contracts are now being offered and contract terms have improved, the NCBFAA said. Shippers are now able to negotiate more reasonable liquidate damage terms, more appropriate breach of contract terms and are able to include a broader range of commodities, the association said.

Lawrence E. Cosgriff, APL vice president said that since OSRA went into effect APL service contracts have grown "dramatically" in all of APL's U.S. trades. Service contract account for 80 percent of the carrier's business in the transpacific, 75 percent in the transatlantic and 70 percent in the Latin American trades.

Creel: Deregulation has its limits

FMC chairman questions potential benefits of total deregulation in ocean shipping.

LONDON

Harold Creel, chairman of the U.S. Federal Maritime Commission, questioned the potential benefits of "total deregulation" in liner shipping and warned against the risks of conflicts of international laws.

If a "totally deregulated market" is defined as one without antitrust immunity for conferences or agreements among ocean common carriers, then a move to a deregulated market would create problems and may not benefit the industry and its customers, Creel said at the recent Containerisation International conference in London.

Creel

Asked whether carriers or shippers would be the main beneficiaries of a totally deregulated market, Creel said there is "no easy answer."

"The question presupposes that both carriers and shippers will benefit under a totally deregulated market, but that one sector may gain more than the other," he said. "I would contend, however, that total deregulation may not necessarily benefit one sector over the other, and may in fact end up benefiting neither."

Creel said large shippers will always have their ocean transportation needs met at prices with which they are generally satisfied. "I am very concerned, however, about how a totally deregulated transportation market will affect the small to medium-sized shipper."

"Antitrust immunity for ocean carriers was considerably limited and circumscribed" by the Ocean Shipping Reform Act of 1998, he added. "Essentially, conference control over service contracts has been eliminated."

Creel said that, when faced with overcapacity, carriers tend to compete aggressively in order to fill their ships, as empty slots produce no revenue. "Carriers are thus prone to bidding rates down to levels close to or below their costs," he said. "A degree of antitrust immunity allows carriers to engage in limited 'self-regulation' — through conferences or discussion agreements — to keep rates from sinking below compensatory levels, or to attempt to stabilize rates when overcapacity ceases."

Creel added, however, that "the purpose of antitrust immunity is primarily to ensure an adequate and efficient supply of ocean transportation services in a manner that best fosters the flow of ocean commerce."

Edward Emmett, president of the U.S. National Industrial Transportation League, told the London conference that the climate between ocean carriers, shippers and regulators has changed in the last five years, including since OSRA introduced deregulation in the U.S. liner shipping trades.

Five years ago, Emmett said he was "widely pilloried" by ocean carrier executives and staff of the FMC for promoting deregulation. But OSRA has been successful and carriers now say that they can work well under the law, he added.

The NIT League has not called for the complete elimination of antitrust immunity in shipping. However, Emmett said the issue has become less important. "I think carriers will find that (common) price-setting is useless to them," he said, referring to discussion agreements and conferences.

But Emmett criticized discussion agreements for continuing to announce rate increases the same way conferences did in the past, describing this behavior as out of step with OSRA and new one-to-one contracting practices. "What I don't understand is why carriers continue to create such static (by announcing joint annual rate increases)," he said. "It creates ill will."

Global contracts have grown under OSRA and now account for 48 percent of APL's service contract volume.

Prior to their merger, Maersk and Sealand participated in roughly 1,900 contracts during the 1998 contracting season, with nearly all being conference or group contracts. By 1999, contracts surged to some 3,400, with less than 10 being conference or group contracts.

Horning In. Rodriguez argued that liner companies, by having the advantage of confidentiality, are expanding their services into areas traditionally reserved for forwarders, NVOs and brokers. Under confidential contracts, ocean carriers are able to bundle services, like warehousing, forwarding, brokerage, consolidation and ocean transportation in one single confidential package.

He pointed to the foreign owned "mega-carriers" — such as Danish Maersk Sealand, NOL-APL, CP Ships and P&O Nedlloyd — have emerged over the past several years, providing point-to-point logistics and are directly competing with OTIs. These lines are all foreign-owned, yet they enjoy an extraordinary privilege — immunity from U.S. antitrust laws. At the same time, these companies enjoy all the benefits under OSRA that OTIs are unable to claim. This makes no sense to the thousands and thousands of American-owned companies that are OTIs and their customers."

APL said ontracts with NVOs have increased from 24 in 1998 to 208 in 2000. The increase was attributed in part to APL's expanded capacity in the transatlantic and Latin American trades.

No Secrets. Some carriers questioned whether confidential contracts with shippers are truly confidential.

Andrea Bolch, senior vice president for North America for Australia-New Zealand Direct Line, said it is not uncommon for the shipping line's customers to provide rate information to other carriers. "This creates a 'rate shopping' environment" to the point where rates "are levered down to the lowest common denominator. This does lean in favor of the customer since the carriers do not share rate information with each other."

"Shippers naturally attempt to shop for the best deal and may use an offer from one carrier as leverage to obtain a better offer from other carriers, said Americana Ships, which operates Lykes Lines and TMM Lines.

ANZDL, Lykes, TMM and Contship Containerlines Ltd. — all owned by CP Ships — gave OSRA a "very negative" rating and blamed the reform law for a drop in their revenues.

ANZDL, which operates in the U.S./Australia/New Zealand trade reported an a 10-percent increase in service contracts whereby 85 percent of its business is now under contract. At the same time, the carrier reported a 40-percent drop in revenue over the last two years.

Such a revenue erosion is "significant in any industry and in a capital intensive industry such as shipping could be problematic," said the Andrea Bolch, senior vice president for North America.

Contship Containerlines Ltd. reported a 30-percent drop in revenues in the U.S./Australia/New Zealand and U.S./Mediterranean under OSRA.

Americana, which operate between the United States and North Europe, the Mediterranean, both coasts of South America and the Far East, have seen revenues drop 30 to 35 percent in all trades, except the South American trades. In the latter, the carriers experienced a 10-percent increase "due to a strong market."

The carriers are able to get "some information" on contract rate levels "through market intelligence and through discussions held with other carriers under agreements," the two shipping lines said.

Maersk Sealand, Columbus Line and APL said that breach of confidentiality was not a problem for the lines.

While COSCO North America said it had "no clear breach of confidentiality," "there have been some instances where we have felt that our contract information had been shared by shippers with other lines."

APL has not solicited confidentiality measures in its contracts, but is open to them if requested by its customers. Only 4 percent of APL's contracts contain confidentiality provisions, and these have been triggered by shipper requests, APL said.

Beaches of confidentiality have not been a problem, and in the few cases where there may be a problem, APL reduces the number of participants in the negotiations.

Maersk Sealand said virtually all of its contracts contain a confidentiality clause. Shippers and carriers accept such clauses "as standard practice," the carrier said.

Alliances. The move away from conferences has expanded carriers' reliance on global alliances and space sharing agreements. The World Shipping Council said these alliances produce operating efficiencies and help contain carrier costs, while creating and expanding efficient service networks. the net result for shippers is more port calls, added capacity, more frequent service, shorter transit times and fewer transshipments.

Rodriguez agreed that forwarders, brokers and NVOs benefit from these efficiency-enhancing agreements.

"We benefit from all ... which further enables us to provide expanded transportation services to our shipper-clients," he said. Such agreements should be implemented and developed without blanket antitrust immunity.

Removing conference authority over contracting is also a positive development, Craig said. "Conferences were artificial pricing barriers in the marketplace. LTD, for one, has shed no tears over the demise of the conference system."

The NCBFAA, however, said that its members have reported problems securing space from carriers operating in space sharing agreements. The association attributed such problems to the loss of control over space chartered by carriers.

Over the long term DuPont feels that stronger carriers in operational alliances will bring improved services. But, DuPont said a "big question" is whether over time, alliances or mergers would "lead to monopolistic behavior."

NVOs, OTIs. Rodriguez used the survey to renew his complaints that NVOs are disadvantaged by OSRA, including carrier activities under discussion agreements and being left out of a major portion of the confidential contracting system. He also re-emphasized the industry's stand against ocean carriers' antitrust immunity.

Because NVOs are not permitted to enter into confidential contracts with their shipper clients and are required to maintain public tariffs at the FMC, they have been bumped from OSRA's core reforms and have been "left holding the common carrier bag," Rodriguez said.

Under OSRA, NVO's must make all shipments publicly available through electronic tariffs, while liner carriers can keep their information private under confidential contracts, he said.

The United States is the only country that restricts NVO contracting with exporters and importers, he added.

The NCBFAA continued to urge the FMC to provide guidance on whether forwarders can act as shippers in the contracting process. The current environment, "where a forwarder would sign ... a service contract only at the risk of prosecution is unreasonable and inappropriate."

The association also urged the FMC to consider eliminating tariff filing by NVOs. NCBFAA surveys show that tariff filing and enforcement carry few benefits and that 82 percent of those responding said they did not have a need to access either an ocean carrier or NVO tariff. ■

MarAd battle shifts to Congress

Bush administration's decision to transfer MSP funding to Defense could spur Congressional battle.

WASHINGTON

U.S. maritime interests and the Bush administration face a tug of war over whether to place the nation's commercial liner fleet under the Maritime Administration — its traditional home for 65 years — or with the Defense Department.

Bush's final fiscal year 2002 budget calls for transferring the Maritime Administration's Maritime Security Program to Defense, and budgeted $98 million to be spent by that department to cover the operation of 47 U.S.-flag liner vessels for the next fiscal year, beginning Oct. 1.

Secretary of Transportation Norman Y. Mineta gave no indication that he would fight to keep the program in MarAd. He said the transfer can be carried out under an executive order.

Mineta

U.S. maritime interests, including the Washington, D.C.-based American Maritime Congress, oppose moving MSP funds to Defense.

The AMC has taken the lead in major maritime issues over the years, including the formation of the current MSP, saving cargo preference shipments for U.S. flag vessels, and keeping the Jones Act on the books.

The industry also expects the solid support of Senate Majority Leader Trent Lott, R-Miss., and a host of industry backers including Sen. John Breaux, D-La. and Sen. Ted Stevens, R-Alaska.

Lott and Breaux have already informed the White House that they want to keep all current maritime programs in place and with full funding.

The transfer would not produce any savings, said AMC president Gloria Cantaeo Tosi. All day-to-day elements of the MSP deal with commercial and competitive issues, which would mean that all MarAd personnel dealing with the program would have to be transferred to DOD, she said.

The industry worked hard to come up with a cost-effective program to replace the long-standing operating-differential-subsidy program, Tosi said. Both the ODS and the MSP programs "have historically been under MarAd's banner."

The MSP "is not an easy program to administer," Tosi said. "It's not just a forum for a retainer fee for 47 vessels subject to annual (congressional) appropriations. It's a lot more than that."

John Graykowski, who served as deputy maritime administrator from 1994 to 2000, said the transfer would have to be approved by Congress.

"You just can't wave a wand and transfer the program," Graykowski said. "Congress created the MSP. Congress put the MSP program in MarAd and therefore, Congress is an essential player in either affirming or rejecting the transfer."

In the upcoming battle, "one of the first questions I think Congress will ask is 'does this (proposal) save money, does this make the program more efficient and does this make any sense,' " Graykowski said. "I think the answer to all three of those questions is 'no.' "

Jim Caponiti, MarAd's acting deputy of the Office of Inland Waterways and the Great Lakes, agreed that a transfer "would take some kind of Congressional action. They could not do it without a Congressional mandate."

But, if necessary, MarAd wants to be prepared for a smooth transition, Caponiti said. "We're in discussions with DOD" to ensure a "smooth transition" if the program is indeed moved over to DOD.

Graykowski questions whether anyone in the new administration has made an analysis to back up its transfer proposal.

Regarding the MSP, MarAd performs "a bridging function between the military and commercial maritime industry," he said. This function "is critical" to assuring DOD total access to the liner industry's global maritime network, he added.

"DOD has other priorities, other functions and other responsibilities," Graykowski said. "I think it is bad policy to merge commercial and military functions."

The transfer would separate the MSP program from the Voluntary Intermodal Sealift Program. "Rather than making the program more efficient, we would be dividing their functions," Graykowski said.

Title XI. Graykowski also challenged the Bush administration's decision to slash funding for MarAd's Title XI shipbuilding loan guarantee and shipyard modernization program.

Under the Bush proposal, funding would be cut from $34 million last year to only $4 million in fiscal year 2002. However, a carryover of $10 million is expected to be available for fiscal 2002.

"The logic behind this escapes me," Graykowski said. "The program pays for itself and actually makes money for the government."

The program performs exactly the way Congress envisioned when it updated the program in 1994, he said. Over the past seven years, MarAd wrapped up some $6 billion in projects.

Graykowski takes issue with those who attempt to characterize the program as a form of corporate welfare. "This is not a welfare program ... unless your definition of welfare is paying the government back for the money which is guaranteed and in the process you build a ship, most likely a U.S.-flag ship, which employs U.S. mariners who pay U.S. taxes, along with all the shipyard workers," he said.

"So where's the welfare?" he asked. ■

STB hears final pleas

Shippers, carriers try to get in last word before board hands down final railroad merger rules.

WASHINGTON

Barring the unexpected, North American Class 1 railroads will face tougher government-imposed standards if they choose to merge.

U.S. Surface Transportation last March placed the railroad industry under a 15-month merger moratorium while it sought to create specific requirements for future mergers.

A flurry or recent mergers frustrated shippers with service breakdowns and other problems. When a proposed merger between Canadian National and Burlington Northern Santa Fe threatened to push the industry toward only two transcontinental railroads, the STB stepped in.

The CN-BNSF merger had since been called off. Last October the STB proposed rules that clearly increase the burden on applicants to show that mergers are in the public interest. The proposed rules would require railroads to give detailed plans and assurances that a merger would not only

preserve, but actually enhance competition.

Merger applicants, for the first time, would have to pass a competition-enhancement test mandated by the government, present the STB detailed service assurance plans, and file annual reports to comply with an extensive list of the agency's proposed five-year oversight duties.

The proposed reforms have been met with opposition from the railroads. Shippers, at first somewhat critical of the agency for not going far enough, will likely be the big winners when final rules come out on June 11.

Railroads had their last chance to change the STB's mind-set during oral arguments April 5 at the agency's Washington headquarters.

However, two weeks before the STB session, board chairman Linda Morgan reassured Congress that her agency is highly unlikely to abandon the proposed rules.

"It would take quite a lot to turn the clock back on the proposed rules," Morgan said shortly after her appearance before the Senate surface transportation and merchant marine subcommittee.

Legal Authority. The Association of American Railroads challenged the STB's legal authority to broaden the public interest test by demanding that future merger applicants show that a consolidation would not only preserve, but enhance competition.

The law does not call on the STB to promote competition," said AAR attorney Samuel M. Sipe Jr. "It calls for the STB to preserve competition."

The rail industry is particularly upset with the STB's competition enhancement provisions, and warned the agency that overly stringent rules could thwart future rail mergers that would benefit shippers.

Rail consolidations can bring public benefits and it is wrong for the STB to assume that future mergers will harm the shipping public, the railroads said.

Merger applicants should not have to give up the private benefits mergers bring, Sipe said. "I don't think there should be a surcharge on a merger."

The National Industrial Transportation League, the nation's largest shippers' association, rallied behind the STB.

"The board is absolutely correct that in future merger proceedings, the public interest demands not just that specifically-identifiable anti-competitive effects of a merger be cured, but that future mergers also provide for enhanced competition," said Nicholas DiMichael, an attorney for the NIT League.

The STB's legal authority is "stated simply," that the agency can approve transactions that are "consistent with the public interest," DiMichael said. The law also allows the STB to "impose conditions governing the transaction."

"There are no limitations in the statute," DiMichael said. The statute mandates that the STB considers matters such as an adverse effect on competition, but does not limit public interest considerations.

The next Class 1 merger will quickly lead to "a nationwide rail duopoly" posing "a substantial danger of loss of competition" in a wide range of forms, including loss of competition over gateways, through the creation of new bottlenecks, and through the loss of geographic competition, he said.

The STB's action in the Norfolk Southern/CSX acquisition of Conrail shows that the agency has authority to impose competition-enhancement provisions, DiMichael said. The STB imposed a condition of trackage rights for Canadian Pacific between Albany and New York, to provide new competition.

Specifics Urged. The NIT League and other shipper groups have urged the STB to write specifics in the new rules that would tell applicants what they must do to meet the competition-enhancement threshold.

The STB must clarify that enhanced competition includes "enhanced intramodal competition" or head-to-head rail competition, DiMichael said.

He said the STB must also give specific examples of enhanced competition "so that a merger application can be directly measured against specific expectations that are stated in the rules."

On preserving existing gateways, the STB must make it clear this means both physically and economically, "since gateways can be closed by rate actions or charges as well as by canceling interchanges," he said.

Finally the STB should specify how a shipper is to pursue timely and inexpensive rate relief in the event a railroad's action adversely affects the viability of the gateway, DiMichael said.

"There are very few additional mergers even mathematically possible," he said. "And the next major merger could well trigger another one close by, so that the board may in reality have to adjudicate two almost simultaneously."

The rules on service assurance plans also need strengthening, DiMichael said. Carriers should be required to specify a base service level against which service deterioration would be measured. The railroads should be required to compensate shippers if service levels degrade from those prior to the merger.

Service assurance plans must also contain quick and fair mechanisms for obtaining compensation when disputes occur, DiMichael said. "Mandatory, expedited arbitration should be the norm."

In case of a service failure, service assurance plans should be required to allow access to a shipper's plant by another carrier willing to provide service during the term of the service failure, DiMichael said.

Consumers United for Rail Equity, a group composed of chemical shippers, urged the STB to take a stronger stand in its final rules.

"We like where you're going, but we would like you to be more bold," said Bob Szabo, who spoke for the consumers group.

"So far this (railroad) industry has been a one-way industry. It can consolidate, but it cannot grow," Szabo said.

The rail industry urged the STB to refrain from making presumptions either for or against mergers. "Each merger should be judged, and stand or fall, on its own merits," said CSX attorney Peter J. Schudtz.

Large mergers, especially those giving shippers new single line services through extended hauls, benefit shippers and the public interest, Schudtz said. "Such mergers, properly structured and conditioned, should be approved by the board."

Mergers that decrease competition should not be approved, he said. However, the STB should not condition mergers on the grant of "forced competitive access" that is not related to the remedy of competitive harms.

"Neither should the board make mergers the occasion for a reregulation of the rail industry, successfully deregulated by the Staggers Act of two decades ago," he said.

CSX also warned against the STB becoming a "claims bureau" and subjecting carriers who suffer economic losses as a result of implementation difficulties "to a system of penalties."

Alliances. Burlington Northern Santa Fe attorney Richard E. Weicher cautioned the STB against presuming that benefits can be gained through alliances or joint ventures, rather than mergers.

Alliances and joint ventures are "useful" but do not bring the same benefits, such as long-term investments, as mergers, Weicher said. "Alliances come and go."

Railroad representatives urged the STB to set a "model time frame" of about one year to decide future mergers. "A model schedule would send an important message to investors, shippers, and shareholders," Weicher said.

Canadian National Railway attorney Paul A. Cunningham said the proposed rules would stand in the way of transnational mergers, and would violated terms of the North American Free Trade Agreement, by requiring applicants to file corporate control rules. Such filings suggest a prejudice against non-U.S. entities, he said. ■

Import industry sets tone for ERP

"Unprecedented" white paper delivered to U.S. Customs by 17 industry groups.

By Chris Gillis

When U.S. Customs' Deputy Commissioner Sam Banks told a group of industry executives two years ago in Washington that the only way they'll make a big change to the agency's import practices is to form a unified front, many in the room thought to themselves "good luck."

Since then, however, the industry's drive to modernize the Customs import entry process has pulled together a large, somewhat unlikely mix of reformers. Last month, a trade coalition of 17 industry groups, representing a gamut of industry sectors such as apparel, electronics, automobiles, sureties, air couriers and attorneys, submitted a white paper to Customs outlining their objectives on how to modernize the country's management of imports.

"This is an unprecedented accomplishment for the U.S. trading industry on the U.S. Customs entry reform initiative," said James P. Finnegan, director of international trade and compliance for Sony Electronics and chairman of the Business Alliance for Customs Modernization, a member of the coalition.

BACM, which represents 25 of the country's largest importers, was one of the founding members of the reform effort. Others, such as the Joint Industry Group, National Customs Brokers and Forwarders Association of America and the American Association of Exporters and Importers, also threw major weight behind the movement.

"It was a unified effort by the trade to identify and resolve issues," said Arthur L. Litman, vice president of regulatory affairs for Tower Group International in Redondo Beach, Calif. "We were able to coalesce the various trade interests to deal in a better way with Customs."

The coalition's formation is rooted in the industry's frustration during the past several years of the government's failure to fully implement the 1993 Customs Modernization Act. In addition, import entries were on the rise, increasing from about 9.4 million annually 10 years ago to 23 million in 1999. The agency expects to process more than 30 million entries a year by 2006.

Customs opened the door to change in December 1999, when it proposed the Entry Revision Project to the industry. ERP was widely reviewed and commented upon, leading to three rewrites of the proposal by the agency.

At the Customs Trade Symposium in Washington last November, the agency

James P. Finnegan
director of international trade and compliance, Sony Electronics, chairman, Business Alliance for Customs Modernization

"I believe the trade industry document is a reasonable and practical framing of the general principles for Customs entry reform, and serves as an excellent departure point for the next step of the process — the detailed work of developing functional specifications that will be used for ACE system design."

emphasized to the industry the need to modernize the import entry process before it started building its new computer system, the Automated Commercial Environment, this summer. Three two-day ERP meetings were subsequently scheduled from January to March.

With concern that Customs' plan wouldn't go far enough, 17 industry groups involved in the ERP process decided to develop a unified position, while realizing they still have some individual Customs issues to pursue for their constituents.

Hard Work. Taking on the Customs-related issues and concerns of 17 industry groups and melding them into a consensus-based white paper was no easy task. The drafting team consisted of Richard Abbey of the Joint Industry Group, Richard Belanger for BACM, Harvey Isaacs of the NCBFAA, and John Simpson from AAEI.

"It wasn't tough in the sense of disparate views," said Belanger, an attorney with the Washington law office of Powell Goldstein Frazer & Murphy. "There was a lot of intense work getting into the details and the position and perspectives of individual companies and trade groups. It took time."

The white paper covers six key aspects of the import entry process, which need reform:

• Cargo release and entry tracks. The industry wants "minimal data at release" for all importers on formal entries. To support this aspect, a Treasury study on the necessary data elements to clear imports will be submitted to Congress in May.

• Importer Activity Summary Statement. The industry supports the filing of the IASS 20 days after the end of the reference month (or 10 days proposed by the Census Bureau). A test of the IASS is already planned for land-border shipments.

• Post release and revisions. The industry supports "modernized" versions of Customs' post entry amendment and reconciliation programs to "revise" entry data. Customs has been asked to support an amendment to its rules that allow for a period of not more than 21 months from the beginning of the importer's fiscal year to file reconciliation entries.

• Money payment. The industry has asked Customs to support several payment approaches to settle duties, taxes and fees on imports. The three options are the current 10-day payment period, payment against a daily statement, and a system using periodic estimated payments of duties, taxes and fees.

• Protests. The industry favors the ability to protest entries before final liquidation to recover any overpayment of duties.

• Drawback. With the IASS in place and modernization of the current law, drawback claims should be easier to file with Customs.

Many executives believe the coalition's white paper is a well-rounded approach to import process reform.

Even duty drawback, an area of the import transaction that was left out of the original ERP proposal by Customs, was included in the coalition's white paper. Drawback is a refund of duties on imported materials, which are either exported or used in the manufacture of exports.

Van Ek

"Drawback is an integral part of the business today," said Edwin W. Van Ek, president of Oradell, N.J.-based drawback specialists C.J. Holt & Co., and chairman of AAEI's drawback committee. "If you're going to revise the entry process, you must consider drawback to make sure the two are compatible."

"I believe the trade industry document is a reasonable and practical framing of the general principles for Customs entry reform, and serves as an excellent departure point for the next step of the process — the detailed work of developing functional specifications that will be used for ACE system design," Finnegan said.

Devilish Details. On April 11, a delegation from the trade coalition met with Customs officials in Washington to review the details of the white paper.

Trade coalition for import entry reform

American Association of Exporters and Importers
American Apparel & Footwear Association
Alliance of Automobile Manufacturers
American Bar Association — Customs Committee
Air Courier Conference of America
American Electronics Association
Association of International Automobile Manufacturers
American Surety Association
Business Alliance for Customs Modernization
Global Electronic Trade Alliance
Joint Industry Group
National Association of Foreign Trade Zones
National Customs Brokers and Forwarders Association of America
National Council for International Trade Development
National Retail Federation
U.S. Apparel Importers Council
USA-ITA

Jon Kent
Washington representative, NCBFA

"I thought the meeting went pretty well. No commitments or conclusions were reached, but I think we're real close."

"I thought the meeting went pretty well," said Jon Kent, Washington representative for the National Customs Brokers and Forwarders Association of America, and a member of the trade coalition. "No commitments or conclusions were reached, but I think we're real close."

"Our reaction is a positive one," said John Durant, director of commercial rulings for Customs and team leader for ERP. "Everyone understands where each side (Customs and industry) is coming from."

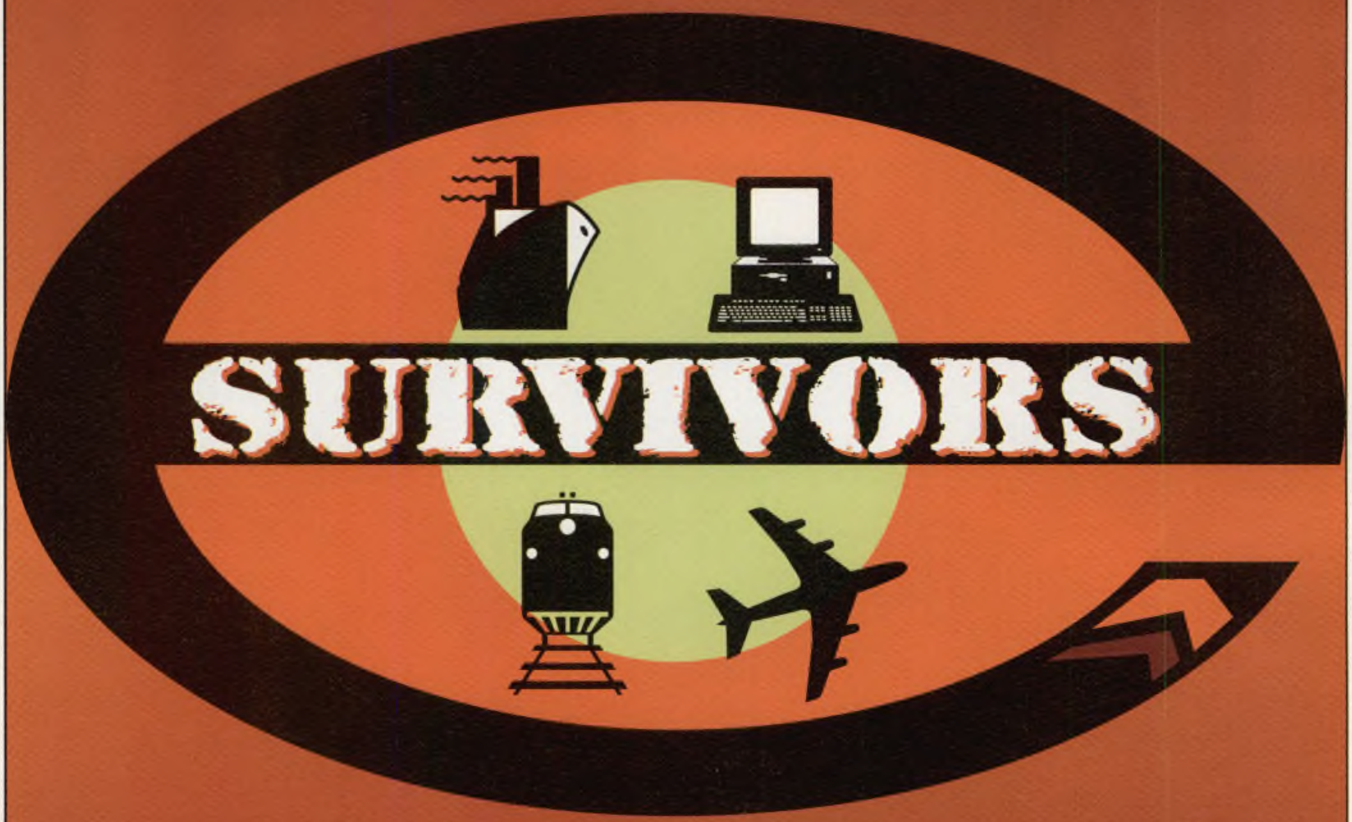
But Durant said the white paper was "less visionary" than he had initially anticipated from the industry. "What the trade has done here was embrace the current import entry process with some modifications," he said.

With the development of a more flexible computer system, the agency believes that further changes to the import process will be easier to make in the future.

Meanwhile, Customs will review the white paper carefully and provide its own feedback before the end of May. "At this point, the devil's in the details," Durant said.

For Banks, now a senior executive with Internet technology firm Arzoon, the work so far between the industry and Customs to reform the import entry process is more than even he had expected.

"It's a monumental accomplishment," Banks said. "I'm proud that the trade groups could come to a consensus and that Customs is seriously listening with an open mind. I'm more hopeful than I've ever been." ■



SURVIVORS

Providers of transportation, warehousing and supply chain Internet software and exchanges are preparing for shake-up.

BY PHILIP DAMAS

With the honeymoon between the stock market and Internet-based technology firms now over, the knives are coming out as the investors' checkbooks are being put away.

The complete change of climate and the pressure to perform are, as in other technology sectors, affecting the logistics and transportation software companies and electronic marketplaces.

The question now is whether these companies have attracted real Web-based customers and are generating sustainable revenues — expectations that are putting particular pressure on the Internet start-ups.

Even i2 Technologies, the well-established supply chain planning software giant, issued a profit warning in early April, saying that its earnings per share would halve from 4 cents in the first quarter of 2000 to 2 cents in this year's first quarter.

For the year 2000, i2 reported an annual net deficit of \$1.8 billion on revenues of \$1.1 billion. The deficit included a one-off amortization charge of \$1.8 billion.

Manugistics, another large supply chain planning software firm, posted a loss of \$28.1 million on revenues of \$268 million for its fiscal year ended Feb. 28.

If these large, well-established e-commerce supply chain companies are losing money, life must be even tougher for the new dot-com start-ups, many of which do not publish their results.

In the area of online import/export facilitation applications, the software firm Vastera Inc. posted a deficit of \$71.7 million applicable to common stockholders for calendar 2000, on annual revenues of \$33 million. Vastera provides e-commerce landed-cost calculation and trade compliance systems. NextLinx, a competitor of Vastera founded in 1994, has secured many contracts from big names, but its financial results are unknown. Descartes Systems, the Canadian Internet-based transportation management software firm founded in the early 1980s, is also losing money, with a deficit of \$31.6 million on revenues of \$66.6 million for the fiscal year ended Jan. 31.

"Whoever has the funding can survive," said Robin Roberts, research analyst with the financial group Stephens Inc. But this cannot last in the long term, unless the company has the management, skills and marketing to make the company succeed, she warned.

"You need a group of people who understand logistics processes," she said, commenting on supply chain e-commerce software firms.

Roberts said that a lot of transportation and logistics exchanges have closed down, because they lacked liquidity. Those e-marketplace start-ups that have survived have become software providers, she added.

And larger, well-known supply chain e-commerce companies like i2 and Manugistics have a marketing advantage that smaller players try to capitalize on.

"For a start-up, it's really good if you have a relationship with i2 or Manugistics," she said.

NTE, the large U.S.-based trucking e-marketplace, announced last November an agreement to provide execution services to FreightMatrix, the logistics e-marketplace owned by i2. NTE's transportation services will be available to the public and private e-marketplaces powered by FreightMatrix.

Among the supply chain software firms, Roberts believes that G-Log (founded in 1999) and Capstan Systems (started in 1998) have good survival potential.

G-Log, which had initial equity investments from FedEx Corp., provides systems to manage the movement of freight as a single integrated process across the global supply chain.

Capstan Systems provides online landed cost calculation tools, trade compliance and other logistics software.

"The whole e-commerce logistics area has been so much of a roller-coaster," said Larry Sur, chief executive officer of IOLogistics.

"To have a viable product, you need to have a real feel for customers, for the real transportation network itself," he added. For example, arrangements concerning

Gordon Forsyth

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Outwit. Outplay ... Watch your back.

The weaker players have been weeded out. The remaining competitors are hungry. A cutthroat environment is taking its toll on everyone.

This isn't the "reality" television program *Survivor.* It is the logistics software market.

No complete solution for global logistics management yet exists, so creating a winning team is critical for the remaining players. Acquisitions, partnerships and alliances are coming fast and furiously.

It's hard to say who will win. It's easier, at this point, to pick losers. Two things can be said with relative surety. There will be more than one winner. And there will be much more than one loser.

The game in 2001 is being played at a slow pace compared to last year. The flurry of activity that ushered in the year of the dot-com in 2000 has given way to the slow methodical plodding of corporate America in a stalling economy.

The good news is that spending on logistics technology, which can be categorized as a cost-cutting effort, has remained steady. Judging from industry reports and recent contract announcements, sales are being made and should continue throughout the year.

Manugistics Inc., down and almost out in the logistics software space just three years ago, is a case in point. Revenue at the Maryland-based software developer more than doubled to $89.3 million in the three months ending Feb. 28 this year — the company's fourth fiscal quarter. For the fiscal year, sales rose 76 percent to $268 million. Net income equaled $8 million for the year, as software license fees grew 131 percent.

"Manugistics' numbers, as well as recent results from its competitors like Descartes and Vastera, prove that it is possible to sell software in a stormy economy," analysts from technology consulting firm AMR Research told clients in a report recently. "The key is to sell products that can ease the pain of such economic times, and not some hyped vision. From this foundation, companies can then expand into more untested areas of e-business."

The bad news for most dot-coms is that logistics software spending appears to be gravitating toward established players with proven track records and existing customer bases. After all the fuss, the establishment appears to be sticking with the establishment — that is to say *Fortune* 500 shippers are giving their business to the Big Five consulting firms and to enterprise software vendors.

Gold does sit at the end of the rainbow for those start-ups that are able to ride out the next few quarters, but it won't be easy. Venture capitalists are sitting on millions of idle dollars. There's just no time for due diligence.

"I am only doing triage and euthanasia right now," one VC told a logistics technology start-up based in Seattle.

It's going to be a long summer for many companies. Some have already tossed in the towel, while rumors spread about layoffs and office closings elsewhere. A recent report from consultants in San Francisco predicts that up to 80 percent of the technology firms based in the Bay area will close in the coming months.

We may never know how much of the technology born of the dot-com revolution would have worked had it actually been implemented. Just as overblown promises accompanied Internet development on the way up, worthy technologies will perish as the market overreacts on the way down.

It's difficult to find moderate sentiment when it comes to e-commerce these days. Depending on whom you talk to, Internet technology offers no value at all, or it is an unprecedented force for change.

Which side is right? Neither and both.

A more important question for transportation concerns is will the Internet live up to its initial promise to bring equality of information to companies of all sizes? Right now, the online logistics software party looks like an invitation only affair.

Gordon Forsyth heads sales and marketing for ComPair Data Inc., a business partner of American Shipper *that provides electronic logistics information and intelligence services to shippers, forwarders, non-vessel-operating common carriers, ports and software providers. A former deputy editor for* American Shipper, *covering air cargo and electronic commerce, Forsyth contribues columns periodically for the magazine.*

trailer interchange and pre-loaded trailers must be made from the outset.

Shake-up. There are no industry statistics on how many logistics dot-coms have closed down since the heydays of a year ago. But consolidation has started — a trend that may now accelerate.

In March, the supply chain software developer Arzoon, founded in 1999, announced the takeover of From2, a small landed-cost, trade compliance software and freight exchange firm also incorporated in 1999. Also in March, i2 acquired RightWorks, the San Jose, Calif.-based e-procurement dot-com founded in 1996. Last year, Logistics.com took over QuoteShip.com. And Descartes has acquired the ocean transportation software company E-Transport and other e-logistics companies.

Arzoon has made headlines in the press by attracting $34 million in funding from big name investors such as Canadian Pacific, CSX Transportation, Norfolk Southern and Union Pacific.

The supply chain management software business remains fragmented, with different firms specializing in transportation management, warehouse management, supply chain execution or supply chain planning.

Because many vertical e-marketplaces across all sectors of industry aren't doing well, there are fears that the logistics e-commerce software firms and exchanges that serve them are exposed to risks of bad debts.

Start-ups vs. Establishment. "From a marketing standpoint, start-ups have a disadvantage," said Roland Ziebell, head of e-commerce at Danzas-AEI, the global forwarding and logistics group.

But he said that i2 and Manugistics, although well established, have supply chain management systems that are "too complicated."

"It's going to take a while for companies to implement these complete systems," he said. "Descartes is much more focused."

Meanwhile, the start-ups are trying to differentiate themselves from their larger competitors and attract revenues and customers.

"I don't know what's going to happen to smaller providers like Arzoon," Ziebell added.

One avenue to achieve critical mass, for a logistics dot-com, is to garner wide industry backing among large transportation or logistics players.

"I think companies like Tradiant or Global Freight Exchange (GF-X) founded their business as a strong industry initiative," Ziebell said. "They will survive."

Tradiant, now renamed GT Nexus, is a new multicarrier container shipping portal that has signed many ocean carriers as members. Crowley Liner Services, Compania Sud Americana de Vapores, Wan Hai, APL, CP Ships, Hanjin, Hyundai, "K" Line, Mitsui O.S.K. Lines, Senator Lines, Yangming and Zim Israel Navigation Co. have joined the portal.

Larry Sur
CEO, IOLogistics

"To have a viable product, you need to have a real feel for customers, for the real transportation network itself."

A spokesman for GT Nexus said it would be "collectively providing access to over a quarter of the global ocean container market through GT Nexus." Ocean carriers have a minority equity stake in GT Nexus.

GT Nexus also said that ITOCHU Express, the American subsidiary of the big Japanese trading house Itochu, is starting a pilot program to adopt the planning services of the Internet container shipping portal.

In the air-freight sector, GF-X, founded in 1998, has also attracted major industry players. The company's aim is to enable electronic transactions between carriers and forwarders.

To date, GF-X has raised $85 million in funding, making the company one of the best-funded business-to-business exchanges. Equity stakes have been taken by American Airlines, British Airways, Deutsche Post World Net, Lufthansa Commercial Holding, Panalpina World Transport (Holdings) and SAirLogistics.

GF-X, like GT Nexus, has sought to build an online system without adopting the spot-market, price-based auction model that has been criticized by carriers.

And GF-X works only on the wholesale market — carriers and forwarders.

The company said it offers "product differentiation and decommoditization through allowing carriers to market all kinds of flight-based and time-definite products, not a simplistic flight-based model."

The air freight dot-com also said that it provides full integration with carriers and forwarders, not "simulated integration using e-mail."

In the trucking sector, Transplace.com incorporates the former activities of six of the largest publicly held truckload carriers in the U.S.: Covenant Transport, J.B. Hunt Transport Services, M.S. Carriers, Swift Transportation Co., U.S. Xpress Enterprises and Werner Enterprises.

Critical Factors. "The critical thing seems to be getting the first Web customer signed up," said Richard Armstrong, president of logistics consultants Armstrong & Associates.

Armstrong said that all the major established warehouse software groups are "migrating to the Web." Among the major players, Armstrong cited major software houses Irista Inc., a subsidiary of HK Systems; Provia Software Inc.; and Manhattan Associates.

"The field is dominated by the people who have existing software customers," he said. "It's analogous to the click-and-mortar companies being better than the e-tailers."

The established software companies may be better at providing Web services than people "doing this from scratch," he suggested.

"Manugistics has been very successful," Armstrong said. "Manugistics seems to dominate the space that is 'capability-to-promise' and advance planning."

"i2 has TradeMatrix out there," he added, another system designed to enable companies to promise product availability. Commenting on FreightMatrix, the logistics e-marketplace owned by i2, Armstrong said that it appears to have no customer, to date.

But there are new entrants like Arzoon, Armstrong said. He said that Arzoon will provide "a true application to take care of the domestic and international applications."

Relationships. To attract industry users and revenues, there is a growing recognition in the transportation industry that e-commerce must recognize, rather than replace, customer/service provider relationships.

This particular aspect for logistics dot-coms has a lot more to do with continuity in business than with Internet technology revolution.

Last year, Jeff Crowe, chairman, president and CEO of Landstar System, said that core values and relationships will drive the successful e-commerce Web sites. Simple exchanges and "post it" sites will not be the transportation markets of the future, he added.

"I believe the vast majority of transportation spending in the U.S. is negotiated by service contracts and that will not change," Crowe said.

Relationships are particularly important for forwarders and other intermediaries.

Some of them fear that the Internet — including carrier-controlled e-marketplaces — could disintermediate them by removing their role between shippers and carriers.

However, in their annual *State of Logistics* report, the two logistics companies Cass and ProLogis said that "it is still about relationships." The report cited Transplace.com, eFr8.com and Freightdesk.com as three viable exchanges "that add value and improve relationships without intrusion."

eFr8.com was developed by a subsidiary of Landstar System. Freightdesk.com was launched last year by Rob Quartel, the former U.S. Federal Maritime Commissioner, to enable forwarders and brokers to lower their costs and strengthen their customer relationships.

Armstrong said that the OptiBid online trucking procurement tool of trucking marketplace Logistics.com "is based on an old paradigm."

"I think that there are a lot of carriers that have an immediate reaction against OptiBid," he added.

Armstrong noted three main dot-coms that are "online 3PL managers:" FreightQuote, established in 1998; freightPro.com, launched in 1999; and Transportation.com, which commenced trading in June 2000. All three trucking-based transportation 3PLs are based in or near Lenexa, Kan. He suggested that it is taking a long time for those companies to generate significant customer activity.

Richard Armstrong
president,
Armstrong & Associates

"The field is dominated by the people who have existing software customers. It's analogous to the click-and-mortar companies being better than the e-tailers."

But Transplace.com, with its backing of large truckload carriers, appears to have "a substantial business," he said, partly because it has been able to move existing business to the Internet.

Sur, at IOLogistics, said that transportation dot-coms "had better have something more than just an exchange."

Few people in the industry seem to be shedding tears about the demise of some the dot-coms. After their hyperbolic promises to revolutionize transportation and logistics, the dot-coms aren't getting much sympathy from some of the old hands in the industry.

Yet, industry forecasts predict an increase in demand for online supply chain software.

Sur said he remains enthusiastic about e-business in logistics. "E-commerce, by itself, is wonderful."

"I think that there are some companies out there that are putting freight management systems that are good," he added.

But those systems "are not perfect," he said. "It's like Swiss cheese — they all have holes."

The logistics and transportation dot-coms that survive are likely to have a better understanding of the real business world, the need for relationships, and the profit requirements of institutional investors.

After the Internet revolution and the struggle for survival of the fittest, the dot-coms are turning to the old-economy principles. ■

Collaboration for the cautious

How software company Nistevo protects proprietary data within collaborative networks.

BY ROBERT MOTTLEY

As shippers and carriers scramble for new ways to operate more efficiently, they often find themselves at opposite ends of the same rope. In this tug of war, for one side to gain leverage, the other must lose it.

"Shippers are under continuous pressure to increase logistics performance while reducing costs," said Kevin Lynch, chairman and chief executive officer of Nistevo Corp., based in Eden Prairie, Minn., a collaborative software company presently targeting truck carriers.

"They move smaller quantities of product more often, which may mean filling half a truck twice a week rather than a full truck once a week, in order to meet shorter customer lead times."

Similarly, "the supply chain buffers that once protected shippers against shortages have shrunk as volumes of inventory grow smaller. Mistakes that were once covered by excess inventory now appear as expedited logistics costs," Lynch said.

Motor carriers have woes also, he said. Margins are down to an average of 4.8 percent. Driver turnover hovers at 103 percent. The cost of a gallon of diesel fuel has risen 73 percent over the last 18 months.

One troubling factor for both camps is that neither can get a handle on hidden costs, such as the expense of asset repositioning.

"How is it possible to reduce costs that are hidden?" asked Lynch. "The answer lies in collaborative logistics."

Just schmoozing around, sizing up the competition, does not constitute collaboration. As Dr. C. John Langley, a professor at the University of Tennessee, said in a recent paper, "a marketplace itself is not synonymous with collaborative logistics, which occurs only when a community of shippers and carriers coordinate business activities using an Internet service to improve profitability and performance."

Lynch and Nistevo have been in the curl of this new wave for several years. "The key to unlocking what I call breakthrough efficiencies lies in leveraging the Internet to its full capacity," he said.

Early Web-based logistics solutions replicated older systems without creating new processes that would really spin heads. And, as many dot-coms have learned to their grief, a spangle of electronic commerce bells-and-whistles did not guarantee a return on investment.

"When I founded Nistevo in 1997, I was looking at logistics service assets. I came from a high technology and financial services background, not from supply chain management," Lynch said.

"I really believed in the concept of supply chain velocity. I bought it lock, stock, and barrel — the notion that we were going to be moving small quantities of product more often."

Lynch started his company with the idea of building software "which recognized that, at some point, packages were going to get smaller and move faster, so that more of a company's product would be moving more often."

"I felt there would come a point in time when companies would have to move their products together in order to get efficient asset utilization out of logistic service assets."

Kevin Lynch
chairman & CEO, Nistevo Corp.

Utilizing Assets. Prior to his involvement with Nistevo, Lynch had been president and co-founder of Allaire Corp., a provider of e-commerce platforms. Before that, he worked as an options trader with the Chicago Board Options Exchange.

"I felt there would come a point in time when companies would have to move their products together in order to get efficient asset utilization out of logistic service assets," Lynch said.

"We went after our first couple of customers, Monsanto and C.H. Robinson, with that concept in mind. They helped us to shape it, and were a great training ground for us," he said.

"Monsanto especially taught us that the difference between expedited and scheduled movements was something that dramatically affected pricing" — scheduled shipments being much less expensive.

Within three years, Nistevo had beta-tested and introduced a software system called Network Builder, just before collaborative logistics became a cliché de jour.

"That was inadvertent good timing," Lynch laughed. "While we believe that our model can be expanded to other modes of transportation, our collaborative network is currently focused on truckloads.

"Let me explain that. If you go into a large, multinational company and tell them that you can do all modes and all geographies — a very common pitch these days, from providers who can't possibly support it — the company you're courting usually says, 'I like your system, let's start implementing it on Thursday.' Then the provider has to backpedal and say, 'our ocean mode isn't quite ready yet.'

"Trucking is the only unscheduled mode now left in the U.S. Our concept is to go after assets that are unscheduled, and create collaborative schedules among multiple companies to create efficiency," Lynch said.

"That's why the only opportunity we see for us right now is trucking. You'll see us moving our collaborative model into packaging and warehousing, even into what some folks are calling collaborative yard management.

"Once you start collaborating, some very interesting logistics stratagems come to

mind — the models almost suggest themselves," he said.

Concerns About Privacy. Lynch conceded that there was a lot of resistance "in the trenches" to collaborating. One putative user told him it was hard to adjust to the concept of sharing anything with anyone, outside your own doors.

That was honest talk. "In order to get anyone in logistics to think about this process, you have to show them the value," Lynch said.

"Your model for a collaborative network has to be executable within the culture of the client company. I sense a lot of parties that are intuitively interested in collaboration, even if they are not quite there yet as a business rationale," he said.

"A collaborative network must not disturb current relationships, and must not sacrifice privacy," he said.

Nistevo's Network Builder takes a trucking company's top 100 trade lanes and runs a model to determine who else in the market might be a suitable partner in a collaborative tour.

Often the management's CEO will say, "I need someone whose supply chain runs at the same speed, whom I already know well and can trust as a partner."

Privacy in a collaborative network is at least as much of a worry as the identity of possible players.

"When we ask for certain data, people may balk, saying, 'oh, no, you don't get that. I know who's in your network. The last thing I want is to give my trade lane information, along with my rates, to my competitors. Carriers worry more than shippers, because there are Federal Trade Commission implications to any perceived collusion," Lynch said.

"We've formed what we call a 'black box' process to deal with those very legitimate concerns," Lynch said.

Logistics Summit. Within Nistevo, there's a network development group which ensures that any proprietary data in the model is kept private, functioning as a firewall within a firewall.

"We're embedding that process in our technology as well, so that one client can't hack into the system to find the particulars of another," he said.

"Our network development people alone run the model. When they create a report for a prospective client, the report has all of the other partner names blanked out, until the client signs. Once you sign up, you can see who your best partners would be, but you can't see their rate information, or their savings data that could be used to compute their rates, nor any lane freight balance information," Lynch said.

"We have to obtain that data in order to run the Network Builder model."

"Once you know who makes the best fit, you sit down to discuss mutual business," he explained, noting that Nistevo is not invited to that parley, nor would it want to be.

"We structure those meetings as kind of a logistics summit. We bring together our network of clients, give them all the results of Network Builder, and then let them go to breakout rooms where we've give them guidelines to discuss collaboration: 'hey, guys, you can't talk about your rates.' All you can talk about is how you can trade trucks back and forth.' To that end, Nistevo has hired a former FTC attorney for on-site counsel.

"A collaborative network must not disturb current relationships, and must not sacrifice privacy."

"Our first customers were very concerned about even transmitting loads over the Internet early on," Lynch said. "Now, obviously, everybody's O.K. with that, but they are more cautious about the idea of one central place on the Internet where all of this execution is happening."

Nistevo spent "more than $3 million in hardware and software, plus tens of millions of development dollars, to make sure our model comprises strict guidelines of privacy," he said.

"We've also done some soul-searching about what we are in business to do. We've determined that we don't want to be one of our customers. We want to sell software to them, but we don't want to become a third-party logistics provider for them," he said.

"Carriers were very skeptical at first, because of other dot-com companies that had preceded us."

Working Tour. Nistevo shows possible customers "the ways they can restructure their partner arrangements, so that two buyers of transportation who are balanced in a freight lane can go to a single carrier and negotiate a collaborative tour, independently. They negotiate their rates separately, but they do it in a way that we've modeled that allows them to capture savings," he said.

"You have to set your pricing model so your network community participants know you are not trying to leverage them every chance you get. In our network, each player brings distinct value," he said.

Lynch tells customers who have agreed to a trial collaborative tour to "think outside of your walls. We're going to take your top 100 trade lanes and match them up with other players. We'll start you with one collaborative tour, and execute that with one other player, so you'll have a sense of walking before you run.

"We'll put Nistevo in, install it — you'll get real-time contract management and freight tendering benefits, and then extend it to this one tour. We'll pick the load of freight that can go on the tour and the delivery time windows," he explained.

"We'll measure the savings, and report them on our management dashboard, on whatever frequency you like. After you've run one tour, if you don't like what you see, you can have still the benefits of e-logistics," Lynch said.

"That will more than pay for the approximate $500,000 it costs to install Nistevo's software within your company. We've had customers that saved $750,000 on one tour alone, and are now running 30 of them.

"So, if you can take your freight and move more of it to these road trains, or collaborative tours, you've effectively created a new mode-switch opportunity within your logistics supply chain that didn't exist before," Lynch said

"And if you don't like it, it runs like your old system and you gain 2 or 3 percent savings based on the fact that you have less contract leakage and better execution."

Nistevo doesn't charge transaction fees. "You pay, up front, based on the number of locations in your network — the number of places you go to and from — where we're managing freight. Our model is a fixed-cost one, and you know exactly how much your expenses are going to be," he said.

The one-time fee for installation "is typically in the same range as your subscription," Lynch added. The actual process of installation takes approximately 150 days.

Looking Ahead. When will Nistevo's collaborative models be expanded to include rail and ocean transport? "Only when we're ready," Lynch said. "We're researching the current cargo-sharing plans of several ocean carriers."

"Our idea, basically, is that dedicated capacity transfers the asset utilization risk from the carrier over to the shipper. We're doing that now in trucking. That's the essence of our model," he said.

"Carriers love it, because their margin goes up. Shippers like it because the price of transporting their goods effectively comes down. I don't doubt we can achieve those synergies in other modes." ■

EGL wins MTMC logistics contract

Houston-based firm will manage military cargo transport in U.S. Southeast.

By Chris Gillis

U.S. military transportation strategists already believe that commercial logistics firms could do a better job at managing defense cargo movements, but they want proof.

To do that, the Military Traffic Management Command, the surface transportation logistics unit of the armed forces, has awarded a one-year contract to Eagle Global Logistics to manage its freight transportation in the U.S. Southeast.

"With emphasis on customer service at the lowest overall cost, it was determined to test the use of a third-party logistics provider for the movement of domestic freight shipments," said Frank Galluzzo, director of MTMC's Distribution Analysis Center, based in Alexandria, Va.

MTMC began exploring the use of a third-party logistics provider for domestic shipments two years ago. Since the military has traditionally controlled its own freight moves, it took time for the agency to prepare its proposed commercial logistics contract. Numerous meetings were held with the industry for feedback and advice.

The contract solicitation to the industry was released last August. A dozen firms bid for the $33 million contract. From late October to March, MTMC's contracting officers studied each bid.

"It was extremely competitive," Galluzzo said. "The award was made on a best-value basis — considering price and trade off of quality of services."

The contract will run from July 1 to June 30, 2002, with two one-year renewal options.

"It's a big deal for Eagle," said Michael Reusche, director of government sales for Eagle Global Logistics, which is based in Houston. "We're enthusiastic about being on the ground floor of this contract."

EGL is a 16-year-old, $1.8-billion non-asset-based international logistics firm, with nearly 400 offices in 100 countries. In the U.S. domestic transportation market, the company contracts for over-the-road transport with both small owner/operators and large national carriers. Last year, the company built up its international logistics services by acquiring Circle International.

"We believe that all around this will be a healthy test. There's a lot riding on this test in terms of the future of military cargo transportation."

Frank Galluzzo
director of Distribution Analysis Center, Military Traffic Management Command

Demanding Contract. MTMC officials warn that this will be a demanding contract. The test region covers 28 military installations scattered throughout Georgia, Florida and Alabama. The contract includes Army, Air Force, Navy and Marine Corps bases. It also includes four Defense Logistics Agency depots. Together, these installations move about 50,000 shipments a year.

EGL will manage the movement of a wide range of military goods, such as boots, medical devices, ship and plane parts and vehicles. The initial contract excludes EGL from handling explosives, liquid bulk and classified materials. But there's no reason why the logistics firm may not handle these types of goods in the future, Galluzzo said.

The logistics firm will have to arrange for the movement of both truck and rail shipments. Freight payments to carriers must be made through an Internet-based system developed by Minneapolis-based USBank, called PowerTrack.

Another demand will be placed on EGL's information system. "We may be buying everyday transportation services, but we also want EGL's information technology to provide us with visibility of our shipments," Galluzzo said.

EGL believes it's transportation network, large staff, and information systems are up to the task. "We're a communications company that moves freight," Reusche said.

The logistics company has set up its operations to cater to industry groups. EGL's military and government marketing group supports the development and management of transportation and logistics programs for military and civilian agencies of the government and businesses that provide products to the military and government.

During the next several months, MTMC and EGL officials will hold meetings to get the contract in place and minimize disruptions during the startup. "We believe that anything less than face-to-face meetings will result in shortfalls with this contract," Galluzzo said.

Once the contract is operational, MTMC will monitor its performance both quantitatively, such as on-time delivery and loss or damages to freight, and qualitatively, such as EGL's customer service and response to everyday shipping problems.

"We believe that all around this will be a healthy test," Galluzzo said. "There's a lot riding on this test in terms of the future of military cargo transportation."

If the test proves successful, MTMC may consider developing similar logistics contracts for its other domestic regions or overseas locations.

"We are confident that our complete

Maj. Gen. Kenneth Privratsky
commander, MTMC

supply chain capabilities, our emphasis on customer service and our in-transit product visibility will reinforce the MTMC's decision to outsource the movement of their domestic freight shipments," said Joe Bento, president and chief marketing officer for EGL.

Modernization. MTMC has dabbled in some third-party logistics contracting in the past but mostly for specialized pieces of transport or freight.

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

The third-party logistics contract with EGL is based on the work of the Distribution Analysis Center. MTMC set up the operation two years ago to analyze Defense Department cargo traffic and shipment profiles. Then it recommends ways to improve service and lower the military's logistics costs.

Other Defense Department agencies that benefit from the center are the Defense Logistics Agency, the Army/Air Force Exchange Service, the Navy Exchange Command, Shipper Services and the Defense Commissary Agency.

The Distribution Analysis Center received a big boost a year and half ago when Maj. Gen. Kenneth Privratsky took command of MTMC. The commander has since made big changes to how the agency manages transportation logistics by encouraging the use of commercial-like practices.

"MTMC's reengineering gave us more of an impetus to try this third-party logistics contract," Galluzzo said. "We need end-to-end solutions for logistics."

The agency has improved its management of ocean carrier service contracts and instituted a diesel fuel index to reimburse truckers and railroads equitably for price increases. MTMC is also exploring commercial Internet-based systems programs to upgrade its aging in-house computer system.

MTMC is involved in the Defense Department's effort to further modernize the movement of military and other defense-related cargo. Privratsky is chairman of the Surface Distribution Committee of the Strategic Distribution Management Initiative, which began last year.

The Defense Department recently launched another initiative to reduce customer wait times and to increase time-definite delivery of goods.

"We're working closely with the military depots to review each node of the transportation process," Galluzzo said. "We want to synchronize the movement of the cargo."

But military transportation strategists realize they will never fully achieve the type of just-in-time logistics management that's sought in commercial shipping. "We will always need some buffer in inventory to accommodate our soldiers in the field," Galluzzo said. ■

"We are confident that our complete supply chain capabilities, our emphasis on customer service and our in-transit product visibility will reinforce the MTMC's decision to outsource the movement of their domestic freight shipments."

Joe Bento
president & chief marketing officer, EGL

MTMC's U.S. Southeast logistics installations covered under contract

Hurlburt Field, Fla.
Patrick Air Force Base, Fla.
MacDill Air Force Base, Fla.
Eglin Air Force Base, Fla.
Anniston Army Depot, Ala.
Fort Rucker, Ala.
Aviation & Missile Command, Redstone Arsenal, Ala.
Fort Benning, Ga.
Fort McPherson/Fort Gillem, Ga.
Fort Stewart, Ga.
Fort Gordon, Ga.
Defense Contract Management Agency: Orlando, Fla.; Atlanta; Birmingham, Ala.
Defense Depot, Jacksonville, Fla.
Defense Depot, Albany, Ga.
Defense Depot, Anniston, Ala.
Defense Depot, Warner-Robbins, Ga.
Blount Island Command, Jacksonville, Fla.
MTMC's 954th Transportation Company, Cape Canaveral, Fla.
Mayport Naval Station, Jacksonville, Fla.
Naval Air Station, Jacksonville, Fla.
Naval Air Station, Pensacola, Fla.
Naval Surface Warfare Center, Panama City, Fla.
Naval Air Station, Key West, Fla.
Navy Supply Corps School, Athens, Ga.
Naval Air Station, Atlanta/Marietta, Ga.
Naval Submarine Base, Kings Bay, Ga.

Source: U.S. Military Traffic Management Command.

Power shifts in chartering

Hanley, Vulovic see shippers opting for time charters, ship owners moving to larger containerships, longer charters.

BY ROBERT MOTTLEY

Time chartering has become to ocean commerce what razors are to shaving: an essential means to an end.

Wealthier ship owners are building ever-larger container vessels backed by long-term charters. And in a new wrinkle, larger shippers are contemplating time chartering vessels on their own, thereby forswearing carriers altogether.

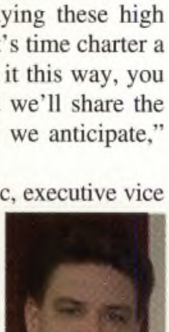
"Big shippers are becoming aware that time chartering ships themselves can be more cost effective and more reliable than booking their cargo with carriers," said Edward F. Hanley, director of fleet repair for U.S. Ship Management Inc., in Charlotte, N.C.

"As time charterers, they would have total operational control of the vessel carrying their own cargo," Hanley said. "Therefore, they wouldn't have to fight with various carriers whenever freight rates or sailing schedules change."

"You may soon see strategic shipper alliances forming on opposite one-way trades," Hanley said.

"Two or more companies, with adequately large cargo volumes and shipping frequencies, would get together and say, 'we don't need to be paying these high freight rates anymore. Let's time charter a ship ourselves. We'll use it this way, you use it the other way, and we'll share the costs.' This is something we anticipate," Hanley said.

Hanley and Rod Vulovic, executive vice president and chief operating officer of USSM, recently spoke with *American Shipper* about today's volatile time charter market for containerships.



Vulovic

Both Vulovic and Hanley worked previously for Sea-Land Service Inc. Vulovic, as vice president, ocean transportation, was responsible for all of Sea-Land's waterborne assets. Hanley was director of chartering services in Sea-Land's ocean transportation department, at a time when Sea-Land had 50 to 60 ships on time charter.

Edward F. Hanley
director of fleet repair, U.S. Ship Management Inc.

"If a ship under time charter cannot perform because it has bad wiring, or for any other reason, the ship would be put off-hire. That's the worst nightmare for an owner. While that vessel is off-hire, he isn't getting any money, but still has to pay his own bills."

Born out of the sale of Sea-Land's international division to Maersk, USSM is the disponent owner and bareboat charterer of 19 U.S.-flag containerships, which it time charters to the Maersk Sealand organization.

As an independent and privately owned company, USSM satisfies the U.S. Maritime Administration's requirements with respect to the operation of ships enrolled in the Maritime Security Program.

The very latest generation of large new containerships, 6,800 TEUs-plus, generally sail on the intercontinental trades for the carriers that own them. However, there is a growing market of equally large and even larger ships being built and managed by independent ship owners who secure pre-construction time charters with global liner companies.

"The durations of time charters is also getting longer: three, four, five and even eight years for the largest ships. Is a long charter better than a shorter one? There are two opposing views," Vulovic said.

A ship owner is looking for steady business at a reasonable profit, and for a charterer who is financially sound and interested in a long-term deal gives the owner a lower risk rating with his bank and creditors. That makes it easier to raise money to build ships.

On the other hand, the time charterer, in addition to wanting the lowest time-charter rate possible, would like to be able to adjust the length of term, depending on whether charter rates are projected to move up or down, and also on cargo network requirements. If charter market rates are forecasted to rise, the time charterer would generally prefer a longer term deal to avoid having to renegotiate in a higher market.

Who gets the upper hand, the owner or the time charterer? "That depends," Hanley said.

"In a rising market, where demand for tonnage outstrips supply, then a ship owner would prefer a shorter term to be free to fix again at a higher rate. In a falling market, the opposite is true," he explained.

"As Rod was saying, the strongest undercurrent for the vessel owner is security, which can be defined as 'desired length of charter at a reasonable profit.'

"Conversely, the strongest undercurrent for the time charterer is flexibility, meaning the ability to get out of commitments, even if there is some cost involved in doing so," Hanley said.

"From a charterer's perspective, when market conditions change, any costs that may be associated with early redelivery are usually far less than the advantages gained in being free to either renegotiate or change to a larger or smaller vessel as required."

That is especially true, Hanley said, if market rates suddenly drop dramatically, or if changing cargo network requirements render the ship no longer suitable for a particular trade.

Doomed Rat. On-hire and off-hire surveys are generally performed by a third party qualified surveyor at the beginning and the end of a charter. The cost of the surveyor and the time that the survey takes are usually split 50-50 between the owner and charterer. The age of a ship is often a factor in the time charter consideration.

"Not necessarily the age in years," Vulovic said, "as much as what the age means in terms of the vessel's economic obsolescence."

"Older ships have engines that burn more fuel. Their speed is lower. They are not as competitive in the overall marketplace. They

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might not accommodate as many reefers or have the stowage flexibility of more modern ships," he said.

"All of that translates into either higher costs, or lower revenue earning capabilities for prospective charterers," Vulovic said.

A surveyor for a major salvage firm recently said he had been hired to check over an aging vessel being considered for a time charter by the Military Sealift Command.

"In the engine room, I found five generations of machinery, typically having one unit piggybacked on top of an older unit. It was all holding together. Believe me, I've seen worse. But the kicker was the electrical wiring: really ancient, and so frayed that a passing rat had been electrocuted while brushing against it," he said.

The surveyor put the deceased rodent into his report, which caused a suspension of the charter party for almost a month while repairs were made to the ship.

"On-hire surveys are an industry standard procedure before a vessel is delivered into time charter," Hanley said. "What is somewhat less common is the type of survey your source described: a more extensive vessel 'condition survey,' in which there's more machinery evaluation and inspection of the ship's structure.

"That's something you do if you're buying an asset, or if you're going to be involved in the management of a ship. If the surveyor reports poor conditions, the charterer can wait until the problems are remedied, or alternatively choose another vessel that is ready for service in all aspects," Hanley said.

"The Military Sealift Command tends to have much more detailed survey requirements for the vessels they're considering to be accepted on their hire," Vulovic said.

"The command is an intermediary between the commercial market and the Department of Defense. They are taking upon themselves considerable liability in regard to the performance of that ship. Any subsequent mechanical problems could be detrimental to a military mission or a required state of readiness," he said.

"If a ship under time charter cannot perform because it has bad wiring, or for any other reason, the ship would be put off-hire," Hanley said. "That's the worst nightmare for an owner. While that vessel is off-hire, he isn't getting any money, but still has to pay his own bills."

Extra Insurance. Protection from liability is another concern in time charters today. According to conventional practice, the time charterer insures the cargo. The ship owner insures the vessel and the crew. Each can fall into ready traps.

"Some years ago, we time chartered one of our ships to an Asian carrier for a single voyage," Vulovic recalled. "One of the carrier's customers did not properly declare dangerous cargo. Because of improper documentation, no one knew what was in the containers, which were then incorrectly stowed on the ship by stevedores.

"The result was an explosion at sea, killing two crewmen and injuring two others badly. A lot of cargo was ruined, in addition to the containers that had burned. There was also significant damage physically to the ship," he said.

"In the end, we repaired the vessel and submitted our claim to our underwriters, who in turn claimed that against the Asian carrier and its underwriters."

Are Vulovic and Hanley concerned by confidential shipper contracts in which carriers are giving major cost breaks to shippers with clout?

"From the owner's side, we are concerned. The cargo client may have strong leverage if he can force his risk on the owner," Hanley said.

"However, the real danger of something happening will be the same as it used to be, as long as shippers continue to either inadvertently or intentionally misdeclare dangerous goods," Vulovic said.

Time charterers, of course, have no way of knowing what may be carried in a container on a vessel sailing under their auspices.

"There are thousands of customers. It's impossible to really know what is in all of the boxes," Hanley said.

"Accidents and other perils of the sea are the reason why every charter party has a general average clause. If an influential shipper wanted to subrogate this liability, the charter party would have to stipulate which participators in the adventure would be exempt," Vulovic explained.

If an important client with clout wanted such an exemption from general average, then the charterer would have to go back to the owner and renegotiate the charter party. This would be more complicated if the time charterer and the shipper happened to be one and the same.

"In that case, we as an owner might say to the time charterer (and shipper), 'fine, if you want to propose that, go right ahead, but you'll have to cover us another way,' such as with extra insurance," he said.

Risks And Rewards. A ship broker is customarily paid 1.25 percent of the char-

Chartering terms

Bareboat charterer: Charterer gets the ship, its hull, and machinery, and must hire a crew or the services of a ship management company. By contrast, a time charterer pays for a ready-to-go vessel.

Charter party: Actual document substantiating a vessel charter. There are several standard agreements, such as box time, or New York Produce Exchange (NYPE). Box time is favored more than NYPE, which dates to the 1920s and contains archaic language. Larger liner companies have their own charter parties. Most charter parties are written, though a few are oral, generally among parties whose business is well known to each other. By law, a charter party is no less valid if it has been orally rendered.

Disponent owner: Name used to describe a charterer who acts as an owner by sub-chartering a vessel, and assuming an owner's liability to the sub-charterer.

Fixture: Conclusion of charter negotiations between owner and charterer, when an agreement has been reached to charter a vessel.

Freight: Compensation paid to the owner by the voyage charterer for use of a vessel. "This is sometimes confusing because the same term is used to describe the payment made by a cargo shipper to the bill of lading issuer," said Keith Heard, an admiralty attorney with the firm of Burke & Parsons in New York.

Hire: Charterer compensates the owner for use of a vessel. "On hire" means the ship is in service as contracted. "Off hire" means that the ship is temporarily unavailable to the charterer.

Part charters: Usually based on voyage charter party model, and occur when a shipowner cannot locate a charterer with a full load. Part charters can work well if the cargo is too large or bulky to be carried on a liner vessel, but too small to justify a full vessel charter.

Recap: The document transmitted when a fixture has been agreed, setting forth all of the negotiated terms and details. This is the operative document until the charter party is drawn up.

Time charter: A charterer pay for the use of a vessel for a specified period. The charterer also provides and pays for fuel, port charges, and pilotage. The shipowner retains responsibility for navigation and most operations aboard the vessel.

Voyage charter: A charterer pays for use of a vessel to carry cargo from one designated port to another, or one port range to another. Charterer is usually responsible for stowage, discharge of cargo, and pays freight passed on vessel capacity or cargo loaded. The greatest risk is that a voyage may last longer than anticipated.

ter hire for successfully arranging a deal.

"That may seem low, but remember the broker is only an intermediary. He owns nothing. He has zero risk," Vulovic explained.

"One of the ways shipowners make money is via the differential between the rate at which they charter their ship and the expenses incurred in financing and operating it," he said.

Charterers, on the other hand, make money by profitably deploying the ship in their network.

Do charter deals ever go so badly that all parties are burned? "Definitely, that happens," said Hanley.

Who is burned the most "depends on many factors, such as supply and demand of tonnage, freight rates, competition, currency exchanges, and sometimes just plain bad luck," he explained.

"Charterers could supply poor quality fuel to the ship, and accelerate wear on the engine components in an almost imperceptible manner. The owner could employ an underqualified and underpaid crew, resulting in poor service to the charterer, cargo delays and or fines," Hanley said.

"Also, an unscrupulous charterer can send the vessel into an unsafe port," Vulovic said. "Or, he can dangerously load the ship, so there's a likelihood of the cargo shifting at sea," which could cause a vessel to capsize.

Having set up a chartering deal, the owner is protected somewhat by having crew on board. "They are the shipowner's eyes and ears," Vulovic said.

"You do what you can, but to a large extent, once a ship is in service for a charter, once it's in the line, you cannot control everything," Hanley said.

"You always try to charter ships in from reputable owners. When chartering ships out, you give heavy consideration to the reputation of the prospective charterer," he said.

Despite such qualms, time chartering does not have to be an ulcer-making profession. "When you've been in business for a while, you figure out how to assess your risk with the people you choose to be with in a relationship," Vulovic said.

"Of course, misfortune happens. If it does occur, it's in everyone's interest to work as a team," he said.

Carriers who require additional ships and don't want to commit the capital to build them regularly turn to the charter market to fulfill their tonnage needs. In the past, liner shipping companies generally owned their own vessels.

"That's changed," Hanley said. "In the last 10 years, carriers have realized they can make more money by focusing on moving cargo rather than owning and operating ships."

"Ten years ago, there was a small number of tramp feeder vessels," Vulovic said. "A few companies, Maersk and Sea-Land among them, would time charter those feeder ships to serve the ever growing trades they offered their customers."

Then, he explained, there came a period where some carriers, mainly Far Eastern ones such as Hyundai and Hanjin, "decided that they wanted to monetize their assets, so they sold their ships and then time-chartered them back."

Those vessels became available on the charter market eventually, and when they did, they were instantly larger and faster than the feeder ships that had been traditionally available. The larger liner companies took notice and snapped them up, deployed them in their regular liner routes.

The next logical step was for independent owners to build bigger and faster vessels purposely for the time charter market. Liner companies, no longer burdened with capital commitments for ship construction, could invest in terminal development and information technology.

That step has evolved today into exclusive partnerships between global liner companies and independent shipowners. "The owners build and operate vessels, which are then time chartered and deployed in the liner companies' networks," Hanley said.

"Just as carriers have lowered their cost of capital by creating symbiotic relationships with certain trusted ship owners, we believe the next step will be a similar one between some of the largest shippers and a few forward-thinking shipowners directly," Vulovic predicted. ■

Michelin keeps it simple

Tire manufacturer rejects need for global, long-term contracts.

LONDON

Michelin, the multinational tire manufacturer, said it prefers informal rate agreements with shipping lines and played down the benefits for shippers of moving to long-term global service contracts.

Brian Moulton, head of global ocean transport of the Michelin group, told an audience of shipping line executives at the Containerisation International conference in London that his company preferred short-term basic contracts. Michelin does not require the sort of more elaborate global contracts promoted by certain ocean carriers, he added, referring to recent comments made by Flemming Jacobs, chief executive of Neptune Orient Lines and APL Liner.

"We are not looking for increased sophistication or more detailed specifications," Moulton said. The company's contracts with carriers are "fairly simple, uncomplicated and basic." Those contracts can vary in length from four to 20 pages, and their contents is restricted to the "bare minimum." The big tire producer shipped 103,000 TEUs last year with 75 shipping lines worldwide.

With a small team of five senior executives around the world responsible for negotiations with ocean carriers, Moulton said that Michelin maintains very close contact with carriers to react globally, when necessary. "As such, we see no interest in having any global contracts," he said.

Because Michelin's cargo flows fluctuate widely over time and are unpredictable, it prefers not to commit to shipping fixed volumes with carriers, Moulton said. "We prefer to work with the companies as partners, and not to be bound by heavy contractual limitations."

Noting that Michelin is "not perhaps your typical shipper," Moulton said there are other "shippers with fairly regular flows to economically stable parts of the world from fixed production points." Those shippers are able, if they wish, to negotiate contracts with realistic quantity commitments and corresponding space guarantees, working with freight rates fixed for six to 12 months, he said.

By contrast, Michelin "cannot go very far with commitments" and has chosen to follow the market trends in terms of freight rates, he said. The company is prepared to renegotiate rates on a monthly basis, to take account of market changes and variations in its cargo volumes.

"One of the downsides of this method is that we have lots of amendments to our contracts, which we would not have in a stable situation," he said.

Moulton also noted the swings in freight rates in the container shipping market. Michelin's transatlantic eastbound rates dived 65 percent from the first quarter of 1997 to the fourth quarter of 2000. Westbound transatlantic rates dropped from a reference index point of 100 in the first quarter of 1997 to 65 in the third quarter of 1999, before rebounding to 125 in the fourth quarter of 2000, he said.

Since the beginning of the year, westbound transatlantic rates have decreased 5 to 10 percent, Moulton added, predicting that the delivery of a large number of new containerships this year would put pressure on freight rates. ■

Shippers' Case Law

Abstracts by Robert Mottley, rmottley@shippers.com

Appeals court cites CMR over COGSA

In 1996, Orient Overseas Container Line (USA) Inc., acting as an agent for Orient Overseas Container Line (UK) Ltd., signed a one-year service agreement with Trek Bicycles Corp. to move cargo containers from Wisconsin to various destinations in Europe. Two months into the contract, OOCL (UK) issued to Trek a "through bill of lading" for the shipment of 301 packages of bicycles and bicycle frame sets from Oconomowoc, Wis., to Spijkenisse, the Netherlands. The bill of lading indicated OOCL (UK) would serve as the "carrier" for the water segment of carriage, while other unnamed "participating carriers" would transport the container for the land portion of the carriage. OOCL (UK) had selected DeBrock Gebr. Transport, N.V., as its trucker between Antwerp and inland destinations. Upon arrival of the bicycles at the port of Antwerp, DeBrock subcontracted with N.V. Groeninghe to transport Trek's container to Spijkenisse. On Oct. 29, 1996, a Groeninghe truck picked up the container from OOCL (UK)'s ship at Antwerp. Later that evening, the driver left the truck on a public road, without any supervision or guard, near his home in Deurne, Belgium. Sometime in the night, thieves stole the truck and its container. The police tracked down 30 of Trek's 301 stolen packages, but the remainder were never recovered.

In November 1996, Trek filed a claim with its insurer, the Hartford Fire Insurance Co., for the value of the missing packages. Hartford reimbursed Trek, and then, as the subrogated insurer, sued the OOCL carriers in federal court for the recovery of the value of the missing cargo. U.S. Magistrate Judge Douglas F. Eaton, in the Southern District of New York, ruled in favor of the shipper's insurer, saying the Carriage of Goods by Sea Act (COGSA, 1936) "applies to the entire intermodal carriage, including the period of time when the goods were in the trucker's custody." The OOCL carriers subsequently appealed that verdict.

The U.S. Court of Appeals for the Second Circuit noted that "we are asked to decide the law to be applied to the loss of cargo during an 'intermodal' shipment of goods — that is, a shipment carried by water and land transportation on a single bill of lading." Furthermore, "the bill of lading in the case at bar qualifies as a 'mixed contract,' for the container was to travel by land from Wisconsin to Montreal, by sea from Montreal to Antwerp, and again by land from Antwerp to its destination in the Netherlands. Ordinarily, such a bill would not fall within our admiralty jurisdiction," the appeals court said.

"Notwithstanding this general rule, we have held that a federal court can exercise admiralty jurisdiction over a 'mixed' contract if (1) the claim arises from a breach of maritime obligations that are severable from the non-maritime obligations of the contract, or (2) the land-based portion of the contract is "merely incidental" to the sea-based operation.

"The first exception does not apply because the loss occurred while the cargo was being transported on land in Belgium," the appeals court said. "The second exception also fails to provide grounds for admiralty jurisdiction in this case. Transport by land under a bill of lading is not 'incidental' to transport by sea if the land segment involves great and substantial distances."

The appellate panel cited prior case law holding that a carriage of goods of up to 1,000 miles was "more than incidental" to the maritime portion of a contract *[Kuehne & Nagel v. Geosource, 874 F.2d 283 (1989)]*, while extensive cross-U.S. transport of more than 1,000 miles was not "an incidental aspect of a shipping contract" *[Berkshire, 954 F.2d 881 (1972)]*.

Because Trek's bill of lading required carriage "by land through four countries using two different modes of transportation (truck and rail) and several different participating carriers," the appellate panel ruled the land carriage "was more than incidental to sea carriage" and so placed "this dispute outside our admiralty jurisdiction." Therefore, the case would be governed by applicable choice-of-law rules.

The appeals panel said the district court erred in extending COGSA to the land carriage, because COGSA "only applies by its own force from the time the goods are loaded on (a vessel) to the time they are discharged from the ship."

Which choice of law did apply? Belgium had ratified the Convention on the Contract for the International Carriage of Goods by Road (CMR, 1956). Article 1 of CMR stated that CMR "shall apply to every contract for the carriage of goods by road in vehicles for reward" between two European countries, if one of them had ratified CMR. And so the appeals court ruled that the carriers' liability "must be assessed using the relevant portions of that body of law" — CMR, not COGSA. In reversing the district court's decision, the appellate panel ordered the lower court to decide whether the OOCL carriers qualified for CMR's limitation of liability provision.

"We recognize that our interpretation may create uncertainty for shippers who choose to transport goods under a through bill of lading similar to the one at issue here," the appelate judges wrote. "Such uncertainty is inherent to international shipping, and may be reduced by drafting a bill of lading that provides for the application of a single law during all stages of transport, which the parties in this case did not do."

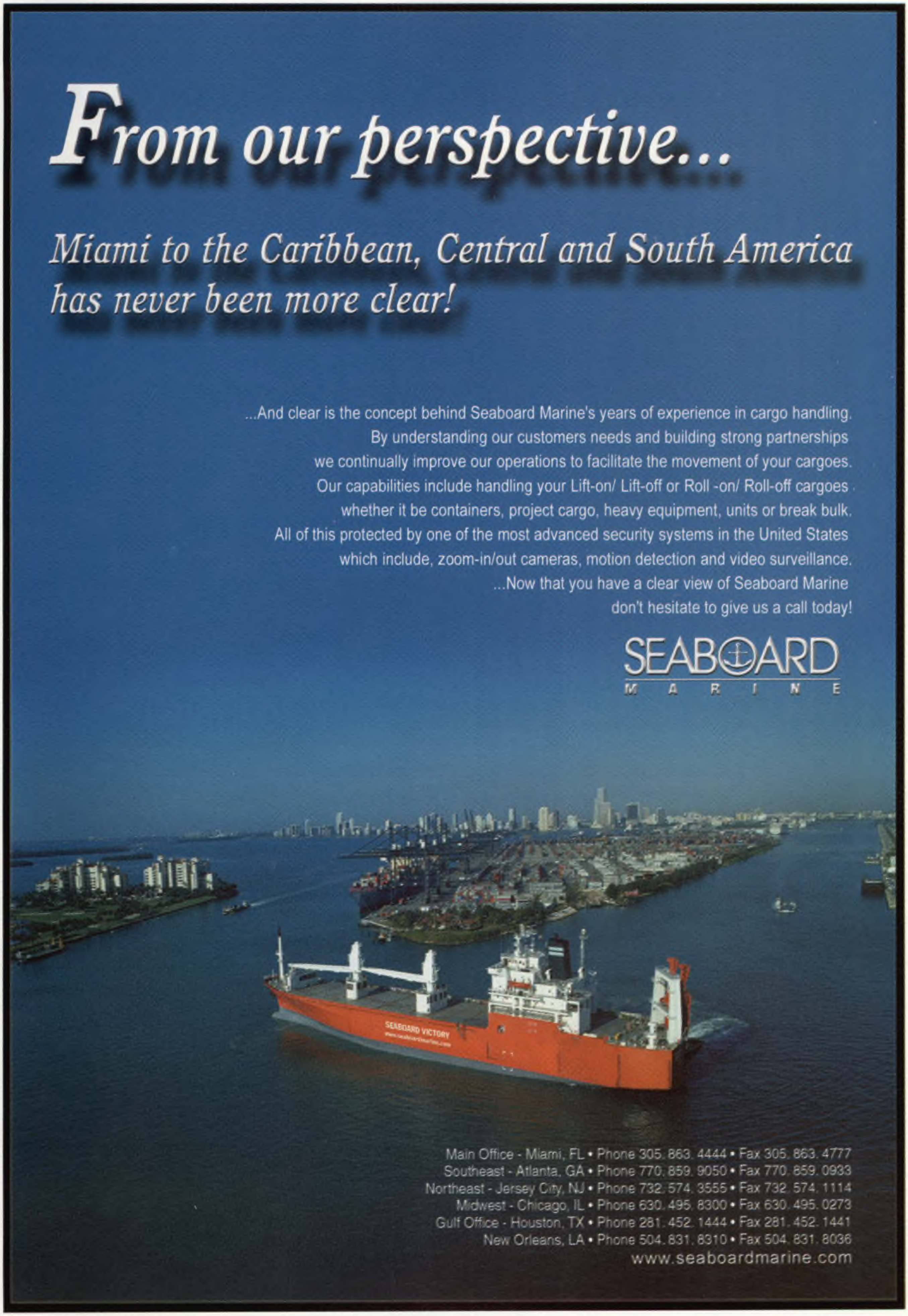
[Hartford Fire Insurance Co. v. Orient Overseas Container Line (UK) Ltd., et al.; U.S. Court of Appeals for the Second Circuit; No. 99-9502; date of decision: Oct. 27, 2000]

Carrier must notify a shipper of COGSA's provisions

Western Bulk Carriers time-chartered a vessel, the *Lake Marion*, to carry a shipment of cold-rolled, hot-rolled, and galvanized steel from Riga, Latvia, to various U.S. ports. The bills of lading identified JSV Severstal-Invest as the shipper, but a company called Steel Coils purchased the cargo and became its consignee. Upon discharge of the shipment in the United States, it was alleged that seawater had entered the ship's cargo holds and damaged the steel. When Steel Coils sued in federal court to recover damages of $550,000, the carrier defendants argued that their liability should be no more than COGSA's $500 per package limitation.

U.S. District Judge Sarah S. Vance determined that, in order to rely on the COGSA package limitation, a carrier had to show evidence that a shipper was provided a "fair opportunity" to declare a higher value and pay an increased freight rate. In the case at hand, the bills of lading for the steel made no mention of COGSA at all. That omission meant they "did not notify the shipper of its rights," Vance said. As for the carriers' argument that, "as an experienced shipper," Steel Coils had to have known of COGSA's liability limitation, the court said it was "not persuaded ... the experience of the shipper, without (anything) more, establishes the defendants' right to summary judgment as a matter of law. There is no evidence that (the shipper) had actual notice of the $500-per-package liability limitation." Vance ruled in favor of Steel Coils, denying the defendants' motion for summary judgment.

[Steel Coils Inc. v. Lake Marion, *et al.; U.S. District Court, Eastern District of Louisiana; No. 98-3116; Date of ruling: June 15, 2000]*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Brokers, Forwarders & NVOs

By Chris Gillis, cgillis@shippers.com

To kill a name

The rest of the world's shipping industry may call them freight forwarders or consolidators, but here in the United States they are still "non-vessel-operating common carriers."

The 1998 Ocean Shipping Reform Act attempted to kill the NVOCC name by re-labeling and lumping the business under a more generic description as "ocean transportation intermediaries," or OTIs.

"The term NVO doesn't exist anywhere else," said Edward Emmett, president of the National Industrial Transportation League, based in Arlington, Va. "It causes a great deal of confusion."

Many executives in the ocean freight consolidation business resist the name-change by still referring to themselves by the label officially given them 17 years ago under the Shipping Act.

These operators may eventually accept the name change. But don't count on it anytime soon.

ACE industry group rekindled

With the development of U.S. Customs' Automated Commercial Environment underway, a group of industry executives want to ensure that their voice is heard during the process.

"There is no question that ACE will have a significant impact on the day-to-day business of its users," said the Trade Automation Policy Forum. "Thus, the trade community has a huge stake in the building of ACE and must remain engaged in the process."

The forum replaces the International Electronic Trade Steering Committee, which was dormant for about two years while the ACE initiative was shelved for lack of funding. "The industry's efforts were better spent going out to get the money (for ACE)," said Michael Eads, executive director of the Trade Automation Policy Forum, based in Washington.

With the new forum in place, industry executives will be able to debate and build consensus on what they want from ACE and present that position to Customs. The group will also ensure the system considers global automation developments, Group of Seven, World Customs Organization, World Trade Organization and the Free Trade Area of the Americas.

AES and mandatory filing

Could the government's Automated Export System support mandatory filing of shipper's export declarations?

You bet, said C. Harvey Monk, Jr., chief of the Commerce Department agency's Foreign Trade Division.

"The system can handle mandatory filing," Monk said. "We know we have a secure system. It's been tested and reviewed."

AES was developed five years ago as a voluntary system to help reduce paper filings of shipper's export declarations (SEDs). Customs uses the information in SEDs to target illegal exports, while Census compiles it for the country's trade statistics.

In the Consolidated Appropriations Act of 2000, Congress initiated a proposal to make AES mandatory for filing all export declarations. The secretaries of Commerce, State, Defense, Energy, Treasury and the director of the Central Intelligence Agency were asked to determine if this would be advisable and feasible.

The same legislation also considered the mandatory AES filing for exporters of munitions and cargo listed on the Commerce Control List. The secretaries of Commerce, Treasury, and the director of the National Institute of Standards and Technology had to demonstrate that the Internet version of the system, AESDirect, was secure enough to handle this information.

Monk said a report would soon be issued to Congress. About 270 days after the report is submitted to Congress, the portion that requires mandatory filing of munitions and Commerce Control List will take effect. Congress will also have to decide whether to make AES mandatory for all export shipments.

While the industry generally opposes mandatory filing, it may become a non-issue overall because many exporters and forwarders are already using AES.

Reinsch takes helm at NFTC

William A. Reinsch, formerly the U.S. Commerce Department's undersecretary for the Export Administration, has been named president of the National Foreign Trade Council.

The council was founded in 1914 to serve the business' interests in trade policy, export finance, international tax, and human resources. Today, it represents more than 500 companies and has offices in New York and Washington.

"With the U.S. economy in a downturn, the importance of international trade to U.S. business is ever more apparent - and the importance of the NFTC's work ever more important," Reinsch said.

At the Export Administration, Reinsch gained a reputation for defending the high-tech manufacturers' goal to become stronger in export markets and to reform trade laws impacting U.S. exporters. He took the post in 1993 after a long career on Capitol Hill.

Reinsch's duties at the NFTC will be to oversee numerous international trade and tax issues, which concern U.S. businesses. He replaces Frank Kittredge former General Electric executive and president of the council for the past 12 years, who retired.

NCBFAA seeks stability in GSP extension

The National Customs Brokers and Forwarders Association of America recently sent a letter to U.S. Trade Representative Robert Zoellick thanking him for his support of a one-year extension to the General System of Preferences in the Bush Administration's proposed fiscal 2002 budget.

GSP provides duty-free treatment to imports of certain products from specified developing countries. Developing countries benefit from GSP by making their products more attractive to U.S. importers. Without the program, U.S. tariffs would remain high on a number of imported goods from these countries.

The administration had asked for the industry to comment on GSP, while Congress considers extending the program. GSP is due to expire Sept. 30.

NCBFAA has requested that the administration stick with its one-year extension proposal to minimize disruption to the GSP program with the upcoming expiration date.

"For years, GSP has routinely been extended only for short periods — from one to two years at a time," said Peter H. Powell, Sr., president of the NCBFAA in the letter to Zoellick. "With these brief periods of renewal, Congress is frequently unable to gain passage of GSP renewal legislation until some time after the program's expiration date, causing GSP to lapse for months at a time. This has been very disruptive to the trading public, causing great uncertainty and costs."

NCBFAA has said it would welcome a more thorough review to improve the GSP program at a later date.

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PORT OF PORTLAND

NACA, Ecu-Line form alliance

Neutral NVOs realign operations to share strengths in U.S./European trade.

By Chris Gillis

To industry analysts, the thought of Ecu-Line and NACA Logistics Group cooperating in one of the world's most important trade lanes was inconceivable.

That changed in March when the two large neutral non-vessel-operating common carriers announced a landmark agreement to work together in the transatlantic freight consolidation business.

"NACA, which primarily exports from the United States, needed a strong partner in Europe, and Ecu-Line was looking for a similar situation in the United States," said Andrew Scott, chief operating officer for NACA Logistics Group's North American operations, based in Long Beach, Calif. "Since we share a large number of customers inbound and outbound in the market, this agreement made a lot of sense."

"Forwarders aren't attracted to names. They're attracted to service," said Kris De Witte, president of Ecu-Line USA (formerly Mercator Shipping) in Miami. "By doing this cooperation, we believe that we will improve our service equitably between the companies."

While both NVOs have spent the past three years aggressively building their global networks, they realize that partnerships with other strong players help to increase their market share quicker. "For us alone to accomplish what we have under this agreement would have taken us three to five years to build," De Witte said.

"We don't think customers are looking for a one-stop shop," Scott added. "They want service providers with the largest number of services in their niche."

As neutral NVOs, NACA and Ecu-Line buy space on containerships at wholesale and retail it back to freight forwarders with less-than-containerload or full-containerload shipments.

NACA (New American Consolidators Association) was originally formed several years ago as a shippers' association between Direct Container Line, Brennan International Transport and Conterm Consolidation Services. The shippers' association allowed the companies to combine their freight volumes to seek lower rates and better service from ocean carriers.

> ***"We don't think customers are looking for a one-stop shop. They want service providers with the largest number of services in their niche."***
>
> **Andrew Scott**
> *chief operating officer, NACA Logistics Group*

In 2000, the three long-time NVOs were rolled into a single corporation, but allowed to maintain their individual sales and marketing identities under the NACA Logistics Group umbrella. Last year, the group handled about 173,000 TEUs of freight worldwide.

Antwerp-based Ecu-Line emerged in the late 1980s under the direction of Raymond Van Achteren and quickly became a power player in the neutral NVO business in Europe, Africa and the Mideast. Ecu-Line's worldwide groupage business in 2000 accounted for about 70,000 TEUs.

The subsidiaries of these NVOs have a history of working together in certain markets. Brennan, Mercator and Ecu-Line worked together several years ago in the Miami/Latin American trade.

For the most part, however, these operators have tried to penetrate each other's backyards on their own through acquisitions or other agency agreements.

To enter the U.S. market, Ecu-Line acquired other neutral NVOs, such as Mercator, New York-based Fleet Shipping Lines, and Sea Express of Baltimore. NACA firmed up existing offices of its NVO subsidiaries in Europe and formed an agency agreement with SLOTS in Germany. Neither of these scenarios lived up to the potential, which the NVOs sought.

"The cargo flows that are presently moved by the two carriers will be able to benefit from the mutual strength in each continent where clearly NACA is the leading player in the U.S.A. and Ecu-Line has its roots and position in Europe," the companies said in joint statement announcing the transatlantic agreement.

The transatlantic agreement has required some give-and-take from both NACA and Ecu-Line.

NACA agreed to close its offices in Rotterdam, Antwerp, Paris and Le Havre, and terminated its agency relationship with SLOTS. Scott said the breakup with SLOTS was difficult, because many of the group's shareholders are also NACA clients.

With the exception of its Miami office, Ecu-Line shut down its operations in New York, Chicago, Atlanta, Baltimore, Los Angeles and San Francisco. Ecu-Line will maintain its offices in Canada.

Under the agreement, Ecu-Line became NACA's exclusive agent in the Netherlands, Belgium, France and Germany. NACA's subsidiary Brennan has become Ecu-Line's exclusive agent throughout the United States, with the exception of Miami.

While no employee swap was part of the agreement, both companies have picked up some staff from each other's former offices.

De Witte said Ecu-Line's business from Miami to Latin America

Transatlantic volumes for NACA, Ecu-Line

NACA Logistics Group

Exports (LCL & FCL) North America to Europe:	
Direct Container Line	7,555 TEUs
Conterm Consolidation Services	8,000 TEUs
Brennan International Transport	2,800 TEUs

Imports (LCL & FCL) Europe to North America:	
Direct Container Line	318 TEUs
Conterm Consolidation Services	2,851 TEUs
Brennan International Transport	444 TEUs

Ecu-Line

Exports (LCL) North America to Europe:	1,400 TEUs
Imports (LCL) Europe to North America:	3,450 TEUs
Estimated total volume of transatlantic alliance in 2001:	27,000 TEUs

Source: NACA Logistics Group and Ecu-Line

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"Forwarders aren't attracted to names. They're attracted to service. By doing this cooperation, we believe that we will improve our service equitably between the companies."

Kris De Witte
president,
Ecu-Line USA

remains strong and will continue unchanged. The 40-person Miami office handles numerous transshipments from Ecu-Line's European operations to Latin America. Ecu-Line is also considering developing a closer relationship with SLOTS.

Since Northern Europe offers opportunities for efficient transshipment services, the benefits of the agreement between NACA and Ecu-Line should help both NVOs strengthen their presence in emerging markets such as Eastern Europe and Africa, DeWitte said.

Many NVO executives believe this move by Ecu-Line and NACA is the beginning of a merger between the firms down the road.

Both companies insist the agreement is not a prelude to a merger. "Ecu-Line does not own any shares in NACA and is not taking over any assets or liabilities from NACA. Ecu-Line has no influence over any NACA office outside the U.S.A./Continental Europe trade. Neither is there any involvement of NACA in the Ecu-Line shareholding," the companies said. ■

Fish and Wildlife wrestles with automation

Brokers burdened by agency's abandonment of link to Customs' system.

By Chris Gillis

The U.S. Interior Department's Fish and Wildlife Service has tradition ally maintained good relations with the country's leading customs brokers specializing in the clearance of exotic animal and plant products. But that relationship has become increasingly strained since the agency pulled the plug on its connection to Customs' computer system last year.

"The only way to clear a shipment through Fish and Wildlife today is to have the documents manually reviewed and stamped by the agency," said Leroy F. Berven, vice president and branch manager of Edward M. Jones & Co. in Seattle. "This is a giant step backward."

For several years, Fish and Wildlife had collected some import data through Customs' Automated Broker Interface. The agency complained that the system was incompatible with its increasing enforcement and statistical reporting requirements. Customs' strict confidentiality rules prevented the agency from gaining complete electronic access to data it must report to wildlife conservation groups.

While brokers were still required to submit paper Fish and Wildlife forms 3-177, ABI transmissions of data allowed them to secure faster clearances of animal products from the agency.

"ABI allowed Fish and Wildlife to see an electronic record and know to expect documents from the broker. Meanwhile, the agency could request Customs to hold the shipment for inspection or let it go," Berven said. "It wasn't perfect, but it was a real improvement over the previous way of handling these shipments."

Internet Attempt. Without its data link to ABI, Fish and Wildlife has started to develop Internet-based strategies for receiving trade data from the industry.

The agency recently put the new version of its form 3-177 on the Internet Web application in its Law Enforcement Management Information System (LEMIS) 2000. Shippers can type the information onto the form while online and print it out, or they can print it out to prepare on a typewriter.

But the implementation of the new form and its Internet version has not bode well with the broker industry, which notes that it had little time for input. Fish and Wildlife published a notice in the Federal Register in February 2000 requesting comment on the redesign of the 3-177 form, and the final draft was announced in the Federal Register last August.

Two comments — one of which came from within the agency — were received about the notice, recommending only minor changes. The brokers said their failure to respond in force was because Fish and Wildlife didn't do enough to publicize the proposed changes to the form.

"Basically this lack of input from the very individuals who have to complete this form allowed the service to incorporate any and all information you could possibly imagine relative to an import of animal or plant products," said Carolyn Rutkowski, manager of Dallas operations for Coppersmith, which processes thousands of shipments through Fish and Wildlife.

"This additional information is not required by any other government agency. Therefore the brokerage community will be passing along the cost of additional programming to its client base to incorporate such fields in their data entry screens," she added.

Another problem with the Internet version of the form is that there's no way for brokers to transfer information from their internal systems to Fish and Wildlife's Web site. Information must be re-keyed each time the 3-177 form is prepared.

Brokers who print out the form for typing or for use in their computer printers have found that it doesn't follow the universal print format rules of six vertical lines to an inch and 10 characters to an inch pitch.

"As a result the 'official' 3-177 form had to be brought into industry print parameters before programmers could even get their

hands on a paper document to begin their programming process," Rutkowski said.

While Fish and Wildlife admits that shortcomings exist with the new online form, the agency said the form incorporates information brokers already provide when they file their entries on ABI. It also brings the form in line with the international endangered species agreements, the agency said.

Rutkowski

Fish and Wildlife also issued four pages of instructions on how to correctly fill out the new forms. "We believe that we have made the form much easier to read and user friendly," said Kim Hamilton, senior wildlife inspector for Fish and Wildlife in Washington.

The agency plans to make further enhancements to its online 3-177 form. It's exploring ways to allow brokers to transmit their data to the online form and transmit the information directly to the agency.

However, brokers would prefer that the agency reconcile with Customs and reestablish its electronic link to ABI.

"We don't want to get in a fight with Fish and Wildlife," Berven said. "We want to work with them. That's why it's so disappointing to see the agency moving in the opposite direction."

"We're certainly not opposed" to reestablishing a link to Customs' system, Hamilton said. "But we need it to work so that we meet our information requirements."

The answer to the industry's communication problems with Fish and Wildlife may be solved in the next four to five years with the development of the International Trade Data System, the front-end for Customs' future Automated Commercial Environment. ITDS promises to link as many as 100 agencies with an interest in international trade data.

"In the future, Fish and Wildlife should participate in an interface such as ITDS," Berven said. "That's the only way that makes sense in the long run."

Fish and Wildlife also believes that benefits will come from participation on the front-end system. "We'll be more than happy to work with ITDS," Hamilton said.

A pilot run of ITDS is scheduled for June in Buffalo, N.Y. The first government agencies participating in the pilot are Customs, the Food and Drug Administration, the Immigration and Naturalization Service, and the Transportation Department.

Ultimately, computer technology will help Fish and Wildlife better monitor the hundreds of exotic animal and plant products imported and exported through the country

Leroy F. Berven
VP & branch manager, Edward M. Jones & Co.

"The only way to clear a shipment through Fish and Wildlife today is to have the documents manually reviewed and stamped by the agency. This is a giant step backward."

each year. These products range from frog legs and walrus tusks to ginseng roots and fur collars of coats, and the list keeps growing.

The agency was established 100 years ago under the Lacey Act to stop illegal interstate commerce of wildlife and to prevent imports of injurious species.

The 1970s saw the passage of major wildlife legislation, such as the Endangered Species Act and Marine Mammal Protection Act. In recent years, wildlife protection laws have become more international in scope, such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which covers more than 1,100 animals and plants. Other new laws are the Wild Bird Conservation Act, the African Elephant Conservation Act and the Rhinoceros-Tiger Conservation Act.

In 1999, the agency processed 95,664 shipments valued at about $1 billion. Early tallies for 2000 show that Fish and Wildlife processed 87,000 shipments valued at $1.28 billion. But the true total of shipments processed by the agency last year will be higher once the tally is complete.

While the responsibilities of Fish and Wildlife expand with each new law, the agency's law enforcement budget for manpower and equipment had stayed relatively stagnant over the years.

This changed last year when the fiscal 2001 budget for the agency's Office of Law Enforcement included $47 million, up from $39 million the previous year. The budget increase will allow the agency to hire 30 additional special agents, the largest hiring in many years.

Fish and Wildlife also generates about 30 percent of its income from $50-annual import/export license fees, and inspection fees of $50 per shipment at 13 designated ports and fees of $95 per shipment at 16 non-designated ports.

At the ports, Fish and Wildlife continues to work closely with other state and federal law enforcement agencies, such as Customs, Animal and Plant Health Inspection Service, and Food and Drug Administration.

Penalties for violating the Lacey Act run as high as five years in prison and up to $250,000 for individuals and up to $500,000 for organizations. Violations of the Endangered Species Act may result in one-year prison terms, and fines from $100,000 to $250,000. Fish and Wildlife recently issued its biggest fine ever of $10.4 million to Maryland-based U.S. Caviar & Caviar Ltd. for illegally importing caviar. ■

Customs lists firms violating textile rules

WASHINGTON

U.S. Customs has published the latest list of overseas firms that have been involved in illegal transshipments of textile and apparel to the United States.

The agency assessed penalty claims under section 592A of the 1930 Tariff Act against 23 firms, located in Hong Kong and Macau. The violations range from using false importer of record documents and counterfeit visas to stitching false labels in apparel. The practice of transshipment is often used to beat stringent U.S. textile quotas or high rates of import duties.

If a penalty claim is issued to a firm and no petition is filed by the firm in response, Customs is authorized to publish the company's name and known address in a semiannual list in the Federal Register. The firm may appeal to the Treasury Department to have its name removed from the list, if it is found that the firm has not committed any of transshipment violations for more than three years after the date of its name being published.

U.S. importers are urged to exercise "reasonable care" when sourcing goods from any of these listed entities "to ensure that the textile and apparel are accompanied by documentation, packaging, and labeling that are accurate as to its origin," Customs said.

The agency's Office of Field Operations in Washington also requests the help of the import industry to locate the whereabouts of 11 Hong Kong firms concerning alleged textile transshipment violations. Customs has published these firms' last known addresses along with the new list of violators. ■

Hands-on NVO

Troy Container Line prospers off traditional neutral freight consolidation services.

By Chris Gillis

What's love got to do with it? A lot if you ask non-vessel-operating common carrier owner Michael Cadden Troy about how he got started in the business 20 years ago.

When Troy approached his future in-laws about marrying their daughter Carol O'Leary, her father told the young bartender to first get a day job. Troy did just that, and over time has built one of the most successful neutral mid-sized ocean freight consolidators in the industry, not to mention a lasting marriage.

"I went to a job agency in New York City and got a day job with Maersk Line in February 1981," said the 44-year-old Brooklyn native. "My job was to check bills of lading. I soon moved into pricing and documentation."

He stayed at the Danish ocean carrier for about a year and a half. "At Maersk, I got the best paid education you could get in this industry, but you knew your place. The opportunities to grow within the organization were limited," Troy said.

Then he met Tony Blanco, vice president of Japanese NVO Trans Senko, in Chicago at a Christmas party in 1982. The timing couldn't have been better for Troy.

"I've always been an entrepreneur at heart," Troy said. "I had heard about the NVO industry at Maersk and wanted a taste of it. I was hired by Mr. Blanco at the party."

Growing up in the Irish neighborhoods of Brooklyn, Troy had always been engaged in business. By the time he was 18 years old, he had ownership in a gas station with his brother.

Blanco was a demanding boss. His first day on the job Troy was told to immediately open an office in New York and build up the company's business between the U.S. East Coast and the Far East.

While working for Trans Senko, Troy often used the trucking and warehouse services of AID Export Trucking in Brooklyn. There he got to know the sons of the trucking company's owner Sal Catucci, Keith and Kevin Catucci. In March 1984, the three decided to open their own NVO.

"We don't need to be number one or the biggest. We just need to be the one that the customers come back to. The big players and mergers simply create more business opportunities for us."

Michael Cadden Troy
owner,
Troy Container Line

"Working for myself felt good," Troy said. "If anything had gone wrong, I would have had no one to blame but myself."

The company operated under the name Troy Catucci Line for the next 13 years, starting with less-than-containerload shipments to Asia, and gradually expanding to Europe, the Mideast and Africa.

During that time, Troy made numerous trips to Asia and Europe to establish a network of overseas agents. "I've always liked to base my decisions by looking the partner in the eye," he said.

Troy Catucci Line ventured into the full-containerload business in 1989 at the encouragement of Richard Liberto, formerly vice president of North America and Mediterranean operations for Mediterranean Shipping Co. Since MSC was new to the carrier industry at the time, it built large volumes of its business on NVO freight.

Troy Catucci Line's first full-containerload contract was for 100 TEUs. "I didn't sleep well that night after we signed the contract, not with a $250-per-TEU shortfall," Troy said. "But we got out there, and filled the contract in six weeks."

Again, it was all about timing. "Being entrepreneurs, you see the business opportunity and grab it," Troy said. "The carriers never realized, and still don't realize, how big the NVOs would become. Today, we could handle 100 TEUs even on a bad day."

In 1997, Troy bought out the Catucci family, and continued to expand the NVO's business to markets around the world. "I took all the aspects that I liked about the other companies I had worked for, took off the rough edges, and created Troy Container Line," he said.

Today, Troy Container Line serves about 500 destinations worldwide, with the exception to the Caribbean. The company has about 40,000 TEUs of both inbound and outbound LCL and FCL cargo under contract with the ocean carriers.

In the United States, Troy Container Line owns offices in New York, Chicago and Boston. It also has nine receiving stations for LCL cargo. Later this year, the company will open offices in the Southeast and West Coast and plans to add an office in the Gulf by January.

Troy Container Line has agency agreements with many neutral NVOs of similar size in the world's main freight markets. The company works especially close with Antwerp-based Confreight Group in Europe and WSA Lines, based in Hong Kong, to serve the Asian market. The NVO also has a partnership with U.K.-based Polair Shipping Ltd.

Despite positive growth predictions by the company and new investments in computer technology, Troy still believes in basic hands-on management.

"This is not a business you take for granted," Troy said. "The NVOs that are gone from this industry didn't watch their bottom lines."

Troy, who survives on an average of four hours of sleep, usually starts his day a 4 a.m. and finishes at 7 p.m. "The hardest thing for me to get used to is the fact that this place could run just as well when I'm not here," Troy said. "The only reason that I don't

retire is because I enjoy what I'm doing."

During the past several years, Troy Container Line has hired and promoted a number of experienced industry executives to senior management positions.

Gary A. Dreuer, who joined the company in 1989, was recently promoted to president. Patricia L. Fitzgerald was promoted to senior vice president after serving three years as the firm's director of sales and marketing.

Troy also hired several executives from Mediterranean Shipping. Richard Liberto became vice president and is involved with the NVO's forecasting, market preparation, pricing and regulatory affairs. Gopal Roy, formerly manager for Mediterranean Shipping's freight cashier department, became Troy Container Line's controller. John E. Martinelli, assistant vice president, joined the NVO's operation in Boston after serving as Mediterranean Shipping's regional sales manager.

In addition, William A. Maron, formerly owner of Maron Shipping Agency in New York, joined Troy Container Line as director of industry relations. He also provides instruction on regulatory issues that affect U.S. exports.

Troy Container Line has no immediate plans to expand beyond ocean freight consolidation. "Will we look at air freight consolidation services? Maybe in the future," Troy said. "Just because we're focused on one aspect of the business, doesn't mean we won't survive — not at all."

Even the rash of mergers and acquisitions in recent years among the larger NVOs doesn't ruffle Troy's ambition to grow in the market.

"We don't need to be number one or the biggest. We just need to be the one that the customers come back to," he said. "The big players and mergers simply create more business opportunities for us." ■

Jones finds a new way

Takes helm at Hi-Tech Forwarder Network with confidence and experience.

SAN FRANCISCO

Bernard Jones was looking for a new way of life.

When the executive director's job at the Hi-Tech Forwarder Network was offered, Jones took it.

"I wanted to move on and do something different," said the 25-year industry veteran. "I look forward to the challenge."

Two years ago, Jones sold James P. Jones & Son, the Ireland-based forwarding firm founded by his grandfather in the 1930s, to Jenkinson Holdings Ltd. He packed up his family in May and moved to San Francisco to head the Hi-Tech Forwarder Network.

To the members of the network, Jones was the right person for the job. He has been a member of the network since 1993, and served on its European regional committee in recent years. He was also past president of the Irish Freight Forwarding Association.

"The board thought it was very important to find an executive director with industry experience to take advantage of our current strength and make us even more competitive in today's transportation industry," said Michael Zankel, chairman of the Hi-Tech Forwarder Network's board.

Jones replaces Paula Larink, who served as executive director of the network for two years. "She did a good job even though she didn't have any real logistics experience," said Leonard Roberts, president of Miami International Forwarders and past chairman of the network.

Numbers. Forwarder networks have become increasingly important in recent years for small to mid-sized operators trying to compete with the large multinational players. About 20 networks operate throughout the world today.

The network has the appearance of a large, international forwarding firm, with small operations working with others of similar size in the freight markets they know best. However, each firm maintains its finances and corporate identity with the shippers.

Networks generally hold full membership meetings once or twice a year to discuss business and create interaction between the member executives. Regional meetings are also held monthly or quarterly.

"Before the networks, we as a forwarder would spend 30 weeks a year flying around to meet agents," Jones said of his experience at James P. Jones & Son. "When we joined the network, we saved money hand over fist."

Stephen J. Russell, president of San Francisco-based Alrod International, founded the Hi-Tech Forwarder Network in 1988. The network was incorporated in 1992.

Some of the earliest members of the network were Miami International Forwarders; ABC European Air & Sea Cargo Distribution of Vienna; Supreme Airfreight Co. Ltd. in Hong Kong; Uni-Data AG of Munich, Germany; Speditur (Group) Transitarios, S.A. in Porto, Portugal; Rush Cargo S.R.L. of Buenos Aires; Qualitair Freight Services in Paris; St. Louis-based Ram International; and James P. Jones & Son Ltd.

Russell left the network in the fall of 1998 after Circle International bought Alrod. Other firms also left due to acquisitions by large firms.

While the Hi-Tech Forwarder Network remained active, it took a low profile for about two years to plan its strategy for the future. "When the strong personality (of Russell) left, the Hi-Tech Forwarder Net-

"Before the networks, we as a forwarder would spend 30 weeks a year flying around to meet agents. When we joined the network, we saved money hand over fist."

Bernard Jones
executive director, Hi-Tech Forwarder Network

work essentially had to re-blossom as a genuine network," Jones said.

A meeting of the network's world membership in Porto last year demonstrated the network's strong vitality. In 2000 alone, the Hi-Tech Forwarder Network added a dozen new members: New Times International Transport Service Co. Ltd. in Northern China; Transber S.A.C. of Peru; Enkay Express in Lebanon; Israel-based Mayan Overseas Ltd.; Quickflo Forwarders Pte. Ltd. in Singapore; ScanAm Transport in Scandinavia; Marine-Land-Air Transportation Co. Ltd. in Taiwan; PT. Cardig Express Nusantara in Indonesia; Shanghai-based Bestway International Transportation Co. Ltd.; Sitam SpA in Italy; Integral Transportation Networks of Canada; and Switzerland-based Universal Express AG. So far this year, the network added Ritzy International Cargo Transport Agency Co. Ltd. of Qingdao, China, and Delta Shipping Co. Ltd. in Ghana.

"The enthusiasm is running high," Roberts said. "More business is being moved through the network."

Today, the Hi-Tech Forwarder Network comprises 72 members with 206 offices in 55 countries. Last year, these firms accounted for 300 million kilos of air freight and 378,000 TEUs of ocean freight.

Building Services. Jones' job as executive director will be to strengthen the cohesion between the members and oversee the development of new services for the network.

One of the ways to build a stronger, more interactive membership, Jones believes, is to encourage active regional committees. The strongest regional committee of the Hi-Tech Forwarders Network is in Europe.

"In Europe, the members hold conference calls once a month," Jones said. "It unites the members and keeps them interested."

Most of the conference calls are about how to improve business between members in Europe with those in Asia, the Mideast, North America, Africa, and South America, Jones said.

In North America, member Doug Meadow, vice president of sales at Ram International, is leading the development of an Internet Web-based inland rate system to make it easier for non-North American network members to give their customers more complete rates to the market.

The first step of the inland rate system is implementation of a ZIP code locator. This tool allows members or their customers from anywhere in the world to enter a ZIP code or postal code to immediately identify the North American network member best able to handle their shipments. The next step for the system is to provide inland trucking costs to members and their customers.

"While each agent's specific transportation requirements may vary, regular contact with the other HTFN regions has shown a common need among agents: To have a quick, easy way to obtain door-to-door rates for shipments to and from North America," the network said. "An inland rates Web-based lookup feature will go a long way to meeting this need."

Jones said other regions of the network want to develop similar standardized handling rate systems on the Internet.

Another Internet-based development at the network is the upgrade of its cargo tracking and tracing system, Globe Track. "We're putting new life into it," Jones said.

The network's management will also study more efficient ways to provide members with freight consolidation services and has considered developing a "preferred" ocean carrier program.

Jones said the key to the network's future success is to make the member services as flexible and user-friendly as possible. "Rigid things break," he said. ■

By Philip Damas, pdamas@shippers.com

Diffusing alliances

It is no longer possible to describe the global alliances of container shipping lines as discrete groups of like-minded carriers that operate joint liner services in multiple trades.

The four major alliances — the New World Alliance, the Grand Alliance, the United Alliance and the unnamed COSCO/"K" Line/Yangming alliance — were expected to unify the service networks of their participating carriers.

But they have deviated from this goal by allowing their carrier members to cooperate with shipping lines outside their original alliance group.

Some industry observers say there is an increasing array of cooperative agreements on the margins of alliances.

Within the New World Alliance (APL, Hyundai Merchant Marine and MOL), the three member carriers are starting slot-exchange agreements in the transpacific with Evergreen, a non-aligned carrier. The New World Alliance also shares space with Maersk Sealand in the transatlantic and with Yangming in the Asia/Mediterranean trade.

Within the Grand Alliance (P&O Nedlloyd, Hapag-Lloyd, NYK, OOCL and Malaysia International Shipping Corp.), P&O Nedlloyd operates an Asia/U.S. East Coast all-water service jointly with CMA CGM and China Shipping Container Lines. P&O Nedlloyd and Hapag-Lloyd have also started a vessel-sharing agreement with Zim Israel Navigation, a non-aligned line, in the U.S./Mediterranean trade. And the Grand Alliance carriers P&O Nedlloyd, Hapag-Lloyd, OOCL and NYK have merged their transatlantic services with those of CP Ships carriers Lykes Lines and TMM Lines.

Within the COSCO/"K" Line/Yangming alliance, "K" Line and Yangming cooperate with Hanjin, a United Alliance line, in the transpacific. There are also several slot-charter agreements in the U.S./Mediterranean and Asia/Mediterranean trades between the COSCO/"K" Line/Yangming alliance carriers and Zim Israel Navigation.

Within the United Alliance, Hanjin has started taking space on one of the transatlantic services of the COSCO/"K" Line/Yangming alliance. And Norasia, a non-aligned operator, is taking space on three east/west services of the United Alliance, apparently filling some of the space left by Cho Yang.

We could go on with other cases of this kind between alliance and non-alliance carriers or between carriers of different alliances.

These agreements would appear to undermine the principle of a core alliance group. But they may also indicate that carriers are more opportunistic in how they add new services, either by buying slots on complementary services or by sharing the risk of introducing new services with any other carrier — inside or outside the alliance.

But the most intriguing development is that it is now common for seven or eight carriers to market the same service on the same ship, the same way a passenger would hop on a bus.

Perhaps it's a recognition by carriers that they can no longer differentiate their services purely on the basis of their port-to-port services.

Why announce joint rate increases?

In today's era of individual service contracts, ocean carriers are still announcing identical rate increases and surcharges.

Ed Emmett, president of the National Industrial Transportation League, said shippers are "irritated" by the joint announcements of higher prices or charges by carrier agreements and conferences.

"I don't understand why carriers continue to create such static," he told the Containerization International conference in London.

Emmett

Llew Russell, chief executive officer of the Australian-based liner conference administration company LSS, told the conference that discussion agreements set benchmarks by announcing joint price increases. "Shipowners see the need to set benchmarks of what they are trying to achieve," but in fact they are not implementing the full increases, he said.

Discussion agreements, of course, are not involved in negotiating contracts with shippers and forwarders. And contracts between conferences and shippers have virtually disappeared.

Gunther Casjens, CEO of Hapag-Lloyd Container Line, said conferences have tariff rates that are seldom applied as such in dealing with customers, but they are used as benchmarks.

The next generation of carriers

China Shipping Container Lines is a favorite subject of discussion in shipping circles.

Not only is this carrier following a breakneck growth policy by starting services in the major east/west trades on its own with no prior experience of the North American and European markets, but it also negotiating orders for the largest containerships ever built.

China Shipping is set to confirm orders for five 9,000-TEU ships. In April, China Shipping entered the U.S./Mediterranean trade. It plans to start a U.S./northern Europe service later this year.

"It's like Evergreen 20 years ago," a senior shipping executive told *American Shipper.*

APL adds capacity in Pacific trade

APL is adding capacity in the transpacific trade by introducing two new 5,500-TEU containerships in the joint Asia/U.S. West Coast SAX service of the New World Alliance.

The *APL Scotland* will enter the service mid-May, followed by the *APL Holland* at the end of July.

The two new vessels are replacing two smaller ships of about 4,300-TEU capacity in the six-ship SAX service, which calls at Los Angeles, Oakland, Kaohsiung, Hong Kong, Laem Chabang, Singapore, Los Angeles and Oakland.

According to World Liner Supply, a reporting service of the online global shipping database ComPairData, the New World Alliance controls 18 percent of the transpacific capacity and is the capacity leader in the trade. New World Alliance carriers APL, Hyundai and MOL provide a transpacific capacity of about 34,800 TEUs a week, with 54 vessels operated on nine separate weekly loops.

Hyundai also recently introduced larger ships in one of the transpacific services of the New World Alliance.

In May, the New World Alliance carriers will introduce their 10th weekly transpacific service by jointly taking space on an existing all-water Asia/U.S. East Coast service operated by Evergreen.

How much bigger will boxships get?

Contracts for 9,000-TEU ships are under negotiation. But will terminals be able to cope?

BY PHILIP DAMAS

Several shipping lines are close to ordering the first containerships of more than 8,000-TEU capacity, but others in the industry are warning of the associated risks.

China Shipping Container Lines is talking to the Korean shipyard Samsung Heavy Industries about orders for a series of 9,000-TEU containerships. When concluded, the orders will be for the world's largest containerships, overtaking Maersk Sealand's "S-class" vessels of about 8,000-TEU effective capacity.

A spokesman for the shipyard in Korea told *American Shipper* that negotiations are under way, following the signing of a letter of intent concerning future orders of 9,000-TEU ships.

Samsung, a shipyard that has led the development of larger post-Panamax containerships in Asia, has designed a 9,000-TEU prototype containership with a length of 330 meters, a draft of 14.5 meters, a width of 45.6 meters and a speed of 26 knots. The width of the ship implies that it will carry 18 containers abreast, one more than the largest containerships afloat today. The vessels would be considerably wider than the 13-container-wide, 32.3-meters Panamax vessel type.

The wider vessels will require container terminals to invest in longer cranes that can work 18-container-wide vessels.

Robert Woods, group managing director of P&O Nedlloyd, recently said his company is looking at vessel designs for larger ships of up 10,000-TEU capacity.

> ***"We need to seriously consider a number of consequences, as this is more than just a matter of ship size."***
>
> **Zenzaburo Wakabayashi**
> *executive vice president, "K" Line*

Meanwhile, Dutch academics are continuing studies about the suitability of introducing, by 2010, a revolutionary vessel type called the Malacca-max. The 18,000-TEU Malacca-max vessels would have the maximum size and draft to transit the Strait of Malacca in Southeast Asia (February *American Shipper,* pages 68-69).

Move To Larger Sizes. Few in the liner shipping industry today question the cost advantage of post-Panamax containerships. All the major containership operators have built or ordered vessels of more than 5,000-TEU capacity of this type, even round-the-world operator Evergreen, which uses them mainly for its Asia/U.S. West Coast operations.

The post-Panamax ship is quickly becoming the workhorse of the Asia/Europe and Asia/U.S. West Coast trades.

According to ComPairData, the global liner shipping database, 58 of the 430 liner vessels used in the Asia/North America trade are post-Panamax containerships of more than 5,000 TEUs. In the Asia/Europe trade, 81 of the 341 vessels in this trade are bigger than 5,000-TEU. Certain ships operate in both the transpacific and Asia/Europe trades as part of long "pendulum" rotations. However, by definition, all the ships employed in the booming Asia/Panama/U.S. East Coast all-water trade are of Panamax size or less.

The number of post-Panamax vessels will double over the next two years.

Since 1996, the trend from 5,000-TEU to 7,000-TEU vessels has taken hold, following the introduction by Maersk Line (now Maersk Sealand) of the *Regina Maersk* (see table).

Last November, Hong Kong-based Orient Overseas (International) Ltd., the parent company of OOCL, ordered two 7,400-TEU containerships from the Korean shipbuilder Samsung Heavy Industries. They are expected to be delivered in the second quarter of 2003. The two post-Panamax containerships will cost a total of $160 million, Orient Overseas (International) Ltd. said.

Last year, Hapag-Lloyd ordered four 7,200-TEU, 42.8-meter-wide containerships from the Hyundai shipyard. The first ship in the series is due to be delivered this fall.

And NYK and P&O Nedlloyd, two carriers that were among the first to deploy vessels of more than 6,000-TEU capacity, have ordered more ships of the same type.

According to unconfirmed reports, the new series of containerships being built by the secretive A.P. Moller group at its Odense shipyard in Denmark may be of 10,000-TEU capacity, rather than 6,600-TEU as stated officially by group affiliate Maersk Sealand. Maersk Sealand has a history of surprising the industry by initially understating the true capacity of its new vessel designs.

Meanwhile, CMA CGM — a partner of

Containership size escalation

Year	Vessel design	Vessel name	Capacity (TEUs)	Increase in capacity from previous type	Length (meters)	Width (meters)	Draft (meters)	Speed (knots)
1988	C10	*President Truman*	4,300		275	39.4	12.4	24
1996	Maersk K-class	*Regina Maersk*	approx 7,000	63%	318	42.8	14	25
1997	Maersk S-class	*Sovereign Maersk*	approx 8,000	14%	347	42.8	14.5	25
Project	Samsung 9,000-TEU		9,000	13%	330	45.6	14.5	26
Project	Suez-max		11,989	33%	400	50	17	25
Project	Malacca-max		18,154	51%	400	60	21	25

* In meters.

China Shipping — and a German non-operating charter owner are believed to be involved in negotiations for orders for 9,000-TEU vessels from the Samsung shipyard. CMA CGM would not comment on this development.

Critics. But the constant upsizing of containerships has led to a debate about how much bigger vessels should get until they reach the limits of the overall transportation system. Is handling a 9,000-TEU behemoth really the same as handling two 4,500-TEU ones?

Shipping lines should carefully consider the impact on inland transportation operations and service levels before ordering giant containerships with capacities of 9,000 TEUs or larger, warned Zenzaburo Wakabayashi, executive vice president of "K" Line.

"We need to seriously consider a number of consequences, as this is more than just a matter of ship size," Wakabayashi said at a recent Containerisation International conference in London.

"Container vessels of close to 9,000 TEU or even bigger have recently been tabled," he said. "Will this make the best sense?"

Wakabayashi told *American Shipper* that the operation of 9,000-TEU ships raises terminal, intermodal and commercial issues.

"As someone who is reasonably concerned about the future of the industry, I would want to be reasonably careful about this important subject before endorsing any new mega-size scheme," Wakabayashi said. He said that infrastructure areas to be considered include terminal facilities, yard space, gantry crane capacity and productivity, chassis logistics, computer systems and inland transportation.

Scale economies may result in a lower cost of slot on board mega-vessels, Wakabayashi said. But such vessels may adversely impact service quality, as three or four days would elapse from the time the first container is unloaded in port to the time the last container leaves the port.

If 9,000-TEU ships are operated in the transpacific between South China/Hong Kong and a Californian port, about 4,000 containers of 40-foot will be discharged in the single U.S. port of call. Of these, more than half would be destined for intermodal rail transportation, he said.

"One train is physically limited to 240 40-foot containers," Wakabayashi said. Therefore, about 10 double-stack trains would have to be arranged to move the inbound containers from one such ship.

"Unless those problems can be solved through infrastructure improvement, I think it would be extremely difficult to simply accept and welcome such a trend towards jumbo-sized ships as an answer for improving service," Wakabayashi said.

He also warned that if it takes four days from the ship arrival to the unloading of the last inbound container, the real transit will stretch from eight days for the first container discharged to 12 days for the last one, for a typical port-to-port transit.

"Four more days ... is not competitive," he said, adding that shippers may have to be given a lower freight rate for slower-moving containers.

"K" Line has ordered a series of 12 post-Panamax vessels of 5,500-TEU, and has thus been conservative in their size compared to other shipping lines.

For shipping lines and for ports, another risk associated with the operation of very large vessels is the prospect that they could spend of higher proportion of their time in port than today, despite their substantially higher daily capital costs.

Relatively little is known publicly today about the additional land and rail link requirements of future large vessels.

But many large terminals have already installed large container gantry cranes that can handle 19-container-wide vessels.

Cost Saving. Wakabayashi said the port-to-port cost saving from operating a 9,000-TEU ship is "perhaps $150" per trip per TEU, but would only be achieved if the vessel was fully utilized. He echoed a criticism made recently by Martin Stopford, research director of London-based shipbroker Clarkson, that such ship economies are small.

It is known that vessel operating and port expenses represent only about one-third of the cost of moving a container from door-to-door.

Stopford

However, a spokesman for Samsung argued that savings from very large containerships are real.

"It is expected that, with this 9,000-TEU-class vessel, the transportation cost can be reduced by more than 17.7 percent," compared to the alternative of utilizing two 4,500-TEU vessels to move the same volume of cargo. The unit cost per TEU comes to $171 for a 9,000-TEU ship, as compared to $208 for a 4,500-TEU vessel, according to Samsung.

"The company has endeavored to develop an optimum vessel prototype in consideration of the present status of the facilities and cargo-handling equipment at major ports of the world and their plans for expansion of the facilities," the shipyard said, referring to the 9,000-TEU design.

Public statements made by major carriers suggest that no shipping line today is considering building the ships of 12,000-TEU or even 18,000-TEU capacity advocated by the Dutch academic Niko Wijnolst and associates from Delft University.

However, the Korean shipyard Samsung said recently that it is pushing ahead with a plan to develop a 14,000-TEU vessel design. ■

WTSA warns of reefer equipment shortage

LOS ANGELES

Major transpacific container shipping lines of the Westbound Transpacific Stabilization Agreement have voiced concerns over refrigerated container equipment availability for U.S. agriculture exports to Asia.

The carrier group said market demand for U.S. exports of fresh and frozen fruit, vegetables, meat and seafood remains high, and U.S. pork and poultry producers are likely to "pick up some of the slack in sales to Asia, as Europe sells more of its total pork and poultry domestically." The carrier group cited the foot-and-mouth epidemic in Europe.

Increased beef and pork shipments from Australia and Canada to Asia in the wake of the European epidemic, along with stepped up intra-Asia bookings, also have begun to pull transpacific equipment returning from Asia out of the U.S. trade lane, a spokesman for the carrier group said.

"We're seeing strong demand as it is, but the European situation is something of a wild card, because it has the potential to alter equipment positioning patterns in ways that affect all U.S. shippers of refrigerated cargo," said Albert A. Pierce, executive director of the Westbound Transpacific Stabilization Agreement.

Refrigerated shipments from the United States to Asia grew 7.2 percent in 2000 over 1999 to more than 232,000 40-foot containerloads.

The forecast for U.S. apple exports has been raised to 670,000 tons in 2001, up 25 percent from last year, the carrier group said. Nectarine sales to Japan are expected to rise significantly, and citrus exports, mainly oranges and grapefruit, are forecast to increase by 1.1 million tons.

Amid this growing demand, the carrier group warned of potential operational and economic difficulties ahead. Given relative freight rates, "it is increasingly likely that a refrigerated container arriving in Asia from the U.S. will not return directly, but will be diverted for a time into the intra-Asia or Australia trades," it added. ■

Kent Line sharpens East Coast focus

Canadian niche carrier moves from Philadelphia to New York; adds Florida port calls.

By Chris Gillis

Kent Line International has long enjoyed its niche between Eastern Canada and the Caribbean ocean freight markets, but now the carrier wants to focus more attention on some of the U.S. East Coast markets in between.

The Saint John, New Brunswick-based liner carrier recently moved its primary Northeast port call from Philadelphia to New York and added the Florida ports of Jacksonville and Port Everglades to its vessel voyages.

Kent Line wants to link its container service as close as possible to shippers that rely on the East Coast North America/Caribbean trade for their business.

"We're working these markets intelligently," said Graham Fraser, vice president and general manager of Kent Line.

In Brooklyn, N.Y., where a large business community has evolved around the U.S./Caribbean trade in recent years, Kent Line's arrival at Red Hook Terminal was a welcome sight.

"It's a very good move," said Sydney F.M. Ross, president of Eagle Shipping and Trading Corp., a Brooklyn-based non-vessel-operating common carrier specializing in the Caribbean trade. "It will help to cut down our costs and give us more time to work the containers."

"This demonstrates Kent Line's commitment to the markets we both serve," said Gordon Berment, Northeast regional manager for Laparkan Shipping in New York. The company moves about 40 TEUs a month with the carrier to Jamaica, Trinidad, Barbados, Guyana and other points in the Caribbean.

The 22 company members of the Brooklyn-based Caribbean American Shippers' Association have committed about 700 TEUs under a service contract with Kent Line. "We expect this to increase with Kent Line's ships calling first at Jamaica," Ross said.

"Kent Line has invested heavily over the last two years in owned tonnage, container equipment and IT systems, which provide a stable platform for further expansion."

Graham Fraser
VP & general manager, Kent Line

The outbound Florida market, however, will be more challenging to Kent Line. "It's a very competitive market," Graham said. "Carriers build strong niches and there's little cooperation between them."

Kent Line partnered with International Port Services Inc. (Interport) of Miami as its sole agent in the South Florida market. Interport is an affiliate of Intershipping C.A., Kent Line's Venezuelan partner. The carrier plans to place several sales and pricing staff at the offices of Interport in Florida. "Pricing and sales needs to be close to this market," Fraser said.

Prior to this move, Kent Line served Florida from Eastern Canada through a slot charter arrangement with Miami-based Seaboard Marine. Earlier this year, Seaboard decided to terminate the agreement.

But Kent Line remains undaunted by the termination of the arrangement with Seaboard. "We look forward to offering services in our own right from Florida," Fraser said.

Kent Line hired Lance Gibbs to manage its Florida/Caribbean business from Miami. Gibbs, an ex-West Indies international cricketer, has a long career in the transportation business. Over the years, he's held management positions at Booker Shipping in Guyana. He also served as Crowley's Leeward and Windward Islands specialist, and managed Bernuth Line's Guyana service.

The carrier already moves about 15 to 20 40-foot containers a week from Canada to Florida. "We see this growing with the addition of Port Everglades and Jacksonville," Fraser said.

The carrier says all-water service from Canada to Florida is a cheaper alternative to trucking down the East Coast and avoids the congestion and customs clearance process delays at the U.S./Canadian border.

Kent Line is a subsidiary of J.D. Irving Ltd., a large family-owned business of firms specializing in forest products, building materials, steel, shipbuilding, petroleum and transportation.

"Kent Line has invested heavily over the last two years in owned tonnage, container equipment and IT (information technology) systems, which provide a stable platform for further expansion," Fraser said.

Today, the carrier owns and operates two 1,000 TEU-capacity vessels, the *Kent Express* and *Kent Sprint*,

which were delivered new to the carrier in 1999 and 2000. The carrier charters a third containership with a capacity of 1,100 TEUs, the *Kent Courier.*

In addition, the carrier has built up a new dry van equipment fleet. It also specializes in the movement of temperature-controlled cargo and over-dimensional freight.

The full weekly rotation for its three vessels is Saint John; New York; Jacksonville; Port Everglades; Kingston, Jamaica; Rio Haina, Dominican Republic; San Juan, Puerto Rico; La Guaira and Puerto Cabello, Venezuela; Point Lisas, Trinidad; Bridgetown, Barbados; Saint Lucia; San Juan; and back to Saint John.

Kent Line carries about 800 TEUs a week to the Caribbean, of which about 200 TEUs are reserved for refrigerated cargo. Last year, the carrier moved more than 40,000 TEUs between Canada and the Caribbean.

Three quarters of its cargo is carried on the southern leg of its vessel voyages. The carrier is exploring opportunities to expand northbound cargo flows.

"We have to become more creative with how we attract northbound cargo," Fraser said. "Some commodities from South America are easily converted from breakbulk to containers."

With the *Kent Courier's* larger size, Fraser said the vessel is ideal for transporting empty containers back to Canada.

Kent Line is not concerned about becoming the biggest carrier in the Caribbean, just offering a consistent service. Some of the biggest competitors in the market are Tropical Shipping, Tecmarine Lines, Seaboard Marine, and Navieras/NPR.

"In the Caribbean trade, it's tough to be all things to all shippers," Fraser said. "In some places you're at the top and in others you're somewhere in the middle in terms of the competition. It's all about how you're supported by the trade in these individual island markets."

Since Kent Line is a subsidiary of Irving Transportation Services, the carrier has access to an extensive inland transportation network in Eastern Canada and New England. This includes Irving's NB Southern Railway, which connects to the larger rail networks of Canadian National and Canadian Pacific. The carrier has over-the-road connections through Irving's trucking companies Sunbury, Midland and RST.

Outside of its Canadian/U.S. East Coast/Caribbean container business, Kent Line also operates a breakbulk vessel, the *Kent Voyager,* on a bimonthly rotation between the East Coast of Canada and Maine to ports in Spain, France, the Netherlands, United Kingdom and lower Baltic region. ■

SMA fixes shortened arbitration process

Abuses of Shortened Arbitration Procedure forces Society of Maritime Arbitrators to enact changes.

NEW YORK

The Society of Maritime Arbitrators has solved a troubling problem.

In 1989, the SMA introduced a Shortened Arbitration Procedure, "designed to provide a quick and inexpensive method to resolve small and simple disputes which do not require a full-scale arbitration," said Lucienne Carasso Bulow, SMA's president.

Bulow

Twelve years later, the shortened process had been burdened to the point of cracking, because many disputes using it for arbitration were "much larger and far more complicated than was originally intended for this procedure," Bulow said.

The same was true in London. Following the introduction of the Shortened Arbitration Procedure in New York, the London Maritime Arbitrators Association started its own Small Claims Procedure. In a recent LMAA bulletin, an arbitrator complained that parties to complex disputes had deliberately misapplied the small-claims form.

Sole Arbitrator. Full arbitration usually requires three arbitrators, and can last for years while attorneys for each side depose witnesses in a process known as 'discovery.' There is ample room for mischief, especially if one side unnecessarily prolongs a case.

Bulow and the SMA decided to recast the Shortened Arbitration Procedure in a form that would be closer to what the Society originally intended. London will undoubtedly follow New York's lead.

The 2001 revised Shortened Arbitration Procedure calls for the appointment of a single arbitrator. "The claimant shall nominate an arbitrator from the SMA roster to act as sole arbitrator, and simultaneously request the respondent's agreement. Failing a response ... within 10 days, the arbitrator so nominated shall become the sole arbitrator," the procedure states.

If neither claimant nor respondent can agree on a single arbitrator, the respondent proposes "three other persons" from the SMA. If neither side at that point can pick an arbitrator, the president of the SMA will do so swiftly, and "that appointment shall be binding on the parties."

No Oral Hearings. The revised procedure then takes a step that will dumbfound anyone who has agreed to formal arbitration. No oral hearings are permitted. "Within 15 days of appointment, the arbitrator shall establish a written schedule for the prompt submission of the claimant; initial statement of claim, with all supporting documents," the procedure states.

The respondent must reply with its response and counterclaim, in writing, "within 20 days of the claimant's submissions."

Aware of the capriciousness of human nature, the SMA gives the sole arbitrator leeway to vary the schedule "by a few days." Furthermore, revised procedure states that "short replies by both parties as to each other's defenses may be exchanged consecutively or simultaneously, at the arbitrator's discretion."

The timeline allows a claim, defense, counterclaim, and a brief reply to the counterclaim, to be filed in a few weeks, instead of a half-year usually required in formal arbitration.

No Discovery. The procedure then stipulates two other improvements that, welcome though they may be, have caused tremors through the ranks of attorneys.

"The arbitration shall proceed on documents alone," the short-form rules ordered. "There shall be no discovery, except as deemed necessary by the arbitrator."

No discovery means no dragging out of the case.

Also, both parties are allowed to file only four items of dispute, although at the arbitrator's sole discretion, "a reasonable amendment to this limitation is permitted."

Finally, the shortened procedure sets fees that fall more in the realm of sweet reason than extortion: Legal expenses that can be awarded to a prevailing party are capped at $2,500; the sole arbitrator receives a maximum of $1,500 "for fees and expenses."

To see that closure is brought about readily, the arbitrator must issue an award within 30 days of receiving the final documents, or within 30 days of having declared that the proceedings are closed.

The revised Shortened Arbitration Procedure went into effect March 1. It is likely to reverberate beyond the SMA in New York, becoming a model for the thousands of arbitrations around the country. ■

P&O Nedlloyd expands Down Under

Vessel sharing agreement with ANZDL, Columbus Line, FESCO calls more ports with fewer ships.

NEW YORK

Fewer ships, more ports defines the communal rationale behind P&O Nedlloyd new Australia/New Zealand/North America service as part of a cooperative pact with Australia New Zealand Direct Line, Columbus Line, and FESCO.

The ANZ PAC service comprises two strings, with weekly port coverage from Manzanillo, Mexico, to Vancouver, with connecting ports in Australia, New Zealand, Tahiti, Fiji and Hawaii.

"Our vessel-sharing agreement with the other carriers had been under discussion off and on for the past 18 months," said Paul E. DuVoisin, P&O Nedlloyd's senior vice president for the Australia-New Zealand trade.

"That's a long period in our business, but the gestation for this agreement has justified the time put into it. The test for us is that, if we asked ourselves today, 'would we do it again?' the answer is yes," he said.

"Our previous product was getting a little old, and we needed to address that," he said. P&O Nedlloyd had a joint service in the Australia-New Zealand trade with Columbus Line, which ended as the new service started. "We now have a broader service, with more direct port calls, that places the right capacity in the right segment in this trade. We're talking about a long, thin trade with specific imbalances. To deal with that, we have created a zone effect where capacity is matched to the needs of shippers in those segments."

"There's more frequency, with two sailings a week, with shorter transit times to the main ports of Melbourne and Sydney. There are two port calls now in New Zealand, all of which means reduced waiting times for shippers," he said.

"We've allocated the space available into four zones. One extends from North America to Australia and New Zealand. There are two zones within the Trans-Tasman trade — one eastbound, the other westbound — and then a fourth zone back to North America," DuVoisin said.

Each zone has its own particular requirement. "The focus for the southbound is dry cargo, which weighs less, and we use one format for ship capacity. In the Tasman trade, the cargo from New Zealand to Australia tends to be forest and dairy products. The boxes are heavy, so the ships in that service have to conform to meet that need.

Paul E. DuVoisin
senior VP for Australia-New Zealand trade, P&O Nedlloyd

"We now have a broader service, with more direct port calls, that places the right capacity in the right segment in this trade. We're talking about a long, thin trade with specific imbalances. To deal with that, we have created a zone effect where capacity is matched to the needs of shippers in those segments."

Our allocations have to change accordingly," he said.

"From Australia to New Zealand, you have more manufactured products, more reefer products that weigh slightly less, so the ships conform to that. On the homeward voyage to North America, you run a large amount of reefer cargo, so there's another adjustment to be made."

Previously, the carriers were running 22 ships "to try to individually match all of that need. In this cooperative agreement, we'll be running 15 vessels that actually do more than the 22 did before," DuVoisin said.

Reconfiguring the ships for reefers involves more than connecting power cords from generators. "We have to reconfigure in terms of the two strings, factoring in the ports where loading and discharging can be done most efficiently," he said.

In planning the cooperative service, P&O Nedlloyd looked at core ports. "We wanted one port call in the Pacific Northwest: Seattle-Tacoma, and then Oakland." As for southern California, the carrier chose Los Angeles over Long Beach.

"We decided to use Auckland and Tauranga," the two main ports in New Zealand, DuVoisin said. "Then, because we were running two strings and we wanted to improve transit, one string goes to Sydney first. The other goes to Melbourne first. Through that combination, we have created a product that reduces transit times to all of the main ports."

"In terms of the vessel sharing agreement, all of the lines have a configuration of their own ships, said Kate Rawlins, P&O Nedlloyd's vice president for the Australia-New Zealand trade.

Rawlins

"The length of the agreement is written indefinitely, but it has a minimum period running to the end of December 2002," she said.

"That also gives us the ability to review to see how best to upgrade the service to meet demands in the trade," DuVoisin said. "It's not a fixed set of ships for a short period of time, but a rather considerable commitment, by today's standards."

"Working with the Russians in FESCO has been smooth. They are very professional ship managers," he said.

"We had just a clear reason to share vessels: to improve everybody's product," Rawlins said. "Given that collective goal, relations between the lines have been pretty good. It's been very realistic in terms of which tonnage was used or preferred."

"Every day saved counts on such a long route. We are committing to cutting two days," DuVoisin said. "We have built enough sea contingency time into the schedule to maintain that commitment 90 percent of the time."

"If one of our partners had the best transit time in any port-to-port relationship, we used that as a benchmark for what could be achieved. If you have two services, it's much easier to schedule optimally than if you just have one rotation," Rawlins said.

More carriers today are expressing concerns about misdeclared cargo, especially hazardous materials. Asked if shared vessels are more prone to such risk, Rawlins said, "We've spent so much time in seeing that hazmat procedures are strictly followed in our agreement by all participating lines."

"I can see no reason why working in a vessel-sharing agreement would be any more susceptible to problems of misdeclaration than working individually. There would be no additional risk at all on that account," she said. ■

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IATA'S Jeanniot calls for industry restructuring

Pierre J. Jeanniot, director of the International Air Transport Association, said bilateral treaty provisions and "archaic" foreign ownership rules are preventing airlines from making profitable restructuring moves.

Jeanniot, speaking at the opening of the Airline Financial Summit 2001 in New York April 5, said these restrictive rules keep airlines from necessary consolidation.

"Only a profitable airline industry can deliver the type of price/quality ratio the consumer expects," he said.

Jeanniot noted the frail profitability of the air transport industry, caused by competitive pressure on yields, cost increases caused by higher fuel prices over the past two years and the slow impact electronic commerce has had on airlines' marketing costs.

"The fundamental laws of economics have not changed — and our industry should better manage itself accordingly," he said."

Jeanniot also pointed out the inefficiencies that airlines face at airports. While airlines have privatized, many airports and air traffic control facilities "remain as government monopolies, with perennial inefficiencies and capacity shortages," he said. And those airports that have privatized "have been regarded as licenses to print money, in the absence of independent watchdog authorities."

Air freight carriers lobby against FedEx/USPS contract

Emery Worldwide, Evergreen International Aviation and Ryan International Airlines said they will step up their opposition to the recent major contract between the U.S. Postal Service and Federal Express.

In a joint statement, the three companies alleged that the deal will add to costs and give FedEx monopoly powers. The contract will replace the previous system of distributing USPS freight among several carriers.

"Mail users, taxpayers and our companies will pay a high price for the fatally flawed contract between the Postal Service and FedEx," they said. "The unprecedented contract is worth more than $6 billion over seven years. USPS prohibited competition in making FedEx the sole source carrier for the three types of mail most important to the general public," they added.

The joint statement was made by Jerry Trimarco, chief executive office of Emery Worldwide Airlines; Delford Smith, CEO of Evergreen International Aviation; and Ron Ryan, CEO of Ryan International Airlines.

The air freight carriers' written testimony on the FedEx issue is being submitted to the U.S. House of Representatives' Government Reform Committee, in relation to a committee hearing on Wednesday.

The carriers alleged that USPS "understated the expenses of the FedEx arrangement and ignored a proposal by a potential competitor that actually would have reduced costs."

The air freight carriers said that, along with several other companies, they are petitioning the Justice Department to open a formal inquiry into the antitrust aspects of the transaction. "By granting FedEx control over air transportation, USPS is further narrowing what is already a concentrated industry," they said.

Referring to national security, the air freight carriers alleged that the agreement threatens the existence of a number of the regional airlines that participate in the Civil Reserve Air Fleet, the partnership program between the air freight industry and the government that provides commercial aircraft to the military during an emergency.

Lufthansa Cargo to tighten network, expand alliances

Lufthansa Cargo's goals are to establish a seamless global logistics network, and to expand its markets through the New Global Cargo alliance, and with increased partnerships.

International companies "require one-stop worldwide logistics systems that encompass every step in the entire transport chain," said Andreas Otto, a board member for marketing and sales. "Lufthansa Cargo's aim is to have a worldwide, high-frequency route network serving global clients in place in a few years time."

Otto, speaking at a German Aviation Press Club meeting in Hamburg, said the New Global Cargo alliance, formed with SAS Cargo and Singapore Airlines, is a big step toward a worldwide network. The alliance comprises 618 aircraft, 10 major hubs and a network covering intra-Europe and Europe/Asia. The alliance, which is open to additional members will offer common express service later this year, he said.

Lufthansa Cargo plans to also expand its bilateral partnerships and its Business Partnership Program with international forwarders, Otto said. The partnership generates about 40 percent of the company's revenues.

The company, which was the first to launch time-definite services, should continue to see growth in demand for express and time-definite services, Otto said.

Lufthansa Cargo's sales efforts will shift to electronic channels, such as the company's eBooking system, online marketplaces such as the GF-X online air cargo trading platform and call centers, Otto said. Later this month, his company will introduce a fourth version of its online eBooking system, which allows shipments to be booked direct on Lufthansa Cargo from forwarding systems through Traxon and EDI in Germany, he added.

Otto said a possible night flight ban at Frankfurt airport is one of the greatest risks facing his company. "The global logistics chain does not stand still at night. Frankfurt airport is the backbone of the German export industry. Not just Lufthansa Cargo, but the entire economy depends on round-the-clock operation."

UPS plans intra-Asia hub in the Philippines

United Parcel Service, the express carrier and package delivery giant, said April 5 it has reached agreement to establish an intra-Asia hub in the Philippines.

Atlanta-based UPS said it signed a joint letter of intent with the Philippine government, and also signed a memorandum of understanding with the Bases Conversion Development Authority and the Clark Development Corp. to examine basing its hub at the former Clark United States Air Force Base in Pampanga.

The base, now called Clark International Airport, was once the largest U.S. Air Force based outside of the United States, has been run by the Philippine government since U.S. forces vacated in 1992. The airport offers more than 267 acres, and includes a pair of two-mile-long runways, four parallel and nine connecting taxiways and a ramp that can accommodate large aircraft.

"The Philippines' centralized location makes it possible for cargo aircraft to reach all major Asian cities in less than four hours," said Ron Wallace, president, UPS International.

Wallace also said the Philippine government offers an "expansive flight policy which will allow UPS to efficiently operate the hub. "This policy allows UPS to better use its own aircraft by limiting ground and air traffic delays and refueling problems."

UPS began its Asia Pacific operation in 1988, when it acquired Hong Kong-based Asian Courier System, and appointed Delbros Inc. as its service agent in the Philippines.

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Deutsche Post to spin-off its German parcel business

Last month, The European Commission concluded its antitrust investigation into Deutsche Post AG (DPAG) with a decision finding that the German postal operator, a beneficiary of letter monopoly, had abused its dominant position by granting fidelity rebates and engaging in predatory pricing in the market for business parcel services (see story, page 60).

In arriving at this decision, the commission investigated two critical issues:

- There was cross-subsidy between letter monopoly area and competitive parcel activities. The commission looked to see if the parcel service provided by DPAG in open competition covered at least the additional or incremental cost incurred in branching out in to the competitive parcel sector. The Commission considered any cost coverage below this level as predatory pricing. The Commission investigation revealed that DPAG, for a period of five years, did not cover the incremental cost of providing the mail order delivery service.
- DPAG's pricing below cost blocked market entry by efficient competitors and therefore prevented the shipping public from receiving a broader array of services at better prices. The commission investigation revealed that from 1974 through October 2000, DPAG gave substantial discounts to its large mail order customers on the condition that the customer sent its entire mail order parcel business or at least a sizable proportion thereof via DPAG. The commission felt that such a system of "fidelity" rebates precluded any private carrier from reaching the critical mass to successfully enter the German mail-order delivery market. It supported this conclusion in part by the fact that from 1990 to 1999, DPAG had an 85-percent share of the mail order parcel volume in Germany, estimated at 100 million parcels per year.

The implication of this ruling is that DPAG has agreed to separate its parcel business in Germany from the postal monopoly business with the creation of "Newco" within nine months of the ruling date. While Newco will operate as a stand-alone company, DPAG is expected to provide many operational services (particularly delivery services) to this new parcel carrier. In doing so, DPAG will be required to make those services available to other carriers (Newco's competitors) on same terms and conditions.

It appears that both cross-subsidy and lack of competition in mail order delivery market were relevant to the decision largely because DPAG is a beneficiary of postal monopoly. Hence, if Newco or any of its private competitors are able to offer equally attractive prices and gain 85 percent of the mail order market, the cross subsidies will be accepted as "bundled pricing" and fidelity rebates as "threshold incentives."

In the U.S. market, DPAG's counterpart, the U.S. Postal Service has avoided both situations by offering the same prices to all shippers and by being subjected to an exhaustive 10-month rate justification process with the Postal Rate Commission. An example of one such initiative was the introduction of Destination Bulk Mail Center or hub (DBMC) service and rates to encourage zone skipping.

In late 1980s, when USPS was experiencing competitive pressures from UPS in the Parcel Post business, USPS elected to implement options to increase the marketability of its service. It did so by offering very attractive rates that were supported by transferring certain high-cost functions (e.g. sortation and linehaul transportation) to non-union and more productive workers at consolidators. This helped private carriers reduce the overall cost of the service and provide faster transit times.

By offering DBMC rates, USPS facilitated growth of private parcel carriers (consolidators), and reversed the declining trend for its Parcel Post business. Just as the commission is requiring of DPAG, these special rates of USPS are available to all carriers including competitors like UPS and FedEx Ground. In fact, FedEx Ground (as RPS) used the DBMC service of USPS in early 1990s for deliveries to rural ZIP codes in western states.

Postal agencies around the world are facing similar challenges. The long-term implications of the European Commission ruling will not be limited to Germany and Europe. As USPS lobbies for changes in its corporate structure, U.S. Congress may be the first to take this ruling into consideration. Though in the near term, the marketing and operational capabilities transferred to Newco in this restructuring will have an immediate impact on the prospects of the new company and other private parcel competitors.

In the German market, if Newco is established mainly as a marketing and sales company, it could lose market share to domestic business parcel service carriers like Deutscher Paket Dienst and German Parcel. For business parcel service, these private carriers are better positioned, as they already handle all operational functions. For mail-order delivery service, these carriers will gain equal access to the lower cost residential deliveries via DPAG. Without building some in-house operational capabilities, Newco will also lack control over on-time performance, rate increases, volume discounts and introduction of new services. Thus the competition could benefit from this ruling to a greater extent than Newco.

On a global scale, Newco will lack the capabilities of other private carriers like UPS, DHL, FedEx and TNT. To be successful against such global competitors, Newco will need to rapidly develop alliances, make acquisitions or merge with carriers that can offer a broader portfolio of services.

While DPAG has preferred to retain its postal monopoly and spin-off the parcel delivery business, USPS is taking a different approach. It is offering to give up the letter monopoly in exchange for freedom to compete openly with services and volume-based pricing to withstand aggressive competition from private carriers in the parcel business and from technology companies in the letter/document business.

Irrespective of whether or how well Newco, DP or competitors like UPS succeed in this new environment, it is almost certain that the shippers and consignees will be presented with more shipping options, new services and pricing features. For global carriers that lack presence and looking to offer an alternative to UPS in the German market, Newco presents another opportunity for acquisition, merger or alliance.

Satish Jindel is a principal of SJ Consulting Group, Inc. During his 18 years in the transportation industry, Jindel has played a significant role in the start-up and expansion of RPS (FedEx Ground) and lead numerous strategic assignments for SJC Clients.

EU fines Deutsche Post $21.6 million

Ruling on rebates, predatory pricing requires postal giant to create separate entity for parcel business.

BRUSSELS

The European Commission fined Deutsche Post AG 24 million euro ($21.6 million), finding that the German postal carrier "abused its dominant position" by granting rebates, in addition to engaging in predatory pricing for its parcel services.

As a result of the EC's March 20 ruling, Deutsche Post, which holds a monopoly over German postal service, will create a separate entity for business parcel services. The new entity can procure services from Deutsche Post, competitors or provide the services itself. However, Deutsche Post services and goods provided to the new entity must be at market price; and the same prices and conditions must be provided to the new entity's competitors.

The commission began investigating Deutsche Post following a complaint by United Parcel Service in 1994, in which the Atlanta-based integrated carrier accused Deutsche Post of using revenues from its profitable letter-mail monopoly to finance offering below-cost business parcel services.

Deutsche Post has assembled a 30-billion-euro network of parcel, logistics and finance businesses in about three years, including Swiss forwarder Danzas AG, American forwarder Air Express International and two German banks. The EC's investigation was believed to have dampered Deutche Post's initial public offering last November, though the IPO netted about $6 billion.

The EC said its investigation found that for five years Deutsche Post did not cover the costs incremental to providing the business parcel services, which violated Article 82 of the EC Treaty.

Deutsche Post did not receive additional fines for this violation, the commission said, because "economic cost concepts use to identify predation were not sufficiently developed at the time this abuse occurred. Furthermore, DPAG has now tackled the issue in a satisfactory way."

The commission also condemned Deutsche Post's "long-standing scheme of fidelity rebates in mail order parcel deliveries." The EC found that from 1974 through October 2000, the German carrier gave substantial discounts to large mail order customers on the condition that they commit a large portion or their entire mail-order parcel business to Deutsche Post.

Klaus Zumwinkel
CEO, Deutsche Post World Net

"We think this is a generally positive result which will give our customers and the capital markets planning security."

"The fidelity rebate scheme has "essentially precluded any private competitor from reaching the 'critical mass' (estimated at 100 million parcels annually) to enter the German mail-order delivery market," the EC said. From 1990 to 1999, Deutsche Post's share of the mail-order parcel market topped 85 percent.

Deutsche Post admitted to the unlawful practice and said it has taken steps to avoid such conduct. "The 24-million-euro fine, which the commission has imposed corresponds with the provisions already made and published in Deutsche Post's accounts," the German post office said.

The commission said its ruling sets a standard for measuring those "cross-subsidies" between the monopoly area and those competitive activities where predatory prices result.

"Today's decision establishes clear rules on the issue of 'cross subsidies' that postal monopolies who are engaged in activities open to competition must respect," said Mario Monti, competition commissioner. "Pricing below cost must be paid by somebody and that 'somebody' is the monopoly's customers. Moreover, pricing below cost forecloses market entry by efficient competitors and therefore prevents a wider offer at better prices and service conditions."

Deutsche Post "welcomed the decision" in a statement. "We think this is a generally positive result which will give our customers and the capital markets planning security," said Klaus Zumwinkel, chief executive officer of Deutsche Post World Net.

UPS cheered the EC ruling and renewed its call to the U.S. Department of Transportation to revoke a foreign air freight forwarder license granted to DHL Worldwide Express, which is owned and controlled by Deutsche Post.

UPS said the restructuring of Deutsche Post won't occur for at least the rest of the year, giving the German post office time to funnel monopoly profits into DHL for its U.S. operations."

"Allowing DHL to retain this license effectively imports the unfair competitive practices of the Deutsche Post from Europe," said Mike Eskew, UPS vice chairman.

Earnings Soar. Deutsche Post World Net set new records for profits and revenue in 2000, with net earnings rising 48 percent to euro 1.53 billion ($1.4 billion).

Revenue rose 46 percent to euro 32.7 billion ($29.2 billion), while profit from operating activities jumped 158 percent to euro 2.38 billion.($2.1 billion).

"These record levels, as well as the increase in foreign revenue from 2 percent in 1998 to 29 percent last year, show that we are on track to become the number one global player in the logistics industry," Zumwinkel said.

The increase in revenue was mainly due to recent acquisitions, he said.

Profits in the mail corporate division practically doubled, to euro 2 billion ($1.8 billion) from euro 1.01 billion in 1999. Revenue rose slightly to euro 11.7 billion ($10.4 billion).

In the express segment, profit rose 27 percent to euro 76 million ($67.8 million), on revenue of euro 6.02 billion ($5.4 billion), up 26 percent.

Danzas AG, the Swiss forwarder acquired by the group, has been fully integrated into the logistics segment, which contributed euro 113 million ($100.9 million) in profit, on revenue of euro 8.3 billion ($7.4 billion), up 86 percent.

The financial services corporate division saw profit soar 771 percent to euro 505 million ($450.8 million) on revenue of euro 8 billion ($7.1 billion), up about 178 percent.

While mail has been the heart of Deutsche Post's business, it's role in earnings has softened as DP has expanded its express, logistics and financial services divisions. Despite strong growth in earnings last year, the mail division has gone from accounting for half of the company's revenue and 90 percent of its profit in 1999 to about one-third of earnings and 74 percent of profit in 2000. ■

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H-P picks Schenker, Panalpina

Hewlett-Packard's supply chain deal includes moving 2,000 tons of air freight a month to Europe.

ESSEN/BASEL

Germany's Schenker AG and the Swiss group Panalpina have joined forces to provide joint supply chain services to Hewlett-Packard in Europe.

The computer group appointed the two competing logistics and forwarding companies to ensure the supply of its products to wholesalers and retailers in Europe. The large project includes moving about 2,000 tons of air freight a month from Asia to Europe.

"We've chosen these two service providers for their ability to handle direct shipments," said Gordon D. Gilstrap, director of logistics for Hewlett-Packard in Fort Collins, Colo. "It's an option for shipping our products."

Schenker described the contract as one of the largest ever involving a combination of two logistics service providers.

Schenker and Panalpina, as global forwarding organizations that each employs more than 10,000 members of staff in hundreds of offices worldwide, usually go after such contracts on their own.

But Hans von Dewall, spokesman for Schenker, said the volumes involved required a cooperation with Panalpina.

"It's not common, definitely," he said. "We are competitors, but this is quite a volume ... The volume is extraordinary."

Von Dewall expects the air freight shipments to start with monthly volumes of 1,500 tons from Singapore, China and Taiwan. The maximum volume anticipated is 2,000 tons a month.

For Hewlett-Packard, the contracts with Schenker and Panalpina will help rush its newest product lines, such as laptops and storage devices, to market. "We have some stiff competition out there and we have customer demands that we're dead set on meeting," Gilstrap said.

A team of about 30 Hewlett-Packard managers and staff has spent the past year and a half developing ways to improve the company's international product distribution. The company's goal is to create "a set of supply chain models" into which to fit its products at the various stages of market demand: new, mature, and obsolete stages, Gilstrap said.

Roles. Under the contract with Schenker and Panalpina, customers will place their orders online with Hewlett-Packard, triggering demand-oriented production in the company's factories in Asia. At the same time, Schenker will receive information on the deadline for delivery of the order to the airport, enabling the company to reserve freight capacity and prepare the dispatch.

"This system reduces the throughput time for each order to a few days and permits a flexible reaction to the market," Schenker and Panalpina said in a joint statement.

The information systems used by Schenker will map the entire process chain in real time. Each order will have to be flown to the European hub and sorted by the recipient within two days.

The joint management of the project is led by Franziska Bohner of Schenker and Volker Boehringer of Panalpina. In an interview, they said that Panalpina and Schenker have set up "joint operational desks" at origin and destination points for the project.

The logistics and forwarding companies "are looking for a long-term involvement" for this contract.

Schenker and Panalpina will be jointly responsible for negotiating airlift capacity for Hewlett-Packard, supported by SwissGlobalCargo. The cooperation between Panalpina and Schenker will enable the companies to optimize the space allocation and offers scheduled, high volume airfreight capacities on cargo aircrafts — both commercial and charter, they said.

Schenker will be in charge of dispatching the orders from the airports in Asia, while Panalpina's subsidiary SwissGlobalCargo will organize the receipt of the goods in Europe and distribute them to the appropriate Hewlett-Packard consignees.

Distribution in Scandinavia, Poland and the Baltic countries will be provided by Schenker's own European land transport network.

In the rest of Europe, existing truckers and other providers of physical transport of Hewlett-Packard will continue to be used.

Panalpina and Schenker said they would use their networks of locations to fulfill the contract. "The interface management in this logistics project is made easier by close cooperation and in particular by the utilization of internal capacities," they said.

Contrary to fourth-party logistics providers, Schenker and Panalpina combine physical operations through their own networks with supply chain management, von Dewall said.

The two forwarding groups have set up a project team for the Hewlett-Packard contract and have started implementing it while final negotiations were being completed.

The contract has an indefinite duration, Schenker said.

Gilstrap said Hewlett-Packard has recently developed other direct international shipping contracts with Federal Express, MSAS Global Logistics, Danzas/AEI, and Expeditors International. ■

Schenker buys Dutch forwarder

ESSEN

Schenker's Dutch subsidiary Schenker International Nederland B.V. is acquiring all assets of the companies IDC Airfreight B.V., IDC Forwarding B.V. and IDC Logistics B.V. from the Dutch IDC Group B.V.

Schenker said the takeover would improve its air freight capabilities. Schenker has recently opened a logistics center in the Distripoort area of the Port of Rotterdam.

Atlas Air takes stake in U.K. airline

PURCHASE, N.Y.

Atlas Air Inc. said it has taken a 49-percent stake in a new United Kingdom-based airline, Global Supply Systems Ltd.

The new airline, started by entrepreneur John Porter, who owns 51 percent, will provide leases covering Boeing 747 freighter aircraft, including crew, maintenance and insurance, to U.K. airlines.

Global anticipates starting operations this fall, and will base its operations out of London's Stansted Airport. British Airways will be its first customer, wet leasing two 747-400s under a multiyear agreement. At that time, Atlas Air will convert its wet-lease contracts with BA to global. Global will lease those first two aircraft from Atlas.

"We believe that the demand for low-cost heavy air freight capacity in the U.K. will continue to grow. With this investment, we are positioning ourselves to capitalize on that growth, while adapting to the changing regulatory environment in the U.K.," said Richard Shuyler, chief executive officer of Atlas Air.

Atlas Air is based in Purchase, N.Y. ■

Panalpina buys back stake in SwissGlobalCargo

BASEL

The Panalpina Group said it has bought back a 45-percent stake in air freight operator SwissGlobalCargo which Panalpina had sold to SAirLogistics in April 1999.

SwissGlobalCargo is a joint venture between Swiss-based forwarding and logistics giant Panalpina and Swisscargo, the capacity management arm of SAirLogistics. Since last summer, the venture has been providing heavyweight time-definite air freight services between Europe and North America as well as between Europe and the Far East and South Africa.

Panalpina's principal shareholder, the Ernst Göhner Foundation, has repurchased a 10-percent stake that SAirGroup held in the share capital of Panalpina Holding. Consequently, Klaus Knappik, SAirGroup's representative on Panalpina's board of directors, has resigned.

Bruno Sidler, chief executive officer of Panalpina, said the re-acquisitions would not negatively impact the cooperation between Panalpina and Swisscargo, nor would it influence SwissGlobalCargo's operational performance.

Knappik said SAirGroup's sale of those interests reflects the company's aim to refocus on its core business: airport-to-airport air freight. ■

BAX Global signs contracts with Airbus, Air France

IRVINE, Calif.

BAX Global, the air freight forwarder and logistics provider, has signed contracts with two aerospace companies, Airbus Industrie and Air France.

The Airbus contract, which begins June 1, calls for BAX to act as one of the aerospace company's in-house forwarders at Airbus' Worldwide Material Service Center in Hamburg. BAX said it will handle about 2,000 to 3,000 shipments per month, or about half of the import and export of spare parts, part kits and repair parts for Europe's largest aircraft manufacturer. Airbus and BAX are developing a customs information technology inventory management and online tracking and tracing system.

The Air France contract calls for BAX to manage a "substantial part" of the airline's materials through its facilities at Orly and Roissy, France. The contract calls for time-definite, door-to-door delivery for all items imported and exported from parts vendors in Asia, France and the United States.

BAX has added five new aerospace contracts in the past year to a base of customers that includes British Airways, GE Engine Services, Air New Zealand Engineering Services, US Airways, British Aerospace, Rolls Royce, Sikorsky and Ansett Airlines. ■

Con-Way expands into air freight forwarding

ANN ARBOR, Mich.

Con-Way Transportation Services, the subsidiary of CNF, said it will enter the air freight forwarding business, when Con-Way Air Express opens May 14.

The new company will begin operating with 13 service centers and an agency network to provide service to all 50 states and Puerto Rico.

Con-Way, best-known for its North American less-than-truckload trucking service, began providing next-day and second-day services in 1983. The company expanded into time-definite delivery in 1996 through Con-Way Now, which uses dedicated trucks as well as air charter and next-flight-out operations.

"During the 1990s, North American shippers began choosing carriers by transit time and shipment characteristics," said Gerald L. Detter, president and chief executive officer of Con-Way. "The type of vehicle used to accomplish the delivery within the required time frame became a secondary issue. ... Our LTL and expedited operations have given us an excellent vantage point for services positioned on either side of the air freight market. Adding an air freight option for our customers is just a natural step in extending our services."

Gary Baude, a 22-year veteran of the air-freight industry, will head up Con-Way Air as vice president and general manager. Other management staff members are Mike Dodson, director of sales; Jim Mannfeld, director of operations; and John McManama, controller.

Con-Way Air has established service-price agreements with most of the major U.S. airlines, as well as agreements with a network of cartage agents to cover local pickup and delivery in and around airport zones, the company said.

The new company has also developed a software system, known as Sentry, equipped with exception management tools. ■

SAir Group reports loss, change of strategy

ZURICH, Switzerland

SAirGroup said it suffered its worth financial year in company history in 2000, due to a substantial loss by its aviation group.

Mario A. Corti, who was named group chairman and chief executive officer on March 15, vowed to realign its overall business strategy, including concentrating on core strengths and unloading its hotel chain.

Success in the group's airline-related divisions, including SAirLogistics and Swisscargo, failed to offset the aviation losses.

SAirGroup reported a net loss of CHF 2.89 billion ($1.66 billion) compared to net profit of CHF273 million in 1999. Revenues rose 24.8-percent to CHF 16.23 billion ($9.36 billion), due largely to acquisitions and organic growth. However, SAir saw an operating loss of CHF 16 million ($9 million).

The combined SAirLines division reported earnings before interest and taxes of CHF 24.8 million ($20 million) on operating revenue of CHF 7.17 billion ($4.13 billion), up 11.7 percent.

Losses from airline investments, value adjustments to loans and provisions established for restructuring costs, asset impairments and contractual obligations impacted SAir's bottom line by CHF 3.73 billion. Steeply rising fuel costs and surplus capacity exacerbated the problem, SAir said.

Swissair recorded a loss of CHF 195 million ($112 million) on operating revenue of CHF 5.79 billion ($3.34 billion).

Corti said the company would make a decision on its role in French airlines Air Littoral, AOM and Air Liberte, which together accounted for losses of CHF 600 million ($344 million). SAir holds a 49-percent stake in each of those airlines.

SAir said it would restructure Belgian airline Sabena, in which it owns a 49.5-percent stake and the Belgium government holds 50.5 percent. Sabena lost euro 325 million ($284 million) in 2000.

LTU, which lost $196 million, and SAir's 10-percent stake in Austrian Airlines are also under review, the company said.

Those results overshadowed SAir Logistics, which posted operating revenue of CHF 1.71 billion ($987 million), up 27.2 percent, and earnings before interest and taxes of CHF 99 million ($57 million). Swisscargo, with earnings before interest and taxes of CHF 69 million ($40 million), made the largest contribution to the results.

Corti, formerly chief financial officer of Nestlé, replaced Eric Honegger as chairman and Philppe Bruggisser as CEO. ■

Theodore Prince

E-mail: ted.prince@transgistics.com

The OSRA experience

Two years have passed since the Ocean Shipping Reform Act went into effect on May 1, 1999. The U.S. Federal Maritime Commission is conducting a survey of the transportation industry to evaluate OSRA's impact (see story, page 6). Release of the findings is expected later this year.

Industry observers mostly expect the results of the survey to closely track previous studies. The National Industrial Transportation League, one of the major proponents of OSRA, found shippers "cautiously optimistic" about the legislation, with points of concern centering around industry consolidation and the continued presence of discussion groups, which establish voluntary guidelines for rates and service.

Although labeled "deregulation," OSRA was not deregulation as we knew it with other modes. The ability to set rates without regulatory review and approval was granted in the Shipping Act of 1984. OSRA enabled parties to establish confidential contracts. This provision hastened the end of conferences, forcing steamship lines to ponder fundamental changes in the commercial basis.

Prior to OSRA, lines practiced cost-driven-pricing. Rates were established based on the cost of services provided. After OSRA, customers established what they considered to be the market rate for the services — subject to supply and demand. Lines were forced to engage in price-driven costing and take cost saving measures.

Today, lines are addressing basic expense issues. For example, equipment expense is under scrutiny. Severe equipment imbalances — characteristic of several trade lanes — are being evaluated. Empty containers stacked at depots remind us that it is now almost cheaper to buy a new container in China than to reposition an empty back there for reloading.

The Transpacific Stabilization Agreement, a discussion group of 14 major steamship lines in the eastbound Pacific trade, began imposing a $60 chassis fee earlier this year. This represents a partial unbundling of equipment expense to the customer. It also makes the resulting North American ocean rates more comparable to other trades, where the steamship line does not provide chassis — leaving that responsibility to the customer and trucker.

To reduce expense, steamship lines continue to invest in information technology. Some companies use the old standards of electronic data interchange, phone and fax. But more and more capabilities are being delivered over the Internet. A wide spectrum in Internet services is available. Services range from the most basic, providing general corporate information, to somewhat sophisticated (providing access to vessel schedules and tracking information) to fairly complex (a few lines allow the ability to book loads and release bills of lading).

Ocean carriers tend to move as a herd. Integration of the Internet into business is no exception. Two consortia have been established to provide neutral platforms for industry access. Late last year, five carriers announced the formation of INTTRA. Earlier this year, nine other lines formed the Global Trading Network (GTN). These efforts recognize the significant expense and effort in undertaking world-class electronic commerce initiatives.

There is another aspect to the technology initiatives. Some steamship lines are trying to expand into value-added services. These supply chain services depend on sophisticated information technology, as well as a great amount of customer integration. A customer that has gone through the time and effort of integrating a logistics provider will not easily consider converting to another provider. Such customer "switching costs" make the logistics business more easily retained than traditional ocean transport. There is also some belief that the logistics business is more profitable.

Much is being made of the financial condition of ocean shipping companies. Last year, many carriers reported strong financial results. This was largely due to strong Asian trade growth and the resurgence of other — but smaller — markets. While lines were unable to uniformly impose rate increases such as those they had obtained for the previous two years, they evidently were able to avoid giving back the increases. In addition, the trade imbalance allowed lines to operate an import-empty traffic cycle, which was more profitable than import-export.

Last year, TSA lines announced their intention of another rate restoration to take effect this May. The consensus of shippers is that this was mostly posturing and that service contract negotiations have been very favorable to shippers. There are two reasons for this result — supply and demand.

The supply side is affected by the unprecedented amount of capacity entering the trade. Last year, annual capacity deployed in the eastbound Asia/North America trade exceeded 10 million TEUs. Capacity growth is expected to continue. In 2000, there were almost 1 million TEUs of vessel capacity ordered for delivery between 2001 and 2004. Most of this new capacity is in post-Panamax vessels. In the next 12 months, it is estimated that almost fifty new vessels of 5,500 TEU size will be delivered. Many industry observers expect new capacity to exceed trade growth.

Demand is driven by the economy. Transportation is often seen as a leading indicator of recession and recovery. The slowdown in consumer spending may therefore dramatically impact the import trade. (Although there is some hope that a weaker U.S. dollar could increase exports, the economic problems in countries such as Japan weaken such a theory.)

Some economists wonder whether the United States is experiencing a new business cycle. Under the traditional model, economic growth continued until inflation raised prices — whereby the Federal Reserve System would raise interest rates and bring the economy to a recession. The Fed would then cut interest rates and the cycle would begin anew. The new business cycle is characterized by a lack of inflation and business over-investment. Recovery of the economy is therefore dependent on business resuming investment after absorbing the existing overcapacity. (This model could also apply to the liner shipping industry.)

Earlier this year, a flurry of rumors surrounded the alleged arrest of vessels operated by Cho Yang. The rumors turned out to be untrue, but industry observers remain attuned for signs of financial difficulty — and further merger and acquisition.

The legacy of OSRA may well turn out to be the further advancement of the ocean shipping industry, which serves the global economy, into the mainstream of that same economy.

Theodore Prince, a principal in Transgistics LLC, based in Richmond, Va., has spent his career in the surface transportation industry.

Truckers in slow gear with QP/WP

Customs' automated in-bond process offers better control to cross-border trucking operations.

By Chris Gillis

Sometimes it's difficult to know when you have a good thing.

This appears to be the case for the trucking industry when it comes to taking advantage of a U.S. Customs' automated in-bond management system, known simply as QP/WP.

So far, only one large trucking firm and a small Laredo, Texas-based niche operator have taken advantage of the system, which offers both companies more control over their in-bond cargo transport business.

Industry analysts pin QP/WP's overall failure to take off in the U.S. trucking industry to the customs brokers' traditional control of the in-bond process and to plain ignorance of the system. Both of these obstacles, they say, are largely due to Customs' failure to market the program to truckers.

In-bond shipments are imported merchandise that's allowed to move within the United States without paying taxes and duties. Often this cargo is held in bonded warehouses or at foreign trade zones until it's cleared through Customs or re-exported to another country.

The in-bond process is extremely paper intensive for both Customs and the industry. It's estimated that about 4.5 million in-bonds are initiated in the United States each year. The in-bond document, Customs Form 7512, requires detailed information, such as name of the bonded carrier, type of cargo, and the names of the shipper and consignee. Brokers are often asked by shippers to prepare and manage the in-bond documentation on their behalf.

To get a better hand on this burdensome process, Customs set out five years ago to develop an automated in-bond system, called the Tin Man, which is part of the agency's Automated Broker Interface module. ABI filers are able to create in-bond records in Customs' database via electronic data interchange transaction sets, QP and WP.

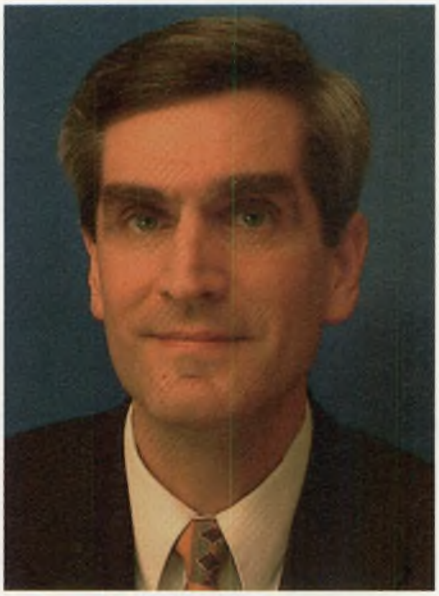
QP is the application that creates the records. WP allows the ABI filer to electronically report the arrival and export of in-bond cargo.

The system sounds like a brokers' program at first, but Tin Man is also designed to allow all surface transportation providers to have the ability to initiate in-bonds.

Taking The Plunge. Last August, Consolidated Freightways, a long-haul less-than-trailerload trucking firm, decided to integrate Tin Man's QP application in its cross-border operations.

QP allows Consolidated Freightways to electronically transmit manifest level data to Customs, shaving one to two days off transit times for its in-bond shippers. "By reducing paperwork and other clearance-based administrative activities, we can get shipments to our customers faster and more efficiently," said Dennis F. Freeman, customs compliance manager for the Vancouver, Wash.-based trucker.

Consolidated Freightways had some initial concerns about venturing into so-called broker territory by coming online with QP. But it quickly found that most brokers aren't enthusiastic about processing in-bond paperwork and would prefer to focus on their



"To make QP successful, it has to be looked at as a tool that helps both the broker and trucker."

Steven R. Graham
vice president,
Micro Software

Customs prepares for CAFES

WASHINGTON

U.S. Customs plans to begin implementation of a new system this month to further reduce the time it takes to clear trucks at the borders.

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

The plan is for shippers in Canada and Mexico to produce the in-bond forms (Customs Form 7512) with the 2-D barcodes. Truckers will carry these forms with them as they transport their shipments to the border. The Customs inspector will scan these barcodes to verify the shipments with information in the agency's system, and to determine whether to move it along. The agency said CAFES should help to eliminate some congestion at the land borders.

CAFES will ultimately give truckers an ability to interact with the agency's Automated Manifest System through the Automated Broker Interface electronic-data-interchange formats for in-bonds, QP/WP.

The agency held meetings with the industry to generate interest to participate in CAFES at the roll-out ports of Port Huron, Mich., and Laredo, Texas. The American Trucking Associations has expressed interest in the development of CAFES.

entry work. Nevertheless, "brokers don't like to lose perceived business," Freeman said.

A common perceived pitfall for broker QP participation is that Customs requires the originating broker to arrive the in-bond at destination. Consolidated Freightways encourages brokers to initiate the in-bonds and solves this dilemma by guaranteeing that it arrive the in-bond when the cargo reaches destination.

Meanwhile, Consolidated Freightways found immediate praise for QP at its 350 terminals across North America.

QP in-bond benefits

- Transmit electronic in-bonds directly to U.S. Customs.
- Control in-bond shipments by reporting arrivals and exports.
- Receive electronic departure authorizations.
- Transfer bond liability to reflect who is carrying the in-bond shipment.
- Arrive in-bond shipments at destination.
- Receive electronic Customs release and status messages.
- Receive warnings when in-bonds are not arrived.
- Protect against penalties from unresolved in-bonds.
- Enhance relationship with U.S. Customs and shippers.
- Provide electronic record retention.

Source: Micro Software Services

"When our terminal receives in-bond cargo, CF electronically transmits required documentation direct to U.S. Customs," Freeman said. "Under this new system, paperwork is eliminated and CF drivers no longer stop at a customs brokerage at the border."

In the paper in-bond environment, a trucker must notify Customs of a shipment's arrival by hand delivering documents at the nearest Customs office. "Even though in-bond freight is often cleared in transit, the paper-based step required for delivery authorization almost always results in unnecessary delay," Freeman said.

Other benefits to QP are the electronic ability to store information, reduce data entries, and other complete control of liability. "QP provides us full visibility of the in-bond transactions," Freeman said.

Consolidated Freightways' drivers, however, carry a copy of in-bond documents in their cabs to stay within the current Customs rules. If Customs requests the documents at any time, the driver can produce them.

"There's been a learning curve with this," Freeman said. "But once everyone understands how it works, QP is a win-win for all parties in the in-bond transaction."

Consolidated Freightways bought its QP application software from Micro Software Services, a Miami-based developer of QP software. The trucking company hopes to include QP functions in its future Internet applications.

In addition to Consolidated Freightways, Micro Software has also sold its PC-based software to 40 of the 45 brokers using QP. In November 1998, the company helped John Cassidy International to become the first broker to initiate an in-bond shipment in QP.

"To make QP successful, it has to be looked at as a tool that helps both the broker and trucker," said Steven R. Graham, vice president of Micro Software.

Trucking firm, Transmaritime, and its affiliate company Terrier Transportation Co., has used QP for the past three years to move ocean containers in-bond from the ports of Los Angeles and Long Beach, Calif., to Laredo, and from Houston to Laredo. A third trucking firm is also reportedly testing QP in its operations.


Scott

"We're looking at it right now, but we haven't committed anything to it yet," said Sandra A. Scott, customs and trade advocate for Roadway Express, based in Akron, Ohio.

"We welcome more competition to take advantage of QP," Freeman said. "Competition will make the system even better."

QP Enhancements. Still, QP needs further enhancements to increase its ability to manage in-bond moves. "The system is time consuming to use," said George Martinez, assistant manager for Transmaritime.

Truckers can use QP to move shipments in-bond to foreign trade zones, but that ability ceases when the goods leave the foreign trade zones. Two data elements are needed to cover the outbound foreign trade zone cargo: an outbound indicator and a company identifier.

"This is very simple and will cover lots of cargo moving out of the foreign trade zones," Graham said. Customs has said it plans to make the programming changes to accommodate this aspect of foreign trade zones in QP by summer.

Another big improvement to QP would be the addition of air-cargo in-bond shipments. Unlike ocean, truck and rail EDI formats, which operate at the master bill of lading level, the Air Automated Manifest System also includes the house waybill level.

For years, Customs has talked about adding in-bond function in Air AMS, known as project 323. It has yet to be implemented. "With Air AMS as an extension to QP, we would have a more complete in-bond management system," Graham said. ■

CN, Wisconsin Central file for merger

WASHINGTON

Canadian National Railway and Wisconsin Central Transportation Corp. have filed an application with the U.S. Surface Transportation Board to merge the two railroads.

The two railroads also filed a pre-merger notification and competitive impact brief with Canada's Competition Bureau.

The filings follow a WCTC shareholder approval of the $1.2 billion merger. CN's offer of $17.15 a share cash, plus assuming $400 million in Wisconsin Central debt, was approved by 99 percent of the stockholders on April 5.

The transaction will secure CN ownership and control of a link in its North American Free Trade Agreement network between Superior, Wis. and Chicago.

CN said its application has the support of more than 280 shippers, local governments, chambers of commerce, public agencies, and other railroads.

CN said it has the option to terminate the merger agreement without penalty if the STB does not treat the transaction as a minor consolidation, rather than a major rail merger. The STB is expected to decide on the status of the application within 30 days.

A moratorium on major merger applications is in force until June 11 while the STB makes final decisions on new merger rules for Class 1 railroads (see story, page 12).

Wisconsin Central said the merger, pending STB approval, should be completed by fall.

Rosemont, Ill.-based Wisconsin Central is CN's largest customer and has been hauling CN freight between Superior and Chicago under a 1998 agreement.

CN, which acquired Illinois Central two years ago, said it will sell off Wisconsin Central's overseas rail properties. Those include a 42-percent stake in English, Welsh and Scottish Railways and a 24-percent stake in Trans Rail Holdings, a New Zealand rail operator. ■

Where the rail meets the water

International Shipholding's all-water service to Mexico takes advantage of NAFTA.

By Chris Gillis

International Shipholding has long been successful at building profitable niche businesses.

Now the New Orleans-based liner carrier hopes to have that same success with a new U.S. Gulf/Mexico service. In February, International Shipholding launched CG Railway, an all-water rail service between the Port of Mobile in Alabama and Mexico's Port of Coatzacoalcos.

"We've always looked for areas where there are specialty transport needs," said Erik F. Johnsen, president of International Shipholding. "We thought it would be smart to offer a complementary rail service to and from Mexico."

With the North America Free Trade Agreement stimulating the movement of large cargo volumes between the United States and Mexico, traditional land-border crossings along the Texas/Mexico border are faced with increasing congestion and delays for truck and rail traffic.

CG Railway was created to shave significant transit times off railcar movements between the freight markets east of the Mississippi River and southern Mexico's industrial belt. The service promises shippers faster, more reliable service to Mexico, while railroads experience better use of their equipment.

The Mobile/Coatzacoalcos transit time offers a four-day spread between the two vessels in this niche. Each vessel operates within an eight-day round-trip voyage between the ports. CG Railway has arranged it so that a vessel arrives in each port the same day.

Careful Planning. International Shipholding spent a year and half planning the launch of CG Railway.

The company studied all aspects of the trade, including weather patterns in the region. "We looked at the weather maps over the years and most of the bad weather goes north into Veracruz area," Johnsen said. "The Coatzacoalcos area has good weather conditions."

Weather conditions in the Gulf are important to understand and monitor if CG Railway wants to maintain its eight-day, round-trip transit schedule.

A barge-load of boxcars are readied at the Port of Mobile for shipment to Mexico's port of Coatzacoalcos.

"This is going to run like a railroad. It will move back and forth like a railroad and be on time like a railroad," Johnsen said. "That means no deviations."

CG Railways obtained U.S. Surface Transportation Board authorization to operate, and is associated with the Association of American Railroads. The company joined Railcar Management's system to monitor and track its railcars in the United States.

CG Railway has signed interline agreements with Canadian National/Illinois Central, CSX, Norfolk Southern and Burlington Northern Santa Fe, which provide service to Mobile.

The company worked with the Alabama State Docks to upgrade an old finger pier into a modern rail-to-vessel terminal, a $3-million investment.

The vessels for the CG Railway — the *Bali Sea* and the *Banda Sea* — were formerly float-on/float-off special purpose ships used to transport materials under International Shipholding's long-time contract with Freeport McMoRan's copper and gold mining operation on the Indonesian island of West Irian Jaya.

International Shipholding replaced the two vessels under the Freeport McMoRan contract and had them converted to transport railcars. Each vessel has eight rows of tracks with a total capacity of 60 railcars and 30-foot-high sidewalls to protect against the sea, Johnsen said.

In Mexico, the company formed a joint venture agreement with railroad Ferrosur, S.A. de C.V., a subsidiary of Grupo Carso. "The senior management of Ferrosur have been helpful in detailing and determining for both parties the service requirements and advantages of the rail service for receivers and exporters," International Shipholding said.

"We view CG Railway as a partner," said Luis I. Olivera, commercial director for Ferrosur. The railroad manages the railcars to and from the ocean vessels at Coatzacoalcos and throughout southern and eastern Mexico.

Both Ferrosur and CG Railway have worked together to get the necessary operations agreements in place with the Coatzacoalcos port authority and with the Mexican government's Secretaria de Comunicaciones y Transportes and Administracion Portuarta Integral.

CG Railway officials said they have also received good cooperation from the U.S. and Mexican Customs officials and the Coast Guards of both countries to operate the service. Railcars are sealed at origin and the freight remains intact until it arrives at destination, Johnsen said.

Mobile's proximity to the Caribbean and Mexico has made it a focus of different rail-ferry schemes in recent years.

Since 1988, Pharmachem, the largest supplier of chemicals to Puerto Rico's pharmaceutical industry, has operated a rail-ferry barge service from Mobile to Ponce. The Chemex Service operates twice monthly, transporting about 24 tank cars per voyage to Ponce. The carrier brings back empty tank cars and some loads back to Mobile.

While Mobile offers a 900-mile route to southern Mexico's industry, as opposed to traditional 1,400-mile all-land route from Mobile to southern Mexico via Laredo, Texas, U.S. railroads have struggled to get a Mobile/southern Mexico service off the ground.

"Because of the logistics benefits involved here, a rail-ferry service from Mobile to Mexico would happen sooner or later. But the start up wouldn't be easy," said E.G. "Buddy" Browning, a 43-year veteran of the Mobile waterfront and manager of project development and marketing for Page & Jones.

Before joining Page & Jones last year, Browning spent 18 years with Illinois Central Railroad and 25 years with Alabama State Docks Terminal Railroad in various senior management positions. He was closely involved in the early attempts by railroads to start rail-ferry service to Mexico.

Niels W. Johnson (left), chairman, and Erik F. Johnsen, president, of International Shipholding Corp.

During the early 1990s, Burlington Northern Railway operated a barge rail-ferry service for railcars moving between Galveston, Texas and Coatzacoalcos. The 400-foot-long by 100-foot-wide barge moved carloads of grain to Mexico. At the time, the railroad had no land-border access to Mexico.

Burlington Northern wanted to expand to Mobile to cover the East Gulf market. But the service never got started, because the railroad merged with the Santa Fe Railroad. The merger gave former Burlington Northern access to Mexico through Laredo and its rail-ferry service was abandoned.

In the mid-1990s, CSX, through its so-called "Gato Marino" project, hoped to combine its operations with its marine unit, Sea-Land Services, to ferry railcars to southern Mexico. The Mexican government's privatization of the railroads and the devaluation of the peso, however, terminated the CSX project.

Shortly after, Illinois Central Railroad proposed another rail-ferry service between Mobile and southern Mexico in cooperation with Copenhagen-based ocean carrier Scan Lines. The service, called Gulf Link, was put on the back burner after Canadian National acquired Illinois Central in 1998.

International Shipholding's ability to start CG Railway was a major coup for the ocean transportation company and the Port of Mobile.

New Ground. International Shipholding operates differently from most scheduled liner services. The company has no interest in containerized freight, preferring to develop ocean transportation business opportunities in niche markets.

That's the way the Johnsen brothers, Erik F. and Niels W. Johnsen, have run their shipping business for the past 50 years, and the management style is expected to continue in the future of the company.

International Shipholding owns and operates the world's largest barge-carrying LASH (lighter aboard ship) vessel fleet, under subsidiaries Central Gulf Lines, Waterman Steamship Corp. and Forest Lines.

Central Gulf first introduced its first two LASH ships in 1969 and 1970. By 1998, the company's international LASH fleet had grown to 12 vessels.

The LASH system consists of small barges, each with capacity for up to 375 tons of cargo, that are towed between points on inland or coastal waterways and ports where the barges are lifted on and off a large "mother ship." These ships have a capacity to handle 82 to 89 LASH barges each. The LASH vessel fleet has become a major carrier for forest products, rubber, military equipment and project cargo.

But after 30 years of service, International Shipholding's LASH vessels are showing their age. The company will have to decide during the next several years whether to phase out or replace its LASH vessels.

Meanwhile, International Shipholding hasn't relied solely on its LASH vessel business. During the past 20 years, the company made significant inroads into the auto-transport business from Japan and Korea to the United States and Europe. International Shipholding has a fleet four roll-on/roll-off vessels for this service.

The company also operates a molten sulfur bulk carrier between Louisiana and U.S. Gulf ports for Freeport McMoRan. International Shipholding's self-unloading, conveyor-belt equipped coal carrier moves coal along the coast for New England Power Co. Two U.S.-flag ice-strengthened multipurpose vessels continue to operate in the polar regions for the Military Sealift Command, and a bulk carrier operates as part of a cape-size bulk carrier pool.

According to the International Shipholding's annual report, gross voyage profit was \$49.5 million for 2000, down from \$66.7 million in 1999. The company earned \$32.5 million in operating income, down from \$54.1 million in 1999.

International Shipholding attributed its loss to the divestiture of its Seminole coal transportation contract. "We expect to grow our operations with this behind us now," said Niels W. Johnsen, chairman of International Shipholding in New York.

Confidence Building. International Shipholding's venture into the railroad business is new territory. The success of CG Railway will hinge on the company's ability to generate steadily increasing freight volumes from railroads and shippers in the U.S. Gulf/Mexico trade.

"This is going to run like a railroad. It will move back and forth like a railroad and be on time like a railroad. That means no deviations."

Erik F. Johnsen

Historically, U.S. railroads were hesitant to let certain types of equipment cross into Mexico because of fears of protracted delays and inability to maintain control over the equipment.

"Capital cost and equipment utilization are the big issues for railroads," Browning said. "If the railroads can get additional turns in their equipment, that's where the profits are. Two turns per railcar every 30 days is desired."

The traditional land-border clearance for rail traffic into Mexico from the East/Gulf coasts takes about 45 to 60 days to turn a railcar, while with CG Railway railcars take 18 to 20 days to turn.

"We abide by the terms and conditions of the Association of American Railroads," Olivera said. "We don't expect to have any problems managing railcars (in Mexico)."

Georgia Pacific, a long-time user of International Shipholding's Waterman Steamship and Forest Lines services, was one of the first Gulf shippers to use CG Railway.

"International Shipholding has the muscle and staying power which gave me the confidence to try this service," said David Laurine, Georgia Pacific's assistant manager of marine transportation, based in Atlanta. "But the Mobile service will have to prove it can save money to the shipper, and that won't be easy."

Georgia Pacific moves about 30 to 40 railcars of wood pulp and particleboard a month to southern Mexico on CG Railway. "The potential is there to triple our volumes," Laurine said.

While CG Railway may appear to be a more efficient link between the East Coast/Gulf to Southern Mexico, it must contend with well-established land crossings along the Texas/Mexico border.

"So far they've done what they said they would do," Laurine said. "If they can continue to show that it's an alternative that makes economic sense, shippers will work with them."

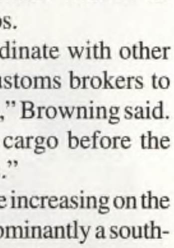
Alabama River Pulp, based in Purdue Hill, Ala., has also used CG Railway at the request of its Mexican customers. "We weren't terribly optimistic about the service when it was first announced, but our Mexican customers showed interest in it from day one," said Glenn Wiegel, manager of traffic and distribution for Alabama River Pulp.

The company plans to move 3,000 to 5,000 tons of wood pulp a month on the CG Railway. "The transit time is the benefit to our customers in Mexico," Wiegel said. "We haven't heard any complaints at all about the service."

Page & Jones operates as CG Railway's vessel agent and sales and marketing arm in Mobile. CG Railway has a similar arrangement with Representaciones Maritimas (Repmar) in Coatzacoalcos.

"Both companies coordinate with other freight forwarders and customs brokers to expedite the flow of cargo," Browning said. "We try to pre-clear the cargo before the vessels arrive at the ports."

While cargo volumes are increasing on the CG Railway, it's still predominantly a southbound trade, with mostly forest products and chemicals destined to manufacturing plants in Mexico. Olivera said Ferrosur will continue to promote the service to breweries and chemical, paper and industrial goods manufacturers in the industrial cities of Coatzacoalcos, Orizaba, Puebla, and Mexico City to increase northbound cargo flows.



Lyons

"I've watched International Shipholding over the years and it's a successful operation," said James K. Lyons, director and chief executive officer for the Alabama State Docks. "If anyone can pull this off, International Shipholding can."

"They're good marine operators and they're becoming good railroad operators," Browning said. "They did their homework." ■

Senate bill seeks repeal of fuel tax on railroads

WASHINGTON

A bill introduced in late March by Sen. Fred Thompson, R-Tenn., would repeal the 4.3-cent motor fuel excise tax imposed on railroads and inland waterway transportation.

The bill is identical to a House bill introduced earlier in March, and reprises a bill introduced in the last Congress by Sen. John Chafee, R-R.I. Congress voted to repeal the tax as part of the Taxpayer Refund and Relief Act of 1999, which was vetoed by President Clinton.

The tax had been imposed in the Omnibus Budget Reconciliation Act of 1993 on all transportation fuels as a means to help reduce the federal budget deficit. Prior to the act, the gasoline, aviation and diesel fuel excise tax had been considered "user fees," and revenue raised from the taxes was deposited into the transportation trust funds dedicated to improving highways, airports and waterways.

In 1997, Congress redirected the 4.3-cent gasoline tax back into the highway trust fund and the 4.3-cent aviation fuel excise tax back into the airport and airway trust fund as part of the surface transportation reauthorization bill, TEA-21.

"However, the final version of TEA-21 did not touch the tax on inland waterway barge fuel or railroad fuel, so that tax revenue is still being deposited in the general fund," Thompson said. There is no railroad trust fund.

The bill is co-sponsored by Senators John Breaux, D-La.; Frank Murkowski, R-Alaska; Jim Jefford, R-Ver.; Phil Gramm, R-Texas; Don Nickles, R-Okla.; and Blanche Lincoln, D-Ark. ■

Bipartisan bill would back short-line railroads

WASHINGTON

A bipartisan U.S. House bill would provide $350 million to the nation's 500-plus short-line railroads.

Sponsored by Representatives Jack Quinn, R-N.Y., Bob Clement, D-Tenn., and Spencer Bachus, R-Ala., the bill would set up a new program in the U.S. Department of Transportation to provide the capital to preserve and improve the short-line carriers' rail track.

The funds would be authorized for each fiscal year between 2002 and 2004.

The bill sets an 80-percent cap on the federal share of the project cost, and funds must be used as quickly as possible, within the three years of the allocation.

"This bill will ensure that short-line railroads get the funding they need to continue carrying out their vital role in local commerce," said Quinn, chairman of the railroad subcommittee of the House Committee on Transportation & Infrastructure.

Frank Turner, president of the American Short Line and Regional Railroad Association, said the bill "is vital" to the industry to save jobs and "to keep thousands of local shippers from losing their connection to the national rail network."

In a related development, Canadian National said it will support efforts to secure the federal funding. ■

MTMC adds automatic fuel adjustment system

WASHINGTON

The U.S. Military Traffic Management Command, the surface transportation logistics unit of the armed forces, has initiated an automatic fuel adjustment for motor carriers and railroads.

MTMC's Global Freight Management system will automatically show any fuel adjustments on the bills of lading. In the past, truckers and railroads incurring high diesel costs faced long delays in receiving MTMC fuel adjustments. During the past year, overland transporters took a hit when the price per gallon of diesel fuel ranged from $1.31 to $1.67 a gallon.

The idea to create a system which properly compensates truckers and railroads during times of soaring fuel costs was initiated at the National Defense Transportation Association's committee meeting in New Orleans last August.

The new automatic fuel adjustment policy is the result of a joint MTMC-industry fuel board, which first met last November. The board agreed to use the Energy Department's weekly fuel price as the governing national standard for diesel prices.

"The policy establishes a baseline fuel price — with a 10-cent per gallon margin," said Ruth Tetreault, traffic management specialist for MTMC, based in Alexandria, Va. "For example, if we establish a fuel baseline of $1.30 and the price of fuel goes above $1.40 — they will be automatically entitled to a fuel adjustment."

Industry representatives on the board praised MTMC's initiative to develop the fuel adjustment system. ■

Rutter picked to head Federal Railroad Administration

WASHINGTON

The Bush Administration has nominated Allan Rutter to be administrator for the U.S. Department of Transportation's Federal Railroad Administration.

Rutter is transportation policy director for the Texas Governor's Office where he has served since 1995. Prior to that, he was deputy executive director of the Texas High-Speed Rail Authority for five years.

The Arlington, Va.-based National Industrial Transportation League praised the administration's nomination of Rutter.

"I have known Allan Rutter for almost 20 years, and I have never heard a negative comment about him. His relationship with the president will help to elevate railroad issues to a higher priority and that will be good for the entire freight transportation industry," said Ed Emmett, president of the NIT League. ■

Groups seek extension on equipment retrofit

WASHINGTON

Four trade associations representing companies that own or operate intermodal equipment have petitioned the Federal Motor Carrier Safety Administration for a one-year extension of a deadline for retrofitting trailers, semi-trailers and chassis more than eight years old with reflective materials.

The FHWA had called for the retrofit to be completed by June 1. The trade groups noted in a joint statement that more than 430,000 trailers and chassis are affected: "Despite the industry's best efforts, a failure to achieve this goal by June 1" will render 193,000 units "potentially unavailable for use. The resulting shortage of equipment could lead to congestion and gridlock at U.S. ports, rail terminals, and inland facilities just as the peak shipping season accelerates."

The four groups are the Ocean Carrier Equipment Management Association, the Intermodal Association of North America, the Institute of International Container Lessors, and the Association of American Railroads. ■

Wallenius Wilhelmsen's terminal focus

Auto and wheeled equipment shippers benefit from carrier's hubs and computer technology.

By Chris Gillis

Wallenius Wilhelmsen already knows how to efficiently transport autos and other wheeled equipment to overseas markets.

That's why the Scandinavian carrier is stepping out onto its terminals to find out where it can further expand its business in the transportation management of roll-on/roll-off cargo.

"We'll continue to provide port-to-port transportation. But we want to do more than just that," said Jan Eyvin Wang, president of Wallenius Wilhelmsen Lines Americas, based in Woodcliff Lake, N.J. "We need to define what we need to do to help our clients succeed."

The merger of Wallenius Lines in Sweden and Norway-based Wilhelmsen Lines in July 1999 created the world's-largest ro/ro carrier in the ocean transportation industry. Today, the carrier's 60-vessel fleet moves about 1.8 million vehicles a year.

The merger also extended and consolidated the carrier's reach into shore-side logistics management of vehicles. Wallenius Wilhelmsen estimates that it moves about 1.4 million vehicles a year to inland destinations and processes about 200,000 vehicles through its vehicle processing centers in ports.

The carrier said its merger mirrors the consolidation of the auto and wheeled equipment manufacturing sectors in recent years, and the same goes for its development of hub terminals.

"Once these companies have acquired others, they no longer want their inbound and outbound operations spread out over many ports," Wang said. "We need to develop hubs which can be offered as possible main hubs for our customers."

Vehicles are traditionally shipped in bulk, with dealers maintaining large volumes of stock at destination. "Today, the dealers' stocks are learner as the manufacturers move toward specific production schedules and cycles," said Richard Lawson, senior vice president of Wallenius Wilhelmsen in the United Kingdom, who is responsible for the carrier's inland logistics processes worldwide. "We're matching our delivery service to that process."

Laying The Groundwork. Wallenius Wilhelmsen's terminal operations are most developed in the European and North American markets. Before the merger, the carriers had started developing terminal and inland transport operations into these markets.

In 1992, Wallenius set up Pacific Vehicle Processors in Port Hueneme, Calif., to handle vehicle shipments from Europe, Japan and Mexico, which are delivered to markets on the U.S. West Coast and Southwest. A rail terminal and two major interstate highways serve the 65-acre facility. Up to 8,000 vehicles can be stored there at a time.

Similarly, the carrier established Atlantic Vehicle Processors in 1998 at the Port of Brunswick, Ga. The East Coast facility was expanded to 50 acres in 1999, and has storage space for up to 6,500 vehicles.

Wilhelmsen created Australian vehicle handling firm Fleet Fit in 1998. The operation has since been expanded to include Melbourne, Perth, Brisbane, Townsville, Darwin, Sydney and Adelaide.

All three of these operations offer vehicle shippers automated inventory tracking, upgrades, body and paint repair and accessory installation services.

In Europe, prior to the merger, Wallenius also opened a 100-acre automotive terminal at Zeebrugge, Belgium, which handles up to 22,000 vehicles at a time. The facility provides inland transport by truck and rail, in addition to short-sea transport to markets such as Scandinavia, United Kingdom, Iberia, Mediterranean and North Africa.

Wallenius also built a small terminal at Finnish port of Hamina in 1998, which handles up to 1,000 vehicles mostly destined for the Russian market.

In the mid-1980s, Richard Lawson Autologistics Group set up a network of 35 vehicle processing centers and depots, mostly in the United Kingdom and Germany.

The company became involved in vehicle preparation for rental and leasing companies, manufacturer's fleets, and demonstration models, and delivered these vehicles in single and bulk allotments. It also refurbishes vehicles coming off lease to prepare them for sale or leasing again. Richard Lawson Autologistics has a fleet of about 700 transporters and contracts with 250 others to deliver vehicles to the pan-European market.

Wallenius bought a major stake in the company in 1991, and Richard Lawson Autologistics became a subsidiary of Wallenius Wilhelmsen after the merger of the two carriers.

New Hubs. Wallenius Wilhelmen's work on developing hub terminals is far from finished. The carrier recently signed a 20-year lease agreement with the Port of Baltimore. Negotiations between Wilhelmsen and the port began in 1996 during Maryland Gov. Parris N. Glendening's first trade mission to Norway to meet with Wilhelmsen officials.

As Wallenius Wilhelmsen's new North Atlantic hub, at least 3,000 vessel calls will be made at the terminal over the next two decades, with an annual cargo volume of 600,000 tons that could grow to 2 million tons a year.

Maryland state transportation officials have commited funds to develop the first phase of a multiphase project, which would provide about 50 acres and 120,000 square feet of covered shed space at Dundulk Marine Terminal. Additional phases would expand the terminal up to 150 acres. The contract also provides three five-year renewal options that could extend the agreement to a total of 35 years.

"A lot of planning and thought went into our selection process," Wang said. "Baltimore's commitment to customers and the port's strategic advantages, including an exceptional intermodal system, and a superior, highly trained labor force, met our needs best."

One of Baltimore's key advantages is its close proximity to the Midwest manufacturing base compared to other East Coast ports.

In the United Kingdom, Wallenius Wilhelmsen recently signed a $4.3-million agreement with Associated British Ports to build a new 11.75-acre car handling facility at the Port of Southampton. The new five-deck car terminal, scheduled for completion later this year, will accommodate up to 3,120 cars at a time. Four of the decks are covered to protect vehicles from the weather.

The facility will also incorporate the latest car-handling features and computer technologies, such as barcoding system to scan cars arriving at the terminal. Customers will also have online access to information about their shipments.

"We'll continue to provide port-to-port transportation. But we want to do more than just that. We need to define what we need to do to help our clients succeed."

Jan Eyvin Wang
president,
Wallenius Wilhelmsen Lines Americas

"Southampton has been a key strategic port for many years," Lawson said. "In the U.K. market, we're finding that manufacturers have less space for cars at their own plants, and could use our facility to stock their vehicles for short periods before the vessels sail."

The carrier's main customers in the port are Land Rover, MG Rover, Jaguar, Gefco (Peugeot), which export to the United States, Asia and Australia, while Ford and BMW are imported to the U.K. market through the port.

"This new facility will provide us with enough terminal capacity to cater for the growth of our customers' export programs well into the next decade," said Craig Jasienski, managing director for Wallenius Wilhelmsen in the United Kingdom.

Later this year, Wallenius Wilhelmsen will open a new terminal at Port Leam Chabang to serve Thailand's growing auto manufacturing industry. The operation will be developed in phases. The first phase will include 100,000 square meters of terminal space, which will be expanded as auto volumes increase. General Motors, BMW, Nissan, Toyota and Honda, have plants in the vicinity of the carrier's terminal.

Wallenius Wilhelmsen management is also studying possible locations for hub operations in China. "Since we've had a strong presence in the market for a number of years, we'll have the benefit of an existing infrastructure upon which to build," Lawson said.

Wallenius Wilhelmsen executives, however, admit that one-size doesn't necessarily fit all when it comes to developing terminals for markets. "While we can have a global strategy for ocean transport, we must always maintain a regional strategy for inland logistics," Lawson said.

The thread that holds the fabric of Wallenius Wilhelmsen's international terminal operations together is new information technology program, known as WW Solutions.

While Wallenius Wilhelmsen has always had systems to manage parts of its terminal operations, the carrier recently bought an i2Technologies software package, which covers the entire operation from tracking cargo to freight payment. Shippers are able to become interactive with Wallenius Wilhelmsen's system.

"The system has great flexibility and can be tailor made around the individual customer," Wang said. "We're implementing this system around the world."

Lower Costs. Since the high-tech hubs lower operations costs for Wallenius Wilhelmsen, the carrier is able to pass some savings onto its customers in the form of lower freight handling charges.

"If the carrier is using fewer ports of call that means they're using their assets more efficiently, which could bring down the costs to their customers," said Denny Carpenter, vehicle logistics department manager for Ford's worldwide direct market operations based in Allen Park, Mich.

Ford and its subsidiaries ship a high percentage of their vehicles with Wallenius Wilhelmsen. "They're putting together a good menu of services (at the terminals). The customer just chooses the process or processes it wants to use," Carpenter said.

Tim Poole, director of logistics for the U.S. marine division of Bayliner Boats, and general manager of the pleasure boat builder's in-house trucking fleet, said the development of Wallenius Wilhelmsen's hub ports has allowed his company to more efficiently consolidate its shipments into single truck loads.

For example, Bayliner's plants in Cumberland and Salisbury, Md. can ship

"While we can have a global strategy for ocean transport, we must always maintain a regional strategy for inland logistics."

Richard Lawson
senior vice president, Wallenius Wilhemsen

boats out of Baltimore rather than splitting up the loads between Baltimore and Norfolk, Va., Poole said. Bayliner can move up to six 17-foot and 20-foot boats per truckload.

Some heavy equipment shippers, however, benefit less from hub terminals. "We try to ship our equipment to dealers within a 500-mile radius of a port," said Paul Campbell, senior supervisor of transportation for Link-Belt in Lexington, Ky., a builder of excavators and construction cranes. "We don't want the dealers to have to pay exuberant land transportation freight charges."

Campbell said hub terminals would allow some heavy equipment builders to develop unit pools at the ports so that they could sell their equipment and load quickly on vessels as needed.

While other ports may not have the hub status, Wallenius Wilhelmsen has no plans to abandon transportation services to other ro/ro ports, such as Norfolk, Charleston, S.C.; Jacksonville, Fla.; Miami, Mobile, Ala.; New Orleans, Galveston, Texas; Los Angeles, Tacoma, Wash, and the Canadian ports of Vancouver, Halifax and Saint John. ■

Vancouver's take-charge port

Improvements to terminal management put containers in faster motion.

By Chris Gillis

The management of the Vancouver Port Authority in British Columbia has a lot riding on its shoulders.

It knows that a breakdown in terminal operations could quickly send containers to the arms of major U.S. seaports just south of the Canadian border. So the port authority is on constant alert for problems.

"It's a unique situation that we have here," said Kevin G. Little, vice president of business development for the Vancouver Port Authority. "We are a primary gateway (to Western Canada). We can't let it go down."

The port knows what it's like to lose valuable container cargo to U.S. ports. In late July 1999, Vancouver experienced a month-long trucker strike, which nearly crippled the port's operations.

The strike arose out of trucker frustration with staffing levels at the container terminals and wait times. Labor Relations Board mediator Brian Foley tried to head off the strike, but was unsuccessful.

The impact of the strike immediately caused carriers to divert cargo to U.S. ports. Shippers in the area also had to alter their supply chains or idle plants.

The biggest loser, however, was the Canadian economy. The Vancouver Port Authority estimates that each container that passes through the port generates Can $1,000 for the national economy.

Two weeks into the strike, the economy lost about Can $55 million and more than 7,000 containers remained stranded on the Deltaport, Vanterm and Centerm container terminals. Thousands of other boxes were diverted by on-dock rail to interior points. Norman Stark, Vancouver Port Authority's president and chief executive officer at the time, said the strike resulted in "terrible damage to both Vancouver's reputation and Canada's reputation in ocean trading circles."

But the port authority did not sit idly by waiting for the strike to resolve itself. It took action. "We had no alternative but to step in to establish some form of control," Little said.

During the strike, the port authority an-

Kevin G. Little
VP of business development, Vancouver Port Authority

"We have a team of five people whose job it is to come up with 1 million TEUs of infrastructure (new terminal capacity) in the port."

nounced a plan to introduce an Interim Container Licensing and Permitting Program for container trucking companies and independents that do business in the port. By signing the contract, trucking companies agree, like any of VPA's construction vendors, to pay fair wages to their employees/contractors. To complement this licensing program, terminal operators agreed to establish a gate appointment system. "Opportunity is born from crisis," Little said.

By August 25, the strike was over and the movement of containers from the Vancouver terminals resumed. Only one other strike hit the port in November that year, the result of a contract dispute between the British Columbia Maritime Employers Association and the International Longshore and Warehouse Union, which only lasted a week.

Last year, the port was strike-free, and was able to concentrate on infrastructure and terminal management upgrades. In 2000, Vancouver handled more than 1.16 million TEUs of cargo, a 9-percent increase over 1999.

Industry Relations. Meanwhile, the port authority maintains close contacts with carriers and shippers at the port.

"We're a close-knit community up here," said Dave Bedwell, executive vice president of China Ocean Shipping (Canada) Inc. "The port's philosophy of getting ocean and rail carriers, terminals and labor together has been successful."

COSCO is the second-largest container carrier to call the Port of Vancouver. The carrier transported 165,000 TEUs both loaded and empty boxes through the port last year. The Chinese carrier uses Vancouver as the first port of call in North America for some of its transpacific services.

"We used to fight each other all the time in this port," Bedwell said. "Now there's enough business to share. It's all about how we can improve the operation."

The carriers and shippers routinely interact with the port through the Chamber of Shipping of British Columbia.

"We tend to try to work together rather than confront each other," said Ron Cartwright, president of the Chamber of Shipping. "The port has been a strong partner in the development of the western maritime community."

The port became more efficient in decision making after the passage of the Canada Maritime Act two years ago. Under the new Canada Port Authorities system, individual port authorities have more control over their own destiny as opposed to the former system, which governed the ports from a central authority in Ottawa.

Some of the key provisions in the act, which will shape future port management, are:

- A nine-person board nominated by the private and public sectors.
- The ability to borrow up to $225 million for port improvements without central authority approval.
- The ability to create subsidiaries in non-core business.
- A reduction in the time to process land exchanges, acquisitions and dispositions and to approve business plans and capital expenditures.

"What's helped us with the act is that the approval process for improvements is much

Fairview Terminal is the Prince Rupert Port Authority's forest products and specialty grain facility.

Container visions

Fraser River and Prince Rupert ports believe they have ingredients for box shipments.

VANCOUVER, British Columbia

Why should Vancouver get all the containers?

That's what the port authorities of the British Columbia ports of Fraser River and Prince Rupert are asking. These two predominantly bulk ports are pushing to develop niche container businesses of their own.

"We encourage the aspirations of all the ports in British Columbia to exploit the advantages of being closer to hinterlands for special shipments," said Ron Cartwright, president of the Chamber of Shipping of British Columbia. "It's a healthy scenario."

Fraser handles some containers at the Fraser Surrey Docks, which caters mostly to forest products, steel, salt, ammonium nitrate, project and other general cargoes.

CSAV/Norasia had moved 3,500 to 6,500 TEUs annually to the port in a North/South American service, but the carriers terminated the service. The carrier members of the Australian vessel sharing agreement — P&O Nedlloyd, Australia New Zealand Direct Line, Hamburg Sud/Columbus Line, and FESCO — has started service to Fraser River Port.

Fraser has had two container cranes since the 1970s, and added a third, modern gantry crane last year.

"We have good truck access, but we need to continue to improve our rail infrastructure (to accommodate containers)," said Capt. Allen O. Domaas, director of operations and harbormaster for the Fraser River Port Authority.

"Not every port can be a load center or gateway," Domaas added. "We're simply focused on firming our niche."

Prince Rupert Port Authority believes it's a prime candidate for future West Coast container traffic.

"The biggest hurdle to develop Prince Rupert into a container operation is the mindset that this can't happen," said Don Krusel, president and chief executive officer for the Prince Rupert Port Authority. "However, go back 40 years and start the container revolution again and Prince Rupert would be circled."

Krusel

Prince Rupert touts a 115-foot-deep harbor, land space and rail connections. "We're going to market ourselves as a pure intermodal container port," Krusel said. "We can offer an express service between the North American heartland and Asia."

The port is eager to find new business as traditional bulk cargoes, such as coal, grain and forest products have fallen by half in recent years to about 14.6 million tons last year. "We're a commodity port and commodities are under pressure," Krusel said.

Industry analysts believe these ports will have a tough time convincing carriers to use their facilities.

"Would the carriers be willing to go to Fraser or Prince Rupert because of space problems in Vancouver? I don't think so," said Jim Fairweather, vice president of Greer Shipping Ltd. "The carriers still put up with the congested terminals in Vancouver."

Ron Cartwright
president,
Chamber of Shipping
of British Columbia

"We tend to try to work together rather than confront each other. The port has been a strong partner in the development of the western maritime community."

faster. Thus we can respond to the market faster," Little said.

Terminal Improvements. The port authority continues to make improvements to its two oldest container terminals, Centerm and Vanterm.

At Centerm, seven acres were added last year by filling in the bight between the terminal and the Ballantyne Terminal. The 72-acre facility has 10 incoming truck lanes and an on-dock intermodal yard, which is served by Canadian National, Canadian Pacific, BC Rail and Burlington Northern Santa Fe railroads. Containerships may dock at two of the four berths at the terminal.

The port authority has started adding a 53-meter berth extension at Vanterm in April to accommodate the bigger containerships. The extension should be finished by the end of the year, and will allow the terminal to handle up to two of the largest containerships at once.

But carriers still say the containers could be handled more efficiently in these two terminals, especially with how containers are stacked and moved.

"One terminal could affect the entire port, even though others are running efficiently," said Jim Fairweather, vice president of Greer Shipping, a steamship agent for several container carriers in the port and chairman of the liner committee of the Chamber of Shipping. "The port authority could set some performance standards for the terminals."

Deltaport is the port's most modern container terminal. It was opened for business in the Roberts Bank area in 1997.

"The port authority made a big leap of faith when it decided to build Deltaport," Fairweather said. "When they opened it, they had no lines signed up. Now it's a busy terminal."

The port recently paved 25 acres for additional container storage and plans to expand the terminal another 35 acres by the end of the year. The 100-acre terminal has six post-Panamax gantry cranes. An on-dock rail system is able to handle two maximum length double-stack container trains (440 TEUs each) at once, and is served by both Canadian National and Canadian Pacific railroads. The total capacity at Deltaport is 850,000 TEUs.

Managing container traffic growth will be a top priority for the port. "We have a team of five people whose job it is to come up with 1 million TEUs of infrastructure (new terminal capacity) in the port," Little said. ■

Vancouver containerized vs. breakbulk lumber

(1996-2000 in 1,000 tons)

	1996	1997	1998	1999	2000
Containerized	498	507	713	1,185	1,214
Breakbulk	1,980	1,487	747	669	735
Total lumber	2,479	1,993	1,460	1,854	1,949
% containerized	20%	25%	49%	64%	62%
% breakbulk	80%	75%	51%	36%	38%

Source: Port of Vancouver.

Lumber in a box

Low rates make containers an attractive alternative for shipping forest products.

VANCOUVER, British Columbia

It used to be that lumber shipments from Western Canada moved by breakbulk vessels, but low freight rates and changes in shippers' tastes in recent years have made the ocean container a more attractive way to move this commodity.

"Our industry has become one that doesn't like to keep a lot of inventory around, and containerships stick to good schedules," said Ian May, vice president of regulatory issues at the Council of Forest Industries of British Columbia in Vancouver.

A standard two-inch by four-inch building stud package for breakbulk transport consists of about 294 pieces. The containerized-version of these shipment packages are slightly smaller at 216 pieces. Japan, one of Asia's largest consumers of imported lumber, prefers its building lumber in 13-foot lengths.

The inside 39-foot length of a 40-foot container can make loading lumber shipments a little tricky. Containers of green lumber, which is 30 percent heavier than kiln dried lumber, can hold eight 13-foot-long packages and four 10-foot-long packages. Containers of kiln dried lumber can hold a dozen 13-foot-long packages and six 10-foot-long packages.

The rate differential between shipping green lumber in containers and breakbulk is generally $800, while the rate differential for kiln dried lumber is $1,200. The rates for these commodities are currently several hundred dollars below these differentials.

Despite the low rates, lumber shippers from the Pacific Northwest have suffered from sluggish Asian economies.

"Two years ago, we moved 20 containers a day. Now we're down to about 10 a day," said John Ellis, vice president of Global Pacific Terminals in North Vancouver, which specializes in loading lumber into containers. "It's still a brutal market."

To compensate during this slow period, Global Pacific has had to get involved in other types of cargo-handling business.

Some carriers have opted to ship their containers back to Asia empty because the outbound freight rates for lumber and other commodities are so low. "While lumber will never go all the way back to breakbulk, we have seen a shift back to that type of transport this year," said Kevin G. Little, vice president of business development for the Vancouver Port Authority.

The port handled about 110,200 TEUs or 1.2 million metric tons of containerized lumber exports in 2000, a 2.5-percent increase over the previous year.

Corporate Appointments

(800) 874-6422, FAX (904) 791-8836, e-mail, gburrows@shippers.com

Logistics

Cardinal Logistics Management Inc.

Jerry Bowman has been named executive vice president and general manager, responsible for business development and operations.

Bowman has more than 25 years of logistics and transportation experience, and served on the executive team of Ryder Integrated Logistics. He served in a number of executive assignments with Ryder, including senior vice president for the United States and Canada. After leaving the company in March 1998, he was named chief operating officer of Pameco Corp., a distributor of HVAC equipment and parts. He was promoted to president and chief executive officer of Pameco's new electronic commerce company in September 1999.

Celarix Inc.

The Cambridge, Mass.-based provider of collaborative logistics solutions has appointed Jim Daniell as chief executive officer.

Daniell was president and CEO of OrderTrust Inc. He succeeds Evan Schumacher, founder of Celarix, who will continue as the company's vice-chairman.

Commerce One

Dennis H. Jones chief operating officer and vice chairman of board for the Pleasanton, Calif.-based provider of software services for electronic marketplaces.

Jones, 48, was executive vice president of information technology and chief information officer for FedEx Corp.

Danzas AEI

The corporate logistics division of Deutsche Post World Net has named Bernd H. Flickinger, a former Stinnes AG veteran, to head its Solutions Business Unit. He succeeds Paul Bijvoets.

Flickinger was on the managing board of Stinnes AG. For 15 years he held a number of logistics and information technology positions with BASF in Germany and abroad, and bore responsibility for transport operations, including those of Schenker AG.

Schenker Inc.

Christopher Dale has been named executive vice president, marketing and sales for the Stinnes subsidiary that provides logistics, customs brokerage and forwarding services.

Dale is a 20-year industry veteran, holding executive positions with several logistics corporations, and has worked on the U.S. West Coast, Germany, Thailand and Singapore.

Forwarding

Expeditors International

The air and ocean forwarder and customers broker has named Paul DiVecchio as principal of export regulatory compliance for Expeditors Tradewin LLC.

DiVecchio has more than 30 years of experience in export regulatory compliance and has performed for than 130 audits on export compliance programs. He has developed and presented training programs for U.S. Customs and the U.S. Department of Commerce, where he also acts as an advisor on regulatory interpretation.

Maritime

INTTRA

The multicarrier container shipping portal, has named Kenneth Bloom chief executive officer, effective in May.

Bloom, a veteran of Stolt-Nielsen Transportation Group, was chief operating officer of Optimum Logistics, where he developed and marketed Translink, a Web-enabled supply chain management system for more than 13 chemical producers and 110 logistics service providers. Optimum is a subsidiary of Stolt-Nielsen, which provides integrated transportation services for bulk liquids.

During his 12 years with Stolt-Nielsen, Bloom held a variety of management positions covering the maritime industry and the development of industry technology.

NYK Line (North America) Inc.

Masamichi "Matt" Morooka has been named president, replacing Tetsufumi "Teddy" Otsuki, who returns to Tokyo as general manager of the company's planning group.

Morooka has been general manager of the trade planning division of NYK (North America).

Replacing Morooka is Kunihiko "Ken" Miyoshi, who will move from the logistics planning and analysis division.

Yutaka Yasunaga has been named chief information officer. He was leader of business process management and the "Pegasus" project, NYK's major information technology development program geared to provide global supply chain management via the Internet.

In addition, Takatake Naraoka will move to Tokyo to assume responsibility for all of Japan sales, and Hiroshi "Rocky" Iwai will move from sales in Chicago to assume the duties of vice president, Japanese sales for North America.

As part of the reorganization, Morooka, Yasunaga, Naraoka and Bill Payne, senior vice president of operations, will be appointed to the North American board of directors.

Air

American Airlines

Steve Buckerfield has been named managing director for cargo sales in Europe.

Buckerfield, who replaces John Smith, joined American in 1990 and served as the carrier's cargo sales manager in Ireland and the United Kingdom. Previously, he worked seven years for Emery Worldwide's U.K. operations.

BAX Global Inc.

The Irvine, Calif.-based transportation and supply chain management company has named John Carr senior vice president of its supply chain management operations, and has appointed Oliver Evans vice president of global sales for Europe, the Mideast and Africa.

Carr, a 22-year veteran of international logistics, spent the last 11 years with Fritz Cos., most recently as group vice president, business development for North America. Fritz, the San Francisco-based freight forwarder and customs broker, was recently acquired by United Parcel Service

Carr will serve on BAX Global's executive committee and will be based in the company's supply chain management headquarters office in Atlanta.

Evans was vice president, alliances, for KLM Cargo.

Service Announcements

(800) 874-6422, FAX (904) 791-8836, e-mail, gburrows@shippers.com

OOCL adds ship, ports to Scan Baltic Express

Orient Overseas Container Line said in May it will add a third larger vessel to its Scan Baltic Express service.

The 860-TEU vessel will allow for an additional weekly call in St. Petersburg, and for other additional Baltic port calls, based on shippers' needs. The service has operated with two 600-TEU vessels since April 1999.

The revised rotation, effective May 21, will be Antwerp, Thamesport, Hamburg, Gdansk, St. Petersburg, Gdansk, Hamburg, Hamina, St. Petersburg, Hamburg, Antwerp.

The service also carries OOCL deep-sea cargoes to and from Poland, Finland and Russia with relay at Hamburg and Thamesport.

CMA CGM takes slots on Hanjin's services

CMA CGM has signed a slot charter agreement to take space on Hanjin Shipping's Pacific Northwest transpacific services.

CMA CGM is preparing to substantially change its transpacific services for the forthcoming peak season, coinciding with the end of a slot charter agreement with Maersk Sealand.

CMA CGM and China Shipping Container Lines are expected to announce the launch in May of a new vessel-sharing agreement service that would serve the port of Los Angeles and ports in China, South Korea and Japan.

Lines form Asia/U.S. South America VSA

Columbus Line, Maruba, Lykes Lines and TMM Lines are forming a two-loop vessel-sharing agreement that will employ 11 ships on the route from Asia to the West Coast of South America via the U.S. and Canadian west coasts.

From early May, the VSA's services will replace the North America/West Coast South America service of Ampac consortium members Columbus, Lykes, Maruba and TMM Lines, which will also incorporate a fortnightly multipurpose service run by Lykes and TMM Line.

TMM said it will not use the Asia/North America West Coast/West Coast of South America vessels to carry cargoes between Asia and North America.

The port rotation for Loop 1 of the VSA will be Hong Kong; Yantian; Shanghai; Busan; Vancouver, British Columbia; Seattle (seasonal, southbound only); Los Angeles; Manzanillo, Mexico; Salina Cruz (alternate); Puerto Quetzál; Buenaventura (alternate); Callao; Iquique (alternate); San Antonio; Lirquen (alternate); Callao; Puerto Quetzál (alternate); Manzanillo; Los Angeles; Seattle (alternate); Vancouver; Hong Kong; Yantian; Shanghai; and Busan.

The port rotation for Loop 2 will be Hong Kong; Yantian; Shanghai; Busan; Vancouver, British Columbia; Los Angeles; Manzanillo, Mexico; Puerto Quetzál; Puerto Caldera (alternate); Callao; San Antonio; Callao; Buenaventura (alternate); Puerto Caldera (alternate); Manzanillo; Los Angeles; San Francisco; Vancouver; Hong Kong; Yantian; Shaghai; and Busan.

For Columbus Line, which already operates one Asia/North America/West Coast of South America service, the addition of a second loop on this extended route represents a further move into the Asia/South America market.

Evergreen, New World in slot agreement

Taiwan's Evergreen Marine Corp. has entered into a slot exchange agreement with New World Alliance members APL, Hyundai Merchant Marine Co. Ltd., and MOL, covering the trade between the U.S. East and West coasts, the Far East and Central America.

Under the agreement the New World Alliance will purchase about 500 slots on Evergreen's eastbound and westbound round-the-world services. The services are operated with 10 vessels of about 4,000 TEUs each and call ports in California and the U.S.

East Coast. APL will purchase about 200 slots, and Hanjin and MOL will purchase 150 TEUs each.

In Evergreen's Far East/U.S. East Coast service, APL will be allocated 300 TEUs and Hyundai 200 TEUs for each sailing. The service employs nine vessels averaging 2,800 TEUs each.

Evergreen will purchase a minimum of 300 TEU slots on the New World Alliance's Far East/ Pacific Northwest service. MOL provides five vessels of about 2,700 TEUs for the service.

China Shipping starts U.S./Med service

China Shipping Container Lines has started its previously announced fortnightly U.S./Mediterranean service.

The new service has a port rotation of New York, Norfolk, Naples, Leghorn, Genoa, Fos, Valencia, New York and Norfolk. It uses two 1,700-TEU ships that were formerly employed on the carrier's Asia/Mediterranean service.

The service's 12-day transit from New York to Naples is the fastest in the market, according to ComPairData, the Internet-based liner shipping database.

In June, the new fortnightly service will be upgraded to a weekly frequency and will be merged with an existing Mediterranean/ Suez/Asia service, creating a U.S. East Coast/Mediterranean/Asia/ Mediterranean/U.S. East Coast pendulum service, expected to employ 10 vessels of about 2,000-TEU capacity.

COSCO extends U.S./Med service to Halifax

COSCO Container Lines is extending its Genoa/New York shuttle service to Halifax, Canada, at the end of April.

The first sailing to Halifax will be by the 1,702-TEU *Xiang Yun He,* due to leave Genoa on April 29 and arrive in Halifax on May 10.

Genoa-based Coscos, the Italian general agent of the Chinese shipping line, said the three-ship service will call at Halifax on two weekly sailings out of three. The service will continue to call at Genoa and New York once a week.

COSCO will provide on-carriage for Montreal, Toronto, other Canadian inland destinations, and for U.S. Midwest and West Coast destinations.

Columbus, partners restructure Brazil fleet

Columbus Line, Alianca and Crowley American Transport, three affiliates of the German Hamburg-Süd group, are planning to replace 11 medium-sized ships with six newly built 3,700-TEU vessels in the U.S./East Coast of South America trade.

At present, Columbus, Alianca and partners operate two U.S. East Coast/East Coast of South America loops that employ 11 vessels of 1,200 to 2,500 TEU capacities. Crowley American Transport operates a third, separate U.S. East Coast/East Coast of South America service with other partners, with five vessels of about 2,000-TEU capacity.

A spokesman for Columbus said the new 3,700-TEU vessels would be phased into a revised service in about October. Carriers of the joint services are discussing the eventual rotations and services. The changes will not result in major changes in capacity in the trade, the spokesman added.

Columbus could not comment on whether its East Coast of South America services would be merged with those of sister company Crowley American Transport as part of the fleet restructuring.

The 3,700-TEU ships will be the largest in the East Coast of South America trades.

What to do with the U.S. slowdown

When signs of economic recession are in the air, there isn't much to rejoice about — whether you are a shipper, a service provider or a carrier.

U.S. railroads have already announced substantial layoffs. Newspapers report of other U.S. logistics and transportation companies tightening their belts admist warnings of less-than-expected revenue growth.

But industries related to international transportation and trading are faring better than others.

First, international oceanborne trade volumes and air freight traffic are only expected to slow down in the U.S. trades — not fall. Transpacific eastbound oceanborne traffic volumes were down in January and February, but should now pick up again or at least remain on a plateau.

The Air Transport Association of America reported a 4.8-percent drop in U.S. domestic cargo traffic for January-February, compared to the same period in 2000, but international traffic rose 1.1 percent.

And major service providers can also rely on continuing growth in overseas markets in Europe and Asia (except Japan) to generate business.

For American shippers, now is the time to forget about the volume-driven frenzy of the last two to three years. Instead, their task is to find smarter ways of moving goods, controlling inventory or implementing information technology systems. How to handle larger volumes during peak seasons is another issue.

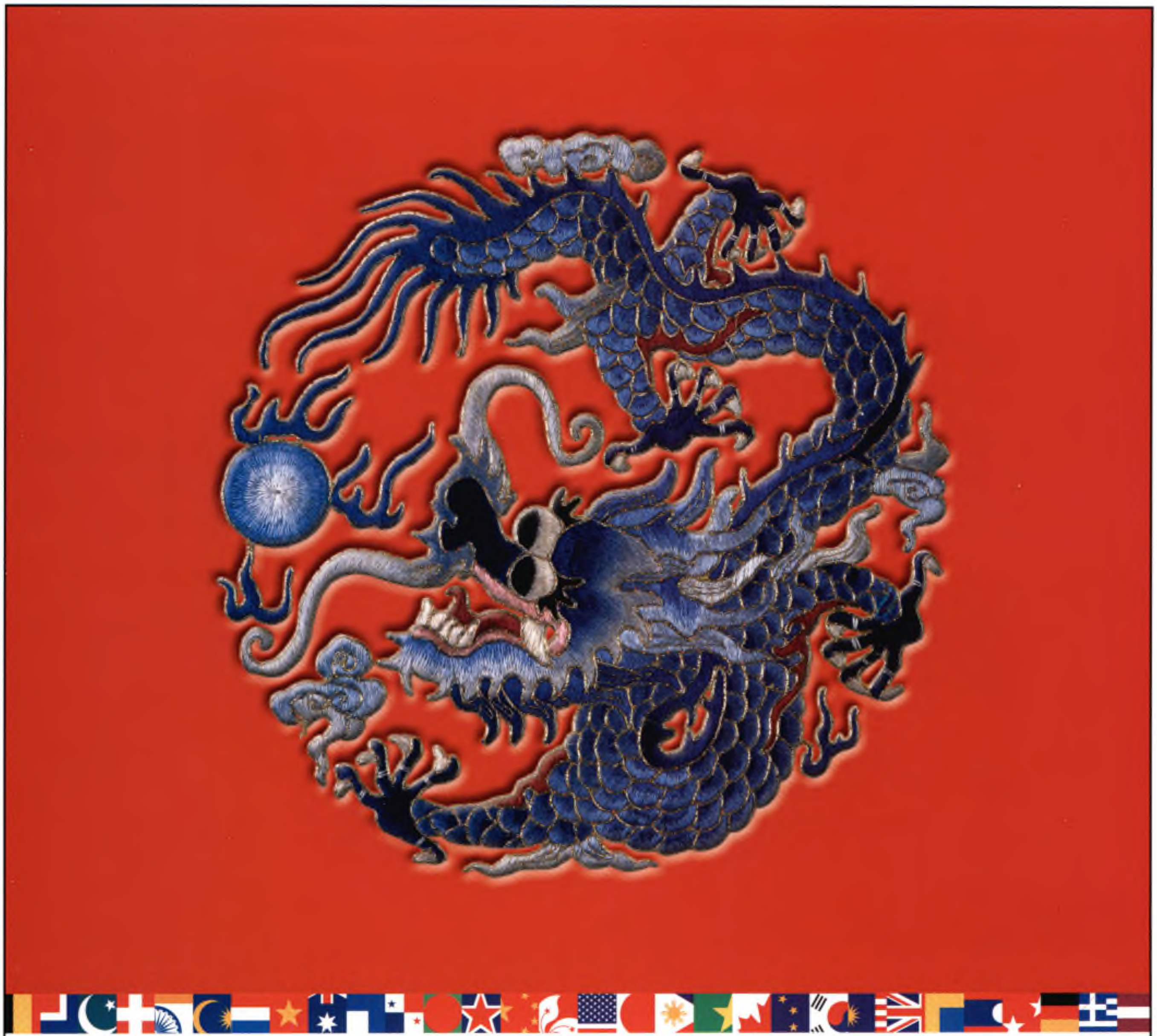
For shipping lines and airlines, ports and airports, there are serious long-term issues of capacity that need to be addressed. The slowdown gives port and airports time to catch up and prepare strategies to move larger volumes in the long-term.

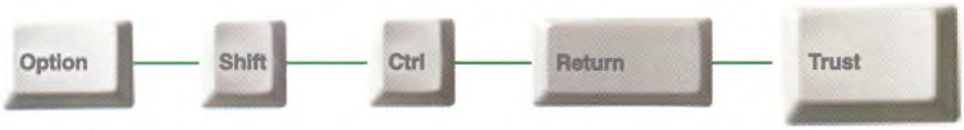
The transpacific oceanborne container trade alone saw eastbound volume swell from 4.4 million TEUs in 1997 to 6.7 million TEUs in 2000 — that's a gain of more than 50 percent. Similarly, criticism of congestion at U.S. airports are getting louder and airlift cargo capacity on passenger planes is tight.

It's not too early to start work on capacity bottlenecks now. Recent history has shown how vulnerable the western U.S. rail network and port system are when volumes surge, as they did two years ago. Container terminal congestion in the U.S. ports also looms large, after three years of record growth — not to mention the potential for blackouts in California.

Perhaps it's a mixed blessing that volume growth is slowing now.

Philip Damas





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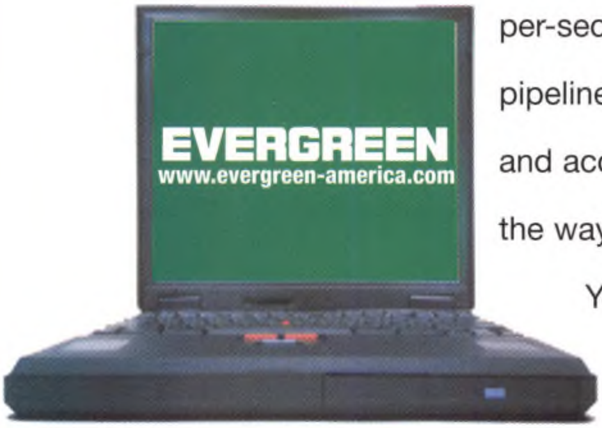

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