2010 Ocean Roundtable: CLOSE QUARTERS

Dwindling space and risings rates have caused major disruptions for U.S. importers over the first half of 2010. How long will these challenges persist on the high seas? We've asked a couple experts to explain what ocean shippers can expect for the rest of this year.

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

As *Logistics Management* has been documenting over the first half of 2010, ocean shippers have been scrambling for space due to a global shortage of containers and are getting squeezed for higher rates when they find it.

So, what can ocean shippers expect to face during the final quarter of this year and how do they need adjust their planning heading into 2011? We've asked ocean shipping and global trade insiders Michael Berzon and Jon Monroe to shine a little light on ocean rates, capacity, and trade trends—a few of the more perplexing challenges facing global shippers today.

A long time ocean shipper, Berzon is the ocean transportation committee chair of the National Industrial Transportation League (NITL). Jon Monroe is president of Jon Monroe Consulting, a firm specializing in helping shippers optimize their overseas trade lanes. Here's what these two men in the trenches had to say about the current conditions on the high seas.

Logistics Management:* *This has been a disruptive year for shippers in the Transpacific. What do you regard as the most challenging aspect of doing business in this trade lane?

Jon Monroe: The most frustrating part was the lack of adherence to contract terms by the carriers. This challenge affects the ocean freight rates and space commitments that are so important to a consistent and reliable inbound program. The carriers' freewheeling market share approach to contracts is what took rates down in the first place. But the real frustration was the lack of communication and the lack of a real partnership.

Michael Berzon: Jon's correct. And it should also be noted that the carriers in the transpacific eastbound routes grossly underestimated the volume surge that occurred in late 2009 and early 2010. This forecasting miscalculation, along with the consequent lack of capacity, caused major disruptions to U.S. importers. The carriers' insistence on repeatedly raising rates and surcharges in the eastbound leg and their decision not to add capacity until the eastbound volume became sustainable were shown to be poor business decisions.

LM:* *Do you think there might be a ripple effect in the westbound transpacific trade? After all, the carriers did eventually add capacity in the transpacific market, although it didn't do much for the U.S. exporters.

Berzon: That's the entire point. In light of President Obama's challenge to double U.S. exports in five years, shippers largely shipping heavy agricultural products in containers encountered great difficulty finding the equipment and space necessary in the Pacific Rim outbound lanes. The ships were weighing out before cubing out and therefore could not reposition sufficient containers to satisfy the eastbound leg demands.

LM:* *On top of these disruptions, what regulatory changes should shippers keep their eyes on as we head into 2011?

Monroe: Everyone is still grappling with C-TPAT and new risk assessment rules. I think Michael and his constituents at the National Industry Transportation League (NITL) are staying on top of this.

Berzon: We're certainly doing our best. We're also looking

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hopefully to the end of carrier price-fixing. The removal of the limited ocean carrier anti-trust immunity seems to be gaining support. During the NITL's Washington Freight Transportation Policy Forum, Congressman Jim Oberstar (D-MN), chairman of the U.S. House of Representatives' Transportation and Infrastructure Committee, announced that in response to practices by ocean liner carriers serving the U.S. trades, he would propose legislation ending the limited anti-trust immunity that remains in effect.

Currently, it permits the ocean carriers in the U.S. trades to join in discussion agreements where they can discuss rates and capacity issues. If enacted, the end of the limited anti-trust immunity would follow the action taken by European regulators. The recent elimination of the EU Block Exemption prohibits consultation by groups of carriers to discuss rates in the European trades.

***LM:* Do you have any concern about the dockside labor and "clean trucks" issues?**

Monroe: While the concept of clean trucks in and of itself is not a bad notion, it reduced the number of trucks in Southern California at a time that demand outpaced supply. The big issue of concern now, however, is how carriers and truckers will address the new chassis policies.

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This will be the nightmare for 2011.

Berzon: That's correct, Jon. Most importers and exporters are in favor of reduced emissions. The Ports of Los Angeles and Long Beach have achieved great success in implementing their clean truck programs and should be recognized for their efforts. Several other ports have followed these examples and have embraced the concept.

***LM:* But isn't there some worry about having the Teamster's taking over the drayage at these ports?**

Berzon: There certainly is. The Clean and Sustainable Transportation Coalition, that includes importers, exporters, transportation services providers, and logistics industries, is concerned about the "camel's nose under the tent" phenomenon that could negatively affect small businesses and owner operators that move a great deal of U.S. exports and imports.

LM: ***Another issue that seems to be hot now is "near-shoring." Do you believe that this strategy, moving manufacturing and sourcing closer to home, will gain momentum over the next year?***

Monroe: A number of companies have looked at this, and some are moving from China to other countries, but it's not so easy to do. China's labor is among the most efficient in the world. A few years ago, we helped a company migrate from China to Mexico. It didn't work. The concept was simple: Manufacture product closer to the market. However, we found that the labor market could not keep up, and soon the product was 30 days behind schedule. That company is now back in China. Some companies may make the move but we do not see the trend growing at this time.

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Berzon: I hear the issue discussed from time to time but it never seems to get enough traction beyond a few manufacturers and assemblers testing the concept. Trouble is, they never take the definitive step. Asia still seems to be the preferred source for most manufactured goods. We hear that labor costs in China are rising, however, we see little volume moving to Mexico or Central America.

LM: ***Like most news sources covering the Panama Canal expansion, we've been busy speculating over***

its potential impact on the flow of trade. Can you help our readers draw a few early conclusions?

Berzon: The expansion will offer U.S. shippers greater flexibility with an all-water East Coast option. Several U.S. East Coast ports are making the necessary moves to widen and deepen channels as well as to ensure adequate air space, such as under bridges, for the larger ships that will start calling on East Coast ports. The issue that cannot be ignored, however, is the great need for repair and expansion of the surface transportation infrastructure in and around those expanding ports.

LM: And while we'll surely see increased cargo flow to our East Coast ports, what new markets are U.S. shippers targeting and why?

Monroe: China is still in its infancy as a consumer market with a growing middle class. So my bet is that China has a lot of room to move into. In 2009, in the midst of a global recession, two things stood out to indicate China is in the midst of a transition. First, the GDP of most cities and the country continued to grow at high single digits. Second, retail sales in the tier one through tier three cities were up 15 percent to 22 percent over 2008.

Berzon: Well, in this case the issue is all about risk and reward. I would say that Eastern Europe deserves closer examination both as a market for U.S. goods as well as a manufacturing and sourcing location. Poland continues to see investments in manufacturing by large multinationals. The transportation infrastructure, particularly roads, was and still is a great cause for concern. This will change over the next several years thanks to large investments in highways. Rail is a good option for regional shipments as well.

LM: China seems to be ramping up its trade with the EU and its Asian neighbors. Will this be bad for U.S. ocean shippers?

Monroe: It all depends. Importers may find themselves competing with European and Asian companies for access to labor and factories. But other than that, I believe that a strong China will be good for everyone

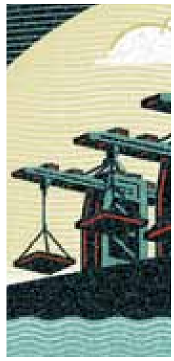
Berzon: Much has to do with the desire and ability on the part of U.S. exporters to jump in and trade. In many cases, this requires knowing the geography of the region. Cultural and language skills are a must. Many exporters have gone overseas thinking they could make a deal in a matter of weeks, or less. This approach does not work in Asian cultures; in fact, it doesn't work that well in many Latin American countries. We need to make sure the next generation of U.S. businessmen and women are multilingual.

LM: Finally, what do you see as the most urgent imperative for ocean shippers regarding contracts? How

should they negotiate with liners next year?

Monroe: I'd like to make the point that the market dynamics may very well have changed for the better. It is too early to tell. The carriers have learned how to control their urges to drop rates, and the lessons learned this year may change the way the carriers view their business. Through 2009, one could say it was really a supply and demand driven market. The lessons of 2010 may very well indicate a shift to more of a controlled market. That said, the most urgent imperative regarding contracts can be addressed by the answer and documentation to one simple question: Will you honor my contract once signed?

Berzon: Ever since the Ocean Shipping Reform Act of 1998 (OSRA), shippers and carriers have had a great opportunity to negotiate what I would call comprehensive service contracts. Barring a few inspired businesses, the majority of shippers and carriers never got beyond time-volume agreements. OSRA provides the opportunity for shippers and ocean carriers to sit down and openly discuss their supply chains and develop healthy, confidential partnerships.



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LM: Can you give us a specific example of how this would work?

Berzon: Certainly. One such missed opportunity is cargo liability. Negotiating cargo liability terms (beyond COGSA) was available to shippers and carriers with the enactment of the Shipping Act of 1984. I negotiated several service contracts with non-COGSA liability terms right after enactment of the '84 Act. But now it's time we use the tools that provide shippers and carriers the freedom to negotiate contract terms within the context of a business relationship. The time to do the groundwork for comprehensive service contracts is now. Shippers may be surprised that carriers are ready to move forward. ☐

—Patrick Burnson is Executive Editor of Logistics Management