



Horse *trading*

**Shippers and carriers
continue to expand
negotiating freedom
granted by OSRA**

BY PETER T. LEACH

The countdown is on. With two months left before the May 1 start of most new shipper-carrier contracts in the trans-Pacific trades, shippers are looking for leverage. Some are finding it by cooperating with carriers by providing them with backhaul cargo or volume in other trade lanes.

The Ocean Shipping Reform Act of 1998 changed the environment for negotiation of service contracts. OSRA permitted shippers and carriers to keep contract terms confidential, instead of having to post essential terms for public inspection at the Federal Maritime Commission.

In the post-OSRA environment, negotiators have been freed to take new approaches and tailor rates and services to individual circumstances and requirements. The degree to which a shipper can succeed in this often depends on volume — year-round as well as in the peak season. But there are signs that even smaller shippers are able to find other ways to gain leverage that can help them minimize rate increases.

“It will continue to get better and better for smaller shippers because of the elimination of rate conferences and the start of more competition,” said David Walker, executive vice president of logistics and allocation at Pier 1 Imports in Fort Worth. “The impact of OSRA is taking a while to trickle down to smaller shippers, but the environment has changed.”

Walker said confidential contracts have encouraged carriers to develop a better understanding of shippers’ needs. He said Pier 1, which imports furniture year-round from many different sources around the world, has made it a point to include carriers in its planning process. By doing so, the company has been able to secure lower rates and predictable services from the five carriers it uses. “We try to place as much information as possible in the hands of our carriers as to what our needs will be,” Walker said. “Rates are going up, but by negotiat-

ing with our carriers individually, we have been able to keep rates down.”

But that’s not true everywhere. Puma Athletic Shoes, which has shifted more of its production to China from Europe, has found that its primary carrier, P&O Nedlloyd, is demanding a rate increase of \$330 to \$400 per FEU on the trans-Pacific and a two-year contract. But Puma is finding other carriers coming into its office every week saying, “Hey, I can beat that price.” So it has decided it will not accept a rate increase or a two-year contract, even though it has a very good relationship with P&O Nedlloyd.

“I’m not surprised that carriers are starting to ask for a two-year contract,” said Paul Svindland, director of the transportation and logistics program at ICG Commerce, an outsourcing and procurement services provider based in King of Prussia, Pa., that negotiates ocean carriage contracts for its clients. “Carriers are pushing long-term contracts because

they see rates are peaking and may start to come down next year, so they want to nail down the business at today’s rates.”

Svindland said trans-Pacific carriers have limited flexibility in rate negotiations because most consumer goods are coming in from Asia on that one trade lane. But he said there are several ways a shipper can keep rates down. “Carriers can do a lot when you meet with them face-to-face,” he said. “If you take a look at your global business and show them how you can help them on other trade lanes, you may be able to get a rate reduction.” (For more advice on this subject from Svindland, see Questions and Answers, Page 50.)

Some shippers have little choice but to accept the trans-Pacific rate increase. Nikon Cameras, which is trying to shift transportation for some of its cameras from airfreight to ocean and relies heavily on eastbound trans-Pacific service, is finding that carriers



Evergreen has demonstrated flexibility in rate negotiations with shippers.

are taking a hard line. "Carriers are digging in their heels right now on the trans-Pacific," said Larry Fannin, the company's U.S. import-export manager. "Their initial demand is for increases of \$350 to \$400 per TEU this year." Nikon, which ships about 150 containerloads of cameras from Asia to the U.S. each year, can afford to take this kind of increase because it works out to be about \$1 per camera, he said.

Svindland said it's important for shippers to ask their carriers to break down the different components of a proposed rate increase. "It's not unheard of for a carrier to take a 35 to 40 percent rate increase on the water side when capacity is tight," Svindland said. "The increases on the land side are more like 3 to 5 percent on the domestic side, or 10 percent at worst." Ocean carriers can sometimes play games with landside increases to offset increases for ocean service. "We push the carriers hard to give a full disclosure of the rates. They will do it if you're a large enough shipper and you push hard enough."

Svindland said some shippers have been able to nail down stable or lower rates on the trans-Pacific by showing their carriers how they can help them reposition their containers back to Asia. "You can horse trade, by helping carriers take a global look at your business," he said. "Most major shippers outside of retailers do have something going back to Asia. We have one client that is shipping corrugated packaging material back to Asia, so it's sending about 25 percent of its TEU volume back to the country of origin." This gave the client a lot of leverage in its rate negotiations with carriers.

Smaller shippers may not have this leverage, but they can help their negotiating position by educating themselves on all aspects of the trade lane they are using and on the rate environment, Svindland said. "They may be able to get a better rate by being flexible," he said. For example, if they can ship in a 40-foot container, they can

U.S. WEST COAST CONTAINERIZED OCEAN IMPORTS FROM ASIAN PORTS

Cargo moving from Asian ports to U.S. West Coast ports, 2002 vs. 2003, in TEUs
Global via Asian ports to West Ports

Rank	Ocean Carrier	Market Share	2004	2003	Percent Change
1	Maersk Sealand	9.7%	802,251	777,570	3.2%
2	APL	8.9%	735,161	677,547	8.5%
3	Hanjin	8.4%	694,002	684,908	1.3%
4	Evergreen	6.9%	570,675	627,278	-9.0%
5	Hyundai	6.5%	538,458	478,491	12.5%
6	OOCL	6.1%	506,502	452,621	11.9%
7	Cosco	6.0%	493,257	391,796	25.9%
8	NYK Line	5.6%	463,819	407,320	13.9%
9	China Shipping	5.5%	454,193	325,510	39.5%
10	"K" Line	5.0%	412,426	402,497	2.5%
Total - top 10 carriers		68.5%	5,670,745	5,225,537	8.5%
Total - all carriers		100.0%	8,280,008	7,328,220	13.0%

Rank	Last Overseas Load Port	Market Share	2004	2003	Percent Change
1	Yantian	18.5%	1,532,452	1,244,803	23.1%
2	Hong Kong	17.1%	1,415,915	1,501,945	-5.7%
3	Shanghai	12.6%	1,047,240	814,465	28.6%
4	Kaohsiung	10.3%	848,835	831,233	2.1%
5	Pusan	9.0%	745,951	719,598	3.7%
6	Singapore	5.2%	429,602	413,870	3.8%
7	Tokyo	2.7%	224,298	212,980	5.3%
8	Shekou	2.7%	222,288	116,323	91.1%
9	Ningpo	2.6%	213,876	153,738	39.1%
10	Xiamen	2.5%	206,594	166,691	23.9%
Total Top 10 Last Load Ports		83.2%	6,887,050	6,175,646	11.5%
Total All Last Load Ports		100.0%	8,280,008	7,328,220	13.0%

Rank	West Coast Discharge Port	Market Share	2004	2003	Percent Change
1	Los Angeles	44.7%	3,699,407	3,620,750	2.2%
2	Long Beach	33.3%	2,755,870	2,177,634	26.6%
3	Seattle	8.1%	671,861	475,716	41.2%
4	Tacoma	7.1%	584,438	597,349	-2.2%
5	Oakland	5.9%	489,996	398,990	22.8%
6	Portland, Ore.	0.7%	60,058	43,501	38.1%
7	Honolulu	0.2%	17,811	13,857	28.5%
8	Anchorage	0.0%	327	266	22.7%
9	Everett	0.0%	121	0	—
10	Vancouver, Wash.	0.0%	83	43	92.0%
Total Top 10 West Coast Ports		100.0%	8,279,974	7,328,106	13.0%
Total All West Coast Ports		100.0%	8,280,008	7,328,220	13.0%

Rank	Country of Origin	Market Share	2004	2003	Percent Change
1	Mainland China	55.8%	4,618,021	3,594,529	28.5%
2	Hong Kong	10.5%	873,514	996,984	-12.4%
3	Japan	8.2%	676,062	628,528	7.6%
4	Taiwan	5.7%	472,206	545,441	-13.4%
5	South Korea	5.0%	414,635	397,031	4.4%
6	Thailand	3.7%	306,159	283,738	7.9%
7	Indonesia	2.5%	209,007	190,559	9.7%
8	Malaysia	2.4%	194,871	178,329	9.3%
9	Vietnam	1.6%	130,475	94,149	38.6%
10	Philippines	1.3%	108,152	109,410	-1.1%
Total Top 10 Countries		96.7%	8,003,100	7,018,696	14.0%
Total All Countries		100.0%	8,280,008	7,328,220	13.0%

Notes:

Data indicates containerized cargo moving from all ports in Asia serving global cargoes to the U.S. West Coast.

Overseas port is the last overseas load port. Cargo may have had prior ocean cargo carriage.

Country of origin may be via prior transshipment from last load port indicated.

Contact: Marsha Salisbury, research editor, msalisbury@joc.com, (973) 848-7024

Source: PIERIS, the Port Import/Export Reporting Service, a sister company of The Journal of Commerce, www.pieris.com

get a better rate than in a 20-foot container.”

Even smaller shippers are benefiting by helping carriers reposition their containers. Mercury MerCruiser, a Stillwater, Okla., importer of inboard and outboard marine engine parts from China, has been able to get more flexibility from its carriers by showing them it is helping them reposition some freight to Europe and Australia. “We’re not a very large shipper, but we can give them a little balance,” said Kerry Egner, the company’s logistics manager. He said carriers are still ingrained with their old habit of negotiating annual contracts for the peak season from May 1 to April 30.

“Rates are going up, and there’s no way around it,” Egner said. MerCruiser is seeing rate increases of anywhere from \$150 to \$350 per TEU on the trans-Pacific, depending on the route and timing. But Egner said some carriers are being more responsive to the company’s needs and are providing concessions, such as allowing the adjustment factor for bunker fuel to go down as well as up. He said the carriers that have shown the most flexibility in negotiations are Hapag-Lloyd, Evergreen, CP Ships and Hanjin. Even so, he said, it’s difficult for a small shipper to negotiate individual rate concessions because “even with deregulation, carriers are reluctant to deal with shippers individually,” he said.

Smaller shippers can get around this barrier by using non-vessel-operating common carriers, which may be able to obtain lower rates from vessel operators than shippers could negotiate on their own, Svindland said. “Since deregulation, NVOs are becoming formidable competitors and can become more aggressive in negotiating lower rates because they are buying so much space,” he said. “NVOs offer leverage for both big and small shippers and can offer more competitive rates than carriers who don’t want to go after small shippers.” ♦

U.S. WEST COAST CONTAINERIZED OCEAN EXPORTS TO ASIAN PORTS

Cargo moving to Asian ports from U.S. West Coast ports, 2004 vs. 2003, in TEUs

West ports to global via Asian Ports

Rank	Ocean Carrier	Market Share	2004	2003	Percent Change
1	Maersk Sealand	10.0%	295,965	313,174	-5.5%
2	Hanjin	9.9%	292,490	282,882	3.4%
3	APL	8.6%	255,874	270,318	-5.3%
4	Hyundai	8.6%	255,851	243,587	5.0%
5	OOCL	7.9%	234,102	203,960	14.8%
6	Evergreen	6.2%	183,518	203,130	-9.7%
7	Yang Ming	6.1%	181,845	144,739	25.6%
8	NYK Line	5.2%	155,226	147,270	5.4%
9	"K" Line	5.2%	155,017	164,337	-5.7%
10	Cosco	4.9%	143,741	142,745	0.7%
Total - top 10 carriers		72.8%	2,153,629	2,116,141	1.8%
Total - all carriers		100.0%	2,958,167	2,846,787	3.9%

Rank	First Discharge Port	Market Share	2004	2003	Percent Change
1	Hong Kong	15.7%	465,894	464,410	0.3%
2	Kaohsiung	14.5%	430,029	397,475	8.2%
3	Pusan	11.1%	327,238	352,700	-7.2%
4	Shanghai	8.4%	247,626	212,693	16.4%
5	Tokyo	7.5%	221,729	234,352	-5.4%
6	Singapore	6.7%	197,849	195,896	1.0%
7	Yokohama	5.2%	152,802	158,022	-3.3%
8	Kobe	4.7%	138,375	153,570	-9.9%
9	Kwangyang	3.6%	107,133	73,683	45.4%
10	Nagoya	3.0%	88,424	97,621	-9.4%
Total Top 10 First Discharge Ports		80.4%	2,377,099	2,340,423	1.6%
Total All First Discharge Ports		100.0%	2,958,167	2,846,787	3.9%

Rank	West Coast Load Port	Market Share	2004	2003	Percent Change
1	Los Angeles	28.5%	842,377	876,612	-3.9%
2	Long Beach	26.1%	771,171	679,785	13.4%
3	Oakland	16.7%	493,980	467,892	5.6%
4	Seattle	11.5%	339,293	310,712	9.2%
5	Tacoma	11.4%	336,852	332,045	1.4%
6	Portland, Ore.	4.4%	130,833	138,030	-5.2%
7	Dutch Harbor	0.8%	23,942	20,928	14.4%
8	Honolulu	0.5%	14,859	16,840	-11.8%
9	Anchorage	0.1%	3,231	1,278	152.9%
10	San Francisco	0.0%	1,338	2,465	-45.7%
Total Top 10 West Coast Ports		100.0%	2,957,876	2,846,588	3.9%
Total All West Coast Ports		100.0%	2,958,167	2,846,787	3.9%

Rank	Country of Final Destination	Market Share	2004	2003	Percent Change
1	Mainland China	31.7%	939,107	823,605	14.0%
2	Japan	23.5%	696,209	747,247	-6.8%
3	South Korea	11.5%	338,749	334,876	1.2%
4	Taiwan	8.6%	254,598	228,375	11.5%
5	Hong Kong	7.0%	206,684	230,329	-10.3%
6	Indonesia	3.2%	94,247	84,856	11.1%
7	Thailand	2.8%	82,473	80,249	2.8%
8	Singapore	2.7%	81,329	79,627	2.1%
9	Philippines	2.1%	61,745	59,301	4.1%
10	Malaysia	1.6%	47,151	42,030	12.2%
Total Top 10 Countries		94.7%	2,802,292	2,710,493	3.4%
Total All Countries		100.0%	2,958,167	2,846,787	3.9%

Notes:

Data indicates containerized cargo moving through all ports in Asia serving global cargoes from U.S. West Coast ports.

Destination port is the first overseas discharge port. Cargo may have further ocean cargo carriage.

Country of final destination may be via further transshipment from first discharge port indicated.

Compiled by Marsha Salisbury, research editor, msalisbury@joc.com, (973) 848-7024.

Source: PIERs, the Port Import/Export Reporting Service, a sister company of The Journal of Commerce, www.piers.com

With Paul Svindland ICG Commerce

Paul Svindland is senior director of the transportation and logistics program at ICG Commerce and leads its global logistics group, which helps large companies negotiate contracts with ocean carriers. He has held management positions at FastShip and Maersk Sealand.

Q. How should shippers approach the peak-season surcharge when negotiating contracts for May 1?

A. I am surprised that the concept of peak-season surcharges and contracts running from May 1 to April 30 still garners so much attention. Unless you are a retailer, with 50 to 75 percent of your import volume from August through October, the peak-season concept is irrelevant. Shippers can just as well negotiate calendar-year contracts without a peak-season charge as long as they are providing a good steady volume year-round.

Q. Then what should they expect at any time this year, or next?

A. I don't think the tide will turn in the shippers' favor until the beginning of 2006, when we'll start to see some softening of rates in the Asian trade lanes. I am already seeing some 2005 Pacific eastbound rates equal to or just slightly higher than 2004. I am skeptical of the numbers about capacity because I believe there's a lot of hype being disseminated by the ocean carriers. The people who provide capacity information benefit by maintaining high growth in demand and low capacity. If you're the Chinese government, you want your growth numbers to be high. If you're an ocean carrier, you want the growth in Chinese numbers to be high and the capacity and new ships coming to the trade to be low. Everything is focused on maintaining the perception that capacity is tighter. By the nature of my job, I want to look for holes in those numbers.

Q. How do you know what numbers are real?

A. There's no question that global trade is increasing, but I think the numbers about how fast Chinese growth is growing may be inflated. The numbers I hear indicate that global containerized ocean capacity is growing at an 8 to 9 percent clip, while overall global trade is growing at 11 percent. I question whether there is really that kind of gap. I look at Chinese growth projections with the same skepticism I had about the Internet boom. Everything will have to go perfectly to maintain the growth numbers coming out of China. Will it? Or is there more hype than actual true hard facts would support?

Q. So what's a shipper to do?

A. Take a broader view of their freight profile. Are they in multiple trade lanes? Focus on what they can do to make their freight look more attractive to carriers. Use backhauls to your advantage. Make sure you work with the carriers to match up imports with exports and get credit for your exports. When you go out to negotiate with carriers, you should say, "I'm sending 600 TEUs to China and bringing back 3,000, so I expect you to give me credit for repositioning your boxes." It's a matter of letting the carriers know that you understand their business. Carriers like good, steady volume they can count on. This makes it tough for retailers who have a 100 to 200 percent spike in their peak season.

Q. What other leverage can a shipper use?

A. Say, for example, that you have a lot of heavy 20-foot and 40-foot containers and you're at the start of a key vessel rotation going all-water to the last U.S. East Coast discharge port. You're helping the carrier by allowing the heavy boxes to be stowed on the bottom of the vessel to provide ballast and stability. That's a big deal for carriers. It's the same thing if you have light boxes that are the last to load and are bound for the first discharge port on the West Coast. The carrier can load those boxes on top. Often ships are maxed out due to weight limitations, not because they are full. You need to identify things that make your cargo attractive to the carriers.

Q. How do you use that to get better rates?

A. When you negotiate, you say to the carriers: "Don't tell us that capacity is tight when we have a light 40-footer that you can put right up there on deck." Why would a five-ton 40-footer pay the same as a 35-ton 40-footer? It's a matter of working with the carriers so that they know that you know how they can benefit from your cargo. You can also work with the carrier to identify deficit equipment areas for them, and negotiate credits for repositioning those boxes. You just need to communicate your needs as a shipper and understand their needs as a carrier.

— Peter T. Leach

