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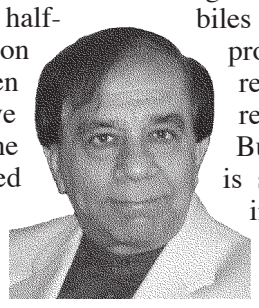
Aerial view of the Port of Corpus Christi

Corpus Christi remains an energy port despite interest in diversification

By Manik Mehta, AJOT

Though the Port of Corpus Christi (PCC), located on the Texas coast lying half-way between Houston and Mexico, has been striving to achieve diversification in the commodities shipped out of the port, it continues to remain, essentially, an energy port. The deep-water port, the fifth largest in the U.S., in tonnage terms, ironed out a strategic plan two years ago and, like most ports, has always tried to identify new business opportunities in its quest for diversification.



John P. LaRue, PCC's executive director, explained in an interview with the *AJOT* at the U.S. State Department's Foreign Press Center in New York, that like most ports, "we're always looking for new business and new enterprises, so we were - the buzzword for ports is diversification - trying to find other industries, other things you can do."

John P. LaRue, Port of Corpus Christi's executive director

"For years we looked at doing containers and automobiles and other specialty products, but then we realized that we're really an energy port. But Corpus Christi is still a major growing area for cotton, so we ship a lot of cotton to Europe, to Central and South America, and to Asia. So a lot of the cotton that goes over there comes back to the United States in the clothes we wear, but it starts in South Texas," LaRue maintained.

Despite its heavy dependence on energy shipments, PCC does not rely only on oil. "We're the largest wind energy import/export port in the United States. We do a lot of industry related to natural gas because we have a lot of natural gas … foreign direct investments are increasing dramatically by companies looking for a place where

*(**REMAINS** – continued on page 10)*

Amazon fined by US FAA for air shipment of dangerous cargo

US aviation regulators are seeking a $350,000 fine against Amazon.com Inc., the Seattle-based online retailer, for allegedly sending hazardous shipments as air cargo.

Amazon, which has made two deals this year in an attempt to create its own air-shipping network, was charged with improperly sending a caustic chemical that leaked and came in contact with nine workers at a United Parcel Service Inc. facility, the Federal Aviation Administration said in a press release.

"Amazon has a history of violating the hazardous materials regulations," the FAA said in the release. "From February 2013 to September 2015 alone, Amazon was found to have violated the hazardous materials regulations 24 other times."

The shipment of corrosive drain cleaner wasn't properly packaged, declared and labeled, the FAA said in the release. Amazon also failed to include emergency response information on the package and didn't train employees on handling hazardous materials.

Assembling Fleet

Amazon takes seriously safety on the cargo airlines it uses and is working with the FAA on the issue, it said in an e-mailed statement. "We ship tens of millions of products every day and have developed sophisticated technologies to detect potential shipping hazards and use any defects as an opportunity for continuous improvement," the company said in the statement.

Companies hit by FAA fines can negotiate with the agency and penalties are sometimes reduced.

The FAA's action comes a month after Amazon agreed to take as much as a 30 percent stake in Atlas Air Worldwide Holdings Inc. As part of the deal, Atlas will acquire and operate 20 Boeing Co. 767-300 freighters for Amazon, according to a May 5 statement.

In March, Amazon said it would work with Air Transport Services Group Inc. to operate another 20 Boeing 767 freighters.

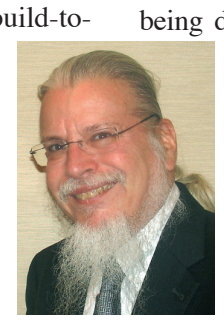
The retailer is moving swiftly to build up its delivery system in an attempt to reduce its dependence on UPS and FedEx Corp. as it expands its Prime membership service that delivers some orders in as

*(**FINED** – continued on page 17)*

Tight warehousing market spurring higher rent rates, more spec projects

By Paul Scott Abbott, AJOT

Historically low US warehouse vacancy rates are driving up rental costs and spurring increased build-to-suit and even speculative development of facilities that, according to industry leaders, can't be built fast enough to meet demand in many markets.



Executives from third-party logistics, development and broker sectors tell the *American Journal of Transportation* that they expect demand will continue to outstrip supply in a market characterized by generally favorable economic conditions and growing volumes moving through seaports and inland logistics hubs.

Not surprisingly, in such a tight market, rental rates for U.S. warehouse space rose 9.9 percent last year, according to a recent report from Los Angeles-based CBRE Group Inc., the world's largest commercial real estate services and investment firm. The report cites lack of new supply, as well as needs of online retailers seeking to be close to consumers.

Overall, the vacancy rate for US warehouse space has dropped to 6.5 percent, a 15-year low, according to Rob Pericht, senior vice president of customer solutions and operational development at Lakeland, Fla.-based Saddle Creek Corp., which, as owner or leaseholder, operates more than 17 million square feet of space, including 3.8 million square feet opened in six markets over the past 12 months.

Rob Pericht, Senior VP of customer solutions and operational development at Saddle Creek Corp., perceives a fine line between market demand and overbuilding of warehouse facilities.

The market is even tighter in some areas. For example, in Southern California's Inland Empire region, the warehouse vacancy rate has fallen below 2 percent, Pericht said, adding, "That would almost be classified as complete saturation."

Pericht said the current low-vacancy situation is being driven in large part by the fact that, over the past two to three years, developers have been more cautious not to overbuild and focused more on build-to-suit than speculative endeavors, following a five-year period when vacancy rates were extremely high.

Furthermore, the cost of capital remains favorable for new projects, Pericht said,

(*TIGHT – continued on page 7*)

To meet burgeoning demand, a 1,114,575-square-foot warehouse is being built by Saddle Creek Logistics adjoining existing facilities at the CenterPoint Intermodal Center-Joliet, about 60 miles from Chicago.

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Wal-Mart testing warehouse drone to catalog and manage inventory

Drones and the supply chain

The drones are coming to the supply chain. Drones are poised to join other hi-tech tools in servicing the "last mile" and challenges in the warehouse.

By Martin C. Pilsch, AJOT

Kids of all ages get them for Christmas and birthdays. Someone landed one on the White House lawn. The U.S. military uses them for assassination. Whether they are a toy, a political distraction or a conveyance of death, drones, or as they are technically described, "small unmanned aircraft systems"(sUAS), have caught the attention of millions of people. Finding the lair of terrorist leaders and unleashing armed drones is a safer alternative than sending in hundreds of ground troops and less expensive than launching US Air Force or Navy air strikes.

Today, despite all of this activity, business entities involved in sales and distribution of goods in small packages, including critical medical supplies and sample specimens, have been drawn - no pun intended - to drone technology. These enterprises are quickly being added to the list of drone enthusiasts. Companies such as these are attracted by the potential of a less expensive, faster delivery with safer alternatives. Properly applied, drone technology could dramatically change both the parcel business and the warehouse, eventually becoming a tool in servicing the supply chain.

The use of drones for commercial purposes has been a controversial topic. In fact, drones in any form have created controversy. Both advocates and opponents of transportation drones have zeroed in on problems including safety, control and airspace as these become the critical issues. For the transportation industry, the development of drones is no small matter. Drones will ultimately compete with established ground based transportation and as they eventually receive approval, sophistication and adequate size and capacities, they may dominate segments of LTL distribution. In addition, Wal Mart has already been testing drone operations within the warehouse. The initial results have been positive.

The first target for commercial drone use is small package delivery, now a ground based operation emanating from multiple warehouse locations, drones will be programmed to do the same, but from the air. Opponents see the drone potentially causing air space issues but as ground based deliveries continue, their issues of not only time, and traffic congestion, also become a concern. Proponents of the use of commercial drones to relieve this congestion know they can eventually improve upon certain levels of ground-based delivery. To do so, however, they must address technical, regulatory and capacity issues.

The challenges surrounding the use of drone technology for distribution hinges upon the development of routes for safe delivery of small packages. The allocation of airspace to complete the mission and compliment the actual physical capabilities of drones is a critical factor. Companies such as Amazon, Matternet and Google X are all studying the concept. All have offered viable concepts.

General merchandising giant Amazon.com has been a major proponent of unmanned aircraft delivery for a number of its products. For years Amazon has been involved in the development of its air delivery concept. Maintaining a number of large warehouses in major population centers in the U.S., Amazon's concept of sales and delivery meld well with the drone concept. A large percentage of Amazon's products shipped from these locations meet the general specifications (dimension and weight – less than 5 lbs), will today, qualify them for delivery to their customers via unmanned aircraft systems.

Matternet and Amazon are the first corporations to announce their intent to develop systems that will allow the launch of drones for commercial purposes. They have not only refined the development of the aircraft but have studied the issues of airspace and safe access.

In two working papers published by its entity Amazon Prime Air, Amazon discusses some of the major issues facing the application of commercial drones and the manner in which to address them. Amazon has already tested an automatic parcel drone operation

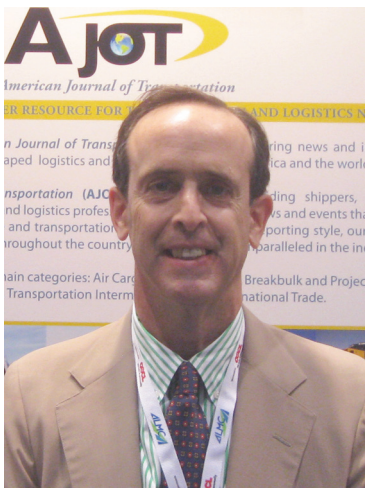
These papers offer thought provoking concepts on the commercial drone concept. One of the papers

*(**DRONES** – continued on page 8)*

Wayfair and Dermody build new E-commerce facility in Kentucky

By Robert L. Wallack, AJOT

Electronic Commerce is reshaping relationships among consumers, suppliers, retailers and logistics service providers. Warehousing and trucking enterprises are reconfiguring as shopping purchases shift from stores to websites. Wayfair, the largest web-based furniture and home décor e-tailer, and Dermody Properties, an industrial developer of distribution centers, teamed-up to construct a new e-commerce fulfillment center at Cincinnati-Northern Kentucky International Airport (CVG) in Erlanger, Kentucky.



Changing consumer shopping patterns are showing at the department store chains where sales are lower due to e-commerce or the "Amazon effect" as redefining retail and logistics. In 2015, online shopping and mail order sales were $432.7 billion along with warehouse clubs and superstores of $440.1 billion and rising steadily since 1995 whereas department stores' sales are flat and declining to $167.1 billion in 2015, according to a recent *Wall Street Journal* article. Amazon, the online platform for all consumer goods, became the nation's second biggest apparel retailer with 6.7% market share behind Wal-Mart of 7.5% market share

The fourth annual version of the Logistics Trend Radar, published by Deutsche Post DHL Group, shows Omni-channel Logistics as one of the important social and business trends within the next five years. The report reviews fourteen social and business trends and twelve technology trends among which are: Internet of Things, Big Data, and Robotics and Automation. Consumers are shopping anytime of the day and week not just on computers, but from mobile devices of smartphones and tablets. "Anytime, anywhere delivery models will be required to meet the promises made by retailers to their customers," according to the report of 2016. Omni-channel Logistics is expected to have a high impact and present new business opportunities in warehousing, fulfillment and transportation services.

Wayfair E-commerce Fulfillment Center

Wayfair, based in Boston, is capitalizing on this consumer retail trend and on May 25, 2016 opened a new 898,560 square foot e-commerce fulfillment center, LogistiCenter @275 for nearby Interstate 275, in Erlanger, Kentucky near their 525,000 square foot facility in Hebron, Kentucky that opened in March, 2014. "Cincinnati/Northern Kentucky

*(**FACILITY** – continued on page 11)*

Schneider doubles the size of New Jersey warehouse

Expansion offers 300,000-square-foot facility and increased trailer space.

The Port of New York and New Jersey is the third largest in the United States and the busiest on the East Coast. In 2015 alone, the port handled over six million import/export ocean containers. Schneider opened its Port Reading, N.J., facility in December 2015 with much success, but quickly saw the burden that shippers were facing to secure enough drayage, transloading and warehousing services. Six months later, the premier provider of transportation and logistics services, has significantly expanded its warehouse space, doubling the size to 300,000 square feet to further serve shippers utilizing the Port of New York and New Jersey.

In addition to meeting shippers' security and safety specifications, such as a fenced-in facility with a guarded and controlled entrance, the expanded facility provides ample storage space, including:

- 300,000 square feet (up from 147,500)

*(**DOUBLES** – continued on page 14)*

Schneider's expanded New Jersey warehouse

*(**TIGHT** – continued from page 2)*

commenting, "That's a good thing, because it has to off-balance the cost for new construction, which has become more expensive. It's become more expensive to build new buildings, but that's offset by lower interest rates, and developers don't want to be stuck with inventory.

What helps us be successful in that arena is that we work with the commercial real estate partners and developers directly, and we collaborate with our customers, so that we make timely, informed decisions," Pericht said. "And that, in that past three-year period, has taken up a major focus for us on where we're going to build and how much we're going to build. It emphasizes the fact that you have to have good partners."

Pericht said Saddle Creek concentrates on particular large user blocks, including major e-commerce operations that may take 1 million square feet at a time, noting, "When they decide to go into a market, those buildings are snatched up before they even come out of the ground.

"That adds to the concern on lead times," he continued. "As the lead times get pushed out, that really impacts spec [speculative] space. So, if you're timing isn't right, and you need to be in a certain market and can't wait for the year-plus to build a building out of the ground, then you're going to look at speculative space, and that's also what's driving the [vacancy] rate so low.

"There's a fine line between meeting market and overbuilding," Pericht said, pointing out that strategies tend to be market-specific.

California and Northeastern Pennsylvania's Lehigh Valley have seen precipitous drops in vacancy rates, he said, while markets such as Dallas and Atlanta "have really taken off in the last couple of years, and they run a risk of overbuilding, simply because of the size of the market."

"If you're not ahead of the curve, then you're going to play catch-up," Pericht said, noting that Saddle Creek does not typically build or lease on speculation, except to meet the company's strategic growth objectives in specific geographic areas. "We are poised to make decisions on build-to-suits or leases based on our collaboration with our customers. So I'm not going to say we're ahead of the curve; I would say that we're smack in the middle of it."

Pericht said Saddle Creek has built additional space outside Chicago on speculation, which has proven fruitful, and also is doing so on its campus in the Dallas-Fort Worth area and between Tampa and Orlando in Central Florida, on company-owned property, thus presenting lower risk.

A particularly thriving area for recent warehouse development has been the CenterPoint Intermodal Center-Joliet, about 60 miles southwest of downtown Chicago, where multiple Class I railroads have intermodal yards.

CenterPoint Properties' chief development officer, Michael P. Murphy, said he believes exceptionally strong user demand for new facilities is a key factor in the current national situation. He said users are looking to accommodate organic business growth while seeking greater efficiencies through consolidation of facilities and labor forces.

"The good news, from the industrial perspective, has been really good growth in big retailers, third-party logistics firms, even some clear benefit from near-shoring – a lot of manufacturing going on in Mexico – and automotive and electronics manufacturing in the Southeast," he said.

Michael P. Murphy, chief development officer at CenterPoint Properties, said his company is increasingly engaging in speculative development of warehouse facilities, enjoying that they are leased even before delivery.

Murphy cited BMW, Mercedes-Benz, Volvo and Boeing Co. in the Southeast and, on the West Coast, Tesla Motors, high-end manufacturing outside Silicon Valley and organic growth in the Seattle area. The Seattle market, he said, presents particular challenges as it is land-constrained, while development in California requires going through time-consuming environmental regulation processes.

"Nationally, you have great user demand, you definitely have had significant capital flows into the industrial market, but spec development has barely kept up with user demand," Murphy said.

Echoing Pericht's observation. Murphy pointed out that significant new spec product is hitting the market in the Dallas and Atlanta areas, adding, "After that, it's really been user demand outpacing new space supply, even in a pretty liquid capital market timeframe.

"There's a lot of capital, a lot of desire to do new projects and a lot of user demand," he continued. "The pace of new spec has been reasonable. We haven't gotten too ahead of ourselves in the last year and a half throughout the country.

"User demand has continued to drive vacancies lower, create rental growth and really kept most of the national industrial markets beyond equilibrium, in very tight occupancy, very low vacancy conditions," Murphy added, saying that macroeconomic forces and the upcoming presidential election could have impacts.

He said sustained growth in activity not just at seaports but also at inland ports and rail transfer facilities should continue to fuel user demand and new product development.

*(**TIGHT** – continued on page 9)*

*(**DRONES** – continued from page 4)*
describes Amazon's position on the design, management and operation of airspace, which will include small unmanned aircraft systems. The second paper offers their concept on the determination of the steps to take for a safe unmanned aircraft system.

Menlo Park, California based start-up MatterNet has been developing a system of drone deliveries in remote areas in countries around the world. Since 2011, they have been operating in Switzerland, Haiti and the Dominican Republic. CEO Oliver Evans has indicated, "The technology is here." He also has indicated that the system is cost and time efficient, saying that, "You don't need drivers and they won't get caught in traffic."

Opponents see the application of drone technology for cargo delivery as science fiction, indicating that the technical issues will outweigh the apparent efficiencies of drone deliveries. Proponents such as Amazon's Prime Air have indicated that "Highly-equipped sUAS will be capable of navigation, merging and sequencing, communication, maintaining safe self-separation and collision avoidance and de-confliction in congested airspace, without operator assistance."

Understanding the need for some resolution of the issues, the U.S. Congress asked the Federal Aviation Administration to develop rules in 2012. These rules would legalize drones for commercial use and regulate commercial zones. FAA rules could be a double-edged sword, on one side they could give the fledgling industry something to work with. On the other side, stiff rules could eliminate any advantages.

The FAA missed their deadline but did publish a draft proposal in February 2015. Companies such as Amazon's Prime Air and Google X were preparing to announce commercial operations by no later than June 2016 but were disappointed with the draft rules handed down. Drone proponents indicate that the FAA's draft proposals would delay the inevitability of drone use. Others fear that FAA proposals will pose greater, insurmountable roadblocks.

On a somewhat positive note, the FAA proposed regulations indicating that firms could operate drones commercially at altitudes up to 500' at speeds up to 100 miles per hour. Under the draft, operators must be at least 17 years old, be vetted by the Transportation Security Administration, must pass a written test and pay $200.00 to secure a license.

Among other things, FAA also proposed that operations only be allowed during the day, which could cause scheduling problems as the seasons vary. The FAA indicated that drones will not be allowed to follow a path over individuals who are not connected with the operation or the business they are involved in. Drone proponents indicate that it will take an act of congress to provide rules that they can live with.

Amazon's Prime Air is initially planning to provide deliveries of packages up to 5lbs to destinations approximately 30 minutes or less from their distribution centers. Prime Air has proposed the creation of a system that clarifies the use of the airspace environment below 500 feet. Their plans include highly automated drones that will operate as below line of sight (BLOS) fleets, weighing less than 55 lbs each, and flying at a segregated elevation under 400 feet. There

*(**DRONES** – continued on page 11)*

Amazon Prime air drone

*(**TIGHT** – continued from page 7)*

Murphy said Oak Brook, Ill.-based, CenterPoint, which traditionally has primarily been a build-to-suit developer, has taken on more spec undertakings, continuing to develop and acquire in markets seen as likely to remain strong as far as user demand and port and rail flows.

"We have had the joy of getting leased before our spec buildings were delivered," he said," and our hope is that trend will continue."

In particular, Murphy noted successes with ongoing activity in Savannah, Ga.; Charleston, S.C.; upstate South Carolina; Chicago; Seattle; Oakland; Los Angeles and Houston.

Southeast hubs such as Savannah and Charleston are benefiting from growing import activity that got a boost last year in large part due to shippers shifting some cargo from labor-stressed U.S. West Coast ports, according to Danny S. Chase, Savannah, Ga.-based principal of commercial real estate services leader Colliers International.

"Much of that cargo sticks," Chase said, adding that beneficial cargo owners seem to be maintaining supply chain diversification strategies. "The product tends to stay here."

Danny S. Chase, Savannah, Ga.-based principal of Colliers International, sees demand for warehouse facilities continuing to outpace supply in key Southeast markets, with Panama Canal expansion exacerbating the situation.

Chase said he believes demand for warehouse facilities will continue to outpace supply in such key Southeast markets, with the Panama Canal expansion exacerbating that situation. Also, he said, the harbor deepening project now under way in Savannah should, when completed, lead to further volumes entering what already is the nation's fourth-busiest containerport.

"The developers are scrambling to take down additional land both for spec and build-to-lease," Chase said. "The last few spec buildings have been leased before they were finished being built."

Examples of such leased-before-completed spec buildings cited by Chase include a 316,000-square-foot CenterPoint cross-dock facility in Garden City, Ga., less than 4 miles from Port of Savannah containership berths, and Atlanta-based TPA Group's 475,000-square-foot cross-dock installation in Northport Industrial lPark, 6.5 miles from those wharves.

In the Savannah area, Chase said, warehouse vacancy rates have been in the 2 percent to 3 percent range for the past six to 12 months, with users having to look as far as 30 to 40 miles from the port to fulfill needs.

"I can't see it letting up unless all the developers jump in with the build-it-and-they-will-come mentality," he said.

That, Chase said, is unlikely, as developers recall getting burnt a few years back during the Great Recession and may be hesitant to jump back in with an investment of $15 million to $20 million for a spec building. He added that such price tags have been rising as costs for labor and commodities like concrete and steel, as well as land, have escalated.

"The market is very active to stay ahead of this situation, but the demand is outpacing the supply currently," Chase said. "The Georgia Ports Authority is definitely concerned, because, when people come calling, if we don't have anything available, the cargo is going to another port."

Chase said other markets that are "on fire," such as inland hubs of Atlanta, Dallas and Chicago, could begin to encounter similar concerns with cargo activity going elsewhere if there is not sufficient warehouse inventory.

To avoid such circumstances, he said, "Developers are scrambling to buy and build as fast as they can."

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phone: (908)499-8737..... email: bdugan@ajot.com

Ed Andrews .....Europe Sales Rep
phone: +44 7880 702227 ..... email: ed@duvelmedia.com

*(**REMAINS** – continued from page 1)*
they have a steady, stable supply of natural gas," he elaborated, adding that there were refineries that took crude and converted it into gasoline and diesel.

LaRue said that the port was allocating considerable capital resources for modernization and expansion of docks, rail and infrastructure.

"We have about $1 billion in a 10-year capital program, and that's a lot for us. About eight years ago, our capital investment in a year was probably between 18 and 20 million (dollars), so you can see we're ramping up quite a bit," he said.

PCC moves a lot of liquid bulk and dry bulk. The port does not get any revenue from taxpayers in the region. "Our revenues come from our users. So we charge when people tie up at our docks, use our docks. They pay a fee for the ship and they pay a fee for the cargo that's unloaded," LaRue noted, pointing out that the port owns its own railroad system – almost 40 kilometers of rail - inside the port.

The lifeline of a port is the ship channel, which is, usually, not visible to people, though it constitutes what can be called an "underwater highway".

"But it has to be maintained, and just as we have highways that have to be improved and restructured, it has to be deepened. So we're going to deepen it, as part of the channel improvement project, from 45 to 52 feet, costing about $325 million. We pay half of that; the U.S. Government pays the other half," he said.

Aside from the public investment, the port is also attracting private investments, drawing some important corporate players such as the Italian PET manufacturer M&G which supplies the raw material to bottle manufacturers. LaRue claimed the company is building the world's largest PET/PTA plan on the port's ship channel.

LaRue said that while PCC is not a container port, it is considering building a new multipurpose dock that would handle all kinds of products such as wind turbines, bulk materials, etc.

"We have a Chinese oil and gas pipe company that is building a plant to manufacture oil and gas pipes … the plant is a mile from this site, so they would be able to move their finished products, the oil and gas pipes and will sell in Central and South America, through this facility. So we're doing the design on this dock right now. We hope to have it done within the next three to six months," he explained.

Another company Cheniere, for example, is building liquefied natural gas (LNG) plant, the largest project in Texas. "And what they do is they build these huge freezers – that's the only way to describe it – where they take natural gas and freeze it, liquefy it, and then ship it all over the world," LaRue said.

The PCC's executive director was also "excited" about the forthcoming opening of the expanded Panama Canal, which will allow the LNG to be shipped to Asia, with interest manifested in countries such as Korea, Japan, Taiwan, China, etc. The canal's expansion is said to have cost about $ 6 billion.

Asian companies are also keen to develop infrastructure and other areas of interest at Corpus Christi; many Asians prefer "operating from within the U.S. market" rather than just exporting to it. Tianjin Pipe Corporation America is building a $1.3 billion seamless pipe mill. The pipes utilized by the oil and gas industry are produced by recycling scrap steel in combination with pig iron.

"Occidental Petroleum is one of the major petroleum companies in the United States. They have a subsidiary that does chemicals – Oxy Chemical – and they have a longstanding plant in Corpus Christi that they're now expanding … they're building an ethylene cracker. That will open next year. The cost of that, again, is about a billion dollars," LaRue said, pointing out that this company was partnering with a Mexican company called Mexichem.

The opening of the expanded Panama Canal designed to augment containerized movements, will facilitate and take about 85 percent of the capacity of the LNG fleet, up from the hitherto modest figure of only 15 to 20 percent of the capacity. This will make U.S. butane and propane exports, as also shipments of grain and dry bulk commodities, much more competitive to Asia than they are today.

The opening of the canal will also facilitate LNG tankers sailing from Texas to Asia this summer, according to LaRue.

The channel-widening plan is also being described as a safety measure, as vessel traffic climbs and the north shore of the bay attracts vendors hungry for liquefied natural gas and other chemicals.

"Five years ago, we were just a regional port and buying crude oil from Middle East, Nigeria, etc. and selling grains. Meanwhile, the USA is exporting its energy and gas, butane, propane, liquefied natural gas (LNG), crude and refined crude products," La Rue said. The PCC handled some 103 million tons of cargo in 2015, up from 100 million tons in 2014. "However, tonnage was down in the first quarter of 2016 by 15 percent over the year-earlier period, and I am afraid it may not touch the 100 million ton mark this year. But 2017 is projected to be better," La Rue said, adding that only about 15 to 20 percent of the liquefied natural gas fleet could pass through the old Panama Canal, though the new canal set to open by June end would absorb some 85 percent of the capacity. This is expected to make U.S. produced LNG and LPG exports to Asia's lucrative markets much more competitive than they are today.

*(**FACILITY** – continued from page 6)*
International Airport (CVG) entered into a long term lease with Dermody Properties in 2015 to construct a distribution facility on a 52 acre parcel (larger than 15 football fields) on the CVG campus. Dermody secured Wayfair as a tenant," said Ms. Candace S. McGraw, CEO of CVG in a recent interview with the *AJOT*.

LogistiCenter @ 275 is a built-to-suit for Wayfair by Dermody to be e-commerce and LEED compliant. There are more operations and personnel in this e-commerce fulfillment center than a standard warehouse of twenty years ago, such as a photography studio for the Web display of furniture. There are also 36 feet clear height, clear story windows for natural light, T5 lighting at 30 foot candles with motion detectors and Haiku "Big Ass Fans" which moves air slowly around the facility without the need for costly air conditioning. "At Dermody, we have chosen to build all our speculative projects as e-commerce and LEED compliant as well, it's the future," said Greg Arnold, Partner, Dermody Properties.

Drop Ship Model

Wayfair uses the drop ship business model. The company has 7,000 supplier partners and 7 million catalogue items and does not touch most of the products. The customer orders furniture and home décor items from the Wayfair website, then the Wayfair proprietary software platform notifies the supplier to ship the item and during delivery the system notifies the customer. The Kentucky and Utah facilities are for thousands of items that sold well in the past and justify inventory. The Wayfair e-commerce facilities select the fastest parcel delivery carrier to meet customer required delivery dates.

Building distribution centers in the past were typically case load because it was business to business (B2B) where now e-commerce is typically business to consumer (B2C) or individual case pick. As such, there are changes to the build of the facility. "Dock doors were every 10,000+ square feet of warehouse space, however, now more doors are needed for more flexibility, better serving truck and van traffic focused on single customer delivery," said Arnold.

Online customers are taking note of Wayfair and their prowess to display products on their website and on time deliveries to their homes as sales continue to rise from $915.8 million in 2013 to $2.25 billion by the end of last year. The National Retail Federation (NRF) showed their annual list of "Favorite 50 Online Retail Stores of 2015." Wayfair ranked 49th among which included well known and established retailers. NRF asked 6,431 online adult consumers: What website do you shop most often for non-apparel items? Merchants names were not listed or suggested and the list compiled only by ranking those mentioned in the survey by the consumer, according a recent e-mail from NRF to this author.

Wayfair and Dermody are very optimistic on the future growth of e-commerce. Arnold sees demand for e-commerce industrial facilities to be steadily increasing relative to the increase in e-commerce sales growth. In 2015, Cushman & Wakefield reported that 30% of the demand in warehouse leasing was e-commerce. This year CBRE reports e-commerce is 40% of the distribution facility demand.

*(**DRONES** – continued from page 8)*
will be a proposed "No Fly Zone" between 400 and 500 feet. Two levels will be created below 400 feet that will include high speed transit between 200 to 400 feet and low speed localized transit below 200 feet. Amazon's premise is that their proposal creates airspace access tied to vehicle capability and safer operations by buffering small unmanned aircraft systems (sAUS).

Amazon Prime Air's position is that, "The safest and most efficient model for drones, (sUAS), with mixed equipage and capabilities, is in segregated airspace with a defined structure of operations below 500 feet." In their paper "Determining Safe Access with a Best-Equipped, Best-Served Model for Small Unmanned Aircraft Systems", they outline the class, examples of equipment and recommended airspace access for each. The company is exploring various technologies such as vehicle-to-vehicle communications, command and control networks and sense and avoid. These capabilities will be online with the ability to adapt in real time for changes in weather and emergency access.

Matternet's goal is to be capable of sending drones into sparsely populated areas and to create services that will be autonomous, safe, and speedy. They have been working with the Swiss postal service, Swiss Post. They tested drone delivery systems as proof of concept, to clarify the legal framework, consider local conditions and explore the technical and business capabilities of drones. They had previously tested their drones in Haiti, delivering medicines and supplies to inaccessible locations.

When the industry launches more sophisticated drones, (sUAS), their use in transportation and distribution will become an increasingly intriguing topic. As drone technology develops, however, attacks upon civilian targets, commercial air space, and government installations, even the White House again, may increase. Drone enthusiasts, good and bad, will continue to test the system.

Realizing this, however, a recent demonstration of a unique, rather unsophisticated tool to thwart these incursions was unveiled. Birds of prey, primarily Bald Eagles, are being trained to intercept attacking drones in mid-air and bring them down proving in a sense that nature still conquers all. Perhaps these unsophisticated, feathered defenders could also be trained to deliver packages.

FedEx beats US case over illegal online drug shipments

Charges that FedEx Corp. intentionally shipped illegal online prescriptions were thrown out at the request of federal prosecutors, ending a trial and killing conspiracy and money laundering counts that carried as much as $1.6 billion in fines.

The unusual decision to drop the two-year-old case abruptly during trial, before FedEx even put on its defense, marks a vindication for the package-delivery company, which maintained its innocence and said it helped law enforcement investigate pharmacies suspected of selling drugs illegally. FedEx opted for a trial after drugstore chains and companies including United Parcel Service Inc. chose not to fight allegations involving illegal drug sales and deliveries."

The case should never have been brought," Cristina Arguedas, a lawyer for FedEx, said. "The dismissal today is an acknowledgment that there was no wrongdoing by FedEx."

US District Judge Charles R. Breyer in San Francisco had voiced skepticism about the case, calling it a "novel" prosecution and raising doubts before trial that the government could produce the "essential ingredient"—proof that FedEx knew of the illegal drugs and intended them to be distributed illegally. With less than a week before trial, prosecutors abandoned trying the case before a jury and opted instead to streamline their presentation of evidence and have Breyer decide the case himself. FedEx agreed.

Breyer had requested testimony by two Drug Enforcement Agency officers about details of their investigation. On Friday as he was preparing to hear that evidence and consider FedEx's motion to throw out the case, a prosecutor asked that it be dropped.

"After reviewing the evidence in the case, we move to dismiss the charges," Assistant U.S. Attorney John Hemann told Breyer. Hemann declined to comment on the decision.'

Some Embarrassment

Breyer said in court he had never seen anything like it.

"The defense was factually innocent and did not have intent," Breyer said in court. "The act of dismissal is entirely consistent with government's overarching obligations to seek justice, even at the cost of some embarrassment."

The judge signed and filed his order dismissing the case minutes later.

While prescription deliveries account for only a small part of FedEx's $47.5 billion annual revenue, the company argued it's the government's job to let it know which pharmacies operate illegally. FedEx has said it would cease shipping package to or from those pharmacies.

Overdoses, Deaths

At trial, the government said it would use dozens of company e-mails to show that FedEx managers knew some drivers faced shakedowns for drugs and that some online pharmacy customers overdosed and died after getting shipments.

Breyer had directed prosecutors to begin the trial by putting on evidence of FedEx's knowledge and intent of wrongdoing and warned that he would terminate the case if the proof wasn't sufficient.

GAC Dubai opens new co-packing facility in Jebel Ali Free Zone

GAC Dubai's contract logistics arm has opened a new dedicated co-packing facility in the Jebel Ali Free Zone (JAFZA) as part of the company's continued investment and growth strategy.

With its workforce of 200 highly experienced operatives, GAC Dubai's contract logistics team has set its sights on increasing the current throughput of 7.5 million unit customisations to 11 million per month by mid-2017.

The ground plus two-floor mezzanine adds 800sqm to the co-packing area, making 1,800sqm of space available for printing, labelling, kitting and product assembly services. The facility also includes two new temperature-controlled cleanrooms.

"The new facility allows the customisation requirements of our clients to be handled even more efficiently, and the extra capacity enables us to deliver more services and expand the important value addition sector of the contract logistics business," says Neil McMaster, General Manager - Contract Logistics at GAC Dubai.

Commenting on the strong pace of expansion that is set to continue well into 2017 and beyond, GAC Dubai's Managing Director, Stuart Bowie adds: "This latest move represents just one small step in our wider growth plans in Dubai. In the last 18 months we have invested in a dedicated warehouse for a long-term customer, The One, refurbished 24,000 pallets to a European food grade standard and implemented an energy-efficient district cooling plant and water recycling systems. We are currently in the final stages of contractor selection to build a new 72,900 pallet facility at Dubai World Central."

In 1993, GAC pioneered contract logistics services in the Middle East by opening the region's first distribution centre in Dubai. Today, the 103,000sqm GAC Logistics Park in JAFZA is still one of the largest and most advanced in the region comprising of 54,000sqm of warehousing space and specialising in Food & Beverage and FMCG cargo.

Additionally GAC operates a customer-dedicated warehouse in Jebel Ali north, a multi-user retail logistics facility in Jebel Ali south, and an on-shore dedicated retail logistics facility in Dubai Investment Park, comprising a further 40,000sqm.

ContainerPort Group's Kramer meets challenges of port drayage business with intermodal solutions

Industry Profile

By Paul Scott Abbott, AJOT

With port calls by bigger containerships and growing demands of federal mandates, the drayage business is facing mounting challenges that Jim Kramer, senior vice president for commercial at ContainerPort Group, is tackling head-on.

The venerable Cleveland-based provider of intermodal container and cargo solutions is heightening the role of inland terminals and taking steps to maintain productive truck capacity in an era when the expanded Panama Canal is leading to throughput surges at already-stressed ports and electronic logging requirements and other rules are boding to have further worrisome impacts.

For Kramer, who grew up a stone's throw from Baltimore's Dundalk Marine Terminal, a proactive approach is seen as the way to win in what he admits is a constant struggle to retain its truck capacity, while continuing to recruit additional capacity to handle increased opportunities and sustain reliable, cost-efficient cargo movement.

Jim Kramer, Senior VP for Commercial at ContainerPort Group, is taking on challenges of the US port drayage business

In an interview with the *American Journal of Transportation*, Kramer offers his views on meeting industry challenges in testing times and provides some personal insights.

With the expanded Panama Canal opening this month, what impacts do you see on CPG and its intermodal network?

We certainly are anticipating an increase in the trans-Pacific cargo directly into the East Coast ports that we serve – New Jersey, Philadelphia, Baltimore, Norfolk and Savannah.

Of course, the big question is: What will this increase look like? And that's still unanswered.

With vessel sizes increasing, weekly service calls into the East Coast ports would most likely decrease.

So decreased calls, but more boxes per call…

That will equate to, in some cases, further congested terminals.

I don't think the West Coast ports and the West Coast rails will sit idly by and watch their cargo volumes decrease without a plan to somehow retain and grow their market share.

If the ILA [International Longshoremen's Association] and the PMA [Pacific Maritime Association] come to an agreement on extending their current contract, it could impact a lot of decisions by the BCOs [beneficial cargo owners] to continue diverting cargo to the East Coast.

That said, as ocean carriers continue their efforts to slow the decline in ocean rates and look to gain required market share as their vessel sizes increase, we expect them to be more flexible in

*(**PROFILE** – continued on page 14)*

Schneider makes room for furniture logistics

By Robert L. Wallack, AJOT

Schneider National, Inc. based in Green Bay, Wisconsin, recently acquired less-than-truckload (LTL), Watkins & Shepard Trucking, Inc. and final mile furniture delivery specialist Lodeso Logistics, Inc. This blockbuster deal underscores the need for specialized first to final mile transportation services of high value over dimensional goods for the e-commerce markets. The combination of these furniture logistics companies was years in the making.

Lodeso, based in Zeeland, Michigan, is a non-asset based organization with hundreds of agents in the United States and spot agents for remote areas in order to service customers in the catalogue, home and Internet shopping industries. A few years ago, Lodeso and Watkins & Shepard integrated their proprietary information systems and aligned by two separate companies. This proprietary software called Simplex is designed by Lodeso to manage home delivery of furniture throughout the U.S.A. with visibility to all stakeholders. "With Schneider, we have the I.T. muscle, the transportation muscle and the financial muscle and this will have a huge impact on the industry," said Ron Borgman, President of Lodeso in a recent interview with the *AJOT*.

Watkins & Shepard is based in Montana and began in 1974 and now has 20 terminals in 15 states for furniture deliveries in 48 states and western Canada. The business specializes in LTL, or trucks containing orders from many customers into a single truck, as opposed to full-truck-load (FTL), which moves full containers or trucks of one product from one customer. Case goods or furniture made from hard materials are difficult to manage and bulky to require specialized services. One measurement of success is that Watkins & Shepard does not use forklifts - all movements are done by hand for a record of less than one percent damage.

Lodeso's white glove and threshold furniture delivery services will complement Schneider's "Final Mile" offering to the fast growing and underserved furniture e-commerce customers such as Wayfair. "E-traders place orders to Lodeso and to the manufacturer. We create the shipping paperwork and send to the vendor with the shipping instructions. The manufacturer ships product to the local delivery terminal of Lodeso and we contact the customer to make the home delivery with a local vehicle and two person team," said Borgman. White glove premium service does inspections and corrective actions prior to delivery and full set up in the home. A two tiered threshold service delivers either through the door of the residence or to a room of choice.

US furniture retail sales were $105.4 billion in 2015 and of that e-commerce deliveries grew 8 percent to $6.8 billion, excluding private fleet deliveries, according to the *Wall Street Journal*. Many parcel networks cannot handle these oversized and bulky boxes. As such, this niche market will be served by the combination of these three specialized furniture logistics transportation providers.

(**PROFILE** – *continued from page 13*)
their East Coast calls.

In the end, it's all about keeping costs down, reducing transit times and improving service levels.

The larger question is whether East Coast terminals can handle the additional cargo off of larger ships without negatively impacting their terminal velocity. Because, as you and I both know, supply chains can't absorb further disruptions.

We've seen a number of East Coast ports really step up in their investment in infrastructure and on terminal processes while others are really slow to change.

A critical question is: How will labor rise to the challenge to improve their port productivity? Without improvements to the gate and terminal velocity, specifically the process of servicing the drayage sector, the gains of infrastructure improvements will not be fully realized.

ContainerPort Group continues to expand, specifically in the South Atlantic and the Gulf regions, in order to position itself for the future. We see the South Atlantic and the Gulf Coast regions as continuing to play an important and ever-expanding role, even more so with the opening of the expanded Panama Canal.

Do you expect inland terminals to continue to play a growing role in the shipping industry, and how is CPG responding?

We do expect inland terminals – and especially our strategic network – to continue to play a critical role.

Since our beginning in 1971, CPG's inland terminal services product has been one of our core offerings to the international and domestic shipping sector. Our state-of-the-art depot management system provides real-time updates and customized reports. Our network of secure, full-service facilities offer international and domestic container drayage services, loaded and empty container and trailer storage, repairs and container modifications. We operate a strategic network in major markets throughout the Midwest, Ohio Valley, Northeast and South Atlantic coasts.

How is CPG meeting challenges faced at ports by truckers, including draymen?

The challenge for CPG, and frankly for all drayage companies operating out of East Coast ports, is terminal velocity.

While a number of ports in which we operate today have made and continue to make improvements to both their terminal yard infrastructures and their intermodal connectors, there are a few that are regrettably lagging behind in that regard and continue to present a challenge to the drayage industry on a daily basis.

Our goal obviously is to keep our trucks moving, and keeping them in compliance with DOT [U.S. Department of Transportation mandates] regulations is extremely important to CPG.

What about situations where a driver needs to make three turns a day to make a living but is lucky to get in one?

When the issue is port congestion, we are forced, along with many draymen, to implement a port congestion surcharge in those terminals where we have to keep the trucks compensated for unproductive in-terminal waiting time.

If our trucks can't make the number of turns per day required to make a living wage or be compensated for waiting time beyond their control, they will either leave and hire on with another drayage carrier who might promise higher earnings; leave for a truckload carrier, avoiding those delays outside their control, really the port; or they'll get out of trucking altogether, further exacerbating what will become a tighter capacity market.

We've seen it in the past, and I would suspect that in the second half of 2016 to first quarter of '17 that capacity will tighten again, as the economy continues to improve. Our economy is moving along, not at the pace it needs to, but it won't take much to put the drayage industry back into a very tight capacity model.

This challenge requires a great deal of planning into every dispatch to ensure that those things that we can control are worked on in order to help keep the driver moving in and out of the piers.

To your point, if they don't make their required turns, they'll leave the drayage industry.

In order to position ourselves to handle current and new opportunities for our valued customers, we focus on capacity retention and recruitment. Beyond a solid compensation package for our fleet, we have a number of safety and longevity incentive plans which are designed to retain and recruit capacity. We believe our recruitment model is one of the best in the drayage industry.

Having been with CPG for 35 of its 45 years in existence, what are some of the most salient changes you have seen in the marketplace over the past decades?

There are a number, but, if we had to pare it down to a handful, I think the ocean carrier alliances that continue to evolve; the chassis model we are currently under, now that the ocean carriers are no longer owning their own chassis and providing them as part of the service contracts, and the model has changed in most cases to pool or trucker wheels, and CPG continues to invest in chassis in particular regions; and the DOT regulations, with the challenges of CSA [Compliance, Safety, Accountability program] and, coming down the pike, electronic logs, which will be fully implemented by the end of 2017.

We have already started implementing ELDs [electronic logging devices] in some of our locations. We'd rather not wait until the last minute. We've taken a proactive approach and already started the rollout.

We are 100 percent behind the ELD mandate, but the industry has to recognize that it will have a significant impact on driver productivity. The driver has to manage his time and the company has to manage its dispatches at a higher level to avoid delays in shipments.

How has your own educational background – with a bachelor's in business administration, labor relations and human resources from the University of Baltimore and most recently a master's in intermodal transportation from the University of Denver – prepared you for your work at CPG?

It's really provided me a deeper understanding of the various modes of transportation and has broadened my understanding of, in particular, the ocean and rail modes and some of the challenges each is confronted with.

It was an intense few years but certainly worthwhile from an educational and networking perspective.

What do you like to do in your nonwork hours, assuming you occasionally get a few?

I do like traveling, both internationally and throughout the U.S. One of the benefits of my job is that I do travel domestically to see our customer base, and that's always enjoyable.

What's the coolest place you've been?

I just got back from India in March, but I think the coolest place I've been to would be a tossup between Beirut and Havana. I always try to go off the beaten path. I prefer the road less traveled. I find it much more fascinating.

I have two daughters and two grandkids who still live in the Baltimore region, and brothers and sisters who live in the mid-Atlantic area, as well. My wife and I try to get back there as often as possible to enjoy time with the family.

I was born and raised outside Baltimore's Dundalk Marine Terminal, which back in the '50s was a small regional airport, and then converted over to a car and container terminal. Literally, I lived several hundred yards from it, and it's just funny how I've ended up in the industry after growing up just outside Dundalk Marine Terminal.

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(**DOUBLES** – *continued from page 6*)
- 48 dock doors (up from 23)
- Space for 76 trailer spots (up from 35)
- Additional off-site yard availability

The warehouse's location is conveniently positioned near the Port of New York and New Jersey, the New Jersey Turnpike, Newark International Airport and other key facilities, such as FedEx and UPS.

"Customers are looking for warehousing, transloading and drayage providers that can meet their needs at multiple ports," said John Miller, vice president of commercial development, transloading and distribution. "We quickly came to realize that an expansion of the warehouse would give Schneider increased coverage of the top three East Coast ports while assisting our customers on a larger scale."

DOT and FAA finalize rules for small unmanned aircraft systems

Regulations will create new opportunities for business and government to use drones.

The Department of Transportation's Federal Aviation Administration finalized the first operational rules (PDF) for routine commercial use of small unmanned aircraft systems (UAS or "drones"), opening pathways towards fully integrating UAS into the nation's airspace. These new regulations work to harness new innovations safely, to spur job growth, advance critical scientific research and save lives.

According to industry estimates, the rule could generate more than $82 billion for the U.S. economy and create more than 100,000 new jobs over the next 10 years.

The new rule, which takes effect in late August, offers safety regulations for unmanned aircraft drones weighing less than 55 pounds that are conducting non-hobbyist operations.

The rule's provisions are designed to minimize risks to other aircraft and people and property on the ground. The regulations require pilots to keep an unmanned aircraft within visual line of sight. Operations are allowed during daylight and during twilight if the drone has anti-collision lights. The new regulations also address height and speed restrictions and other operational limits, such as prohibiting flights over unprotected people on the ground who aren't directly participating in the UAS operation.

The FAA is offering a process to waive some restrictions if an operator proves the proposed flight will be conducted safely under a waiver. The FAA will make an online portal available to apply for these waivers in the months ahead.

"With this new rule, we are taking a careful and deliberate approach that balances the need to deploy this new technology with the FAA's mission to protect public safety," said FAA Administrator Michael Huerta. "But this is just our first step. We're already working on additional rules that will expand the range of operations."

Under the final rule, the person actually flying a drone must be at least 16 years old and have a remote pilot certificate with a small UAS rating, or be directly supervised by someone with such a certificate. To qualify for a remote pilot certificate, an individual must either pass an initial aeronautical knowledge test at an FAA-approved knowledge testing center or have an existing non-student Part 61 pilot certificate. If qualifying under the latter provision, a pilot must have completed a flight review in the previous 24 months and must take a UAS online training course provided by the FAA. The TSA will conduct a security background check of all remote pilot applications prior to issuance of a certificate.

Operators are responsible for ensuring a drone is safe before flying, but the FAA is not requiring small UAS to comply with current agency airworthiness standards or aircraft certification. Instead, the remote pilot will simply have to perform a preflight visual and operational check of the small UAS to ensure that safety-pertinent systems are functioning property. This includes checking the communications link between the control station and the UAS.

Although the new rule does not specifically deal with privacy issues in the use of drones, and the FAA does not regulate how UAS gather data on people or property, the FAA is acting to address privacy considerations in this area. The FAA strongly encourages all UAS pilots to check local and state laws before gathering information through remote sensing technology or photography.

As part of a privacy education campaign, the agency will provide all drone users with recommended privacy guidelines as part of the UAS registration process and through the FAA's B4UFly mobile app. The FAA also will educate all commercial drone pilots on privacy during their pilot certification process; and will issue new guidance to local and state governments on drone privacy issues. The FAA's effort builds on the privacy "best practices" (PDF) the National Telecommunications and Information Administration published last month as the result of a year-long outreach initiative with privacy advocates and industry.

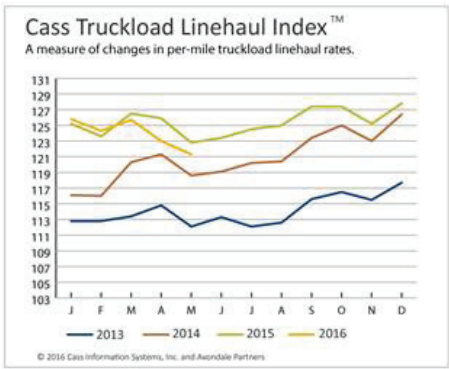
Cass Truckload Linehaul falls 1.2% in May

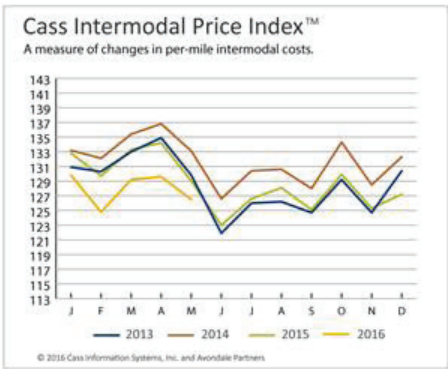
The Cass Truckload Linehaul Index fell another 1.2% year over year in May after declines of 0.6% and 2.3% in March and April respectively. With three consecutive months of price declines, the domestic truckload market continues to face softer demand and excess capacity. Driver pay increases, overall fleet growth, reduction in carrier bankruptcies, and an easing of the 34-hour restart rule are some of the contributing factors.

Intermodal

The Cass Intermodal Price Index fell another 2.0% year over year in May, representing 17 consecutive months of year over year declines.

Avondale Partners reiterated in its monthly report that intermodal rates are expected to continue declining for the remainder of 2016 "as the dramatic drop in diesel prices … takes its toll on U.S. domestic demand." Although they predict that domestic container may grow in the mid to low single digits through 2016, Avondale added "that is dependent upon demand in longer lengths of haul growing fast enough to offset the loss of volume in shorter lengths of haul, particularly in the East."





AIR CARGO NEWS

FedEx to buy six Boeing 767 freighters

FedEx Corp. is buying six Boeing 767 freighters valued at $1.2 billion as the world's biggest cargo airline continues to modernize its fleet.

The six aircraft are scheduled for delivery in fiscal 2019 and 2020, according to a FedEx spokesman. They were among the options included in a 50-jet order that FedEx placed almost a year ago to help reduce operating costs and improve fuel efficiency. Discounts from list value are typical in the aerospace industry.

The wide-body 767, developed in the 1980s, has enjoyed a resurgence as a freighter after passenger airlines switched to aircraft such as Boeing Co.'s 787 Dreamliner and Airbus Group SE's A330. The U.S. Air Force has committed to a tanker based on the 767 that could lead to an order of as many as 400. Amazon.com Inc. also is relying on the jet for its nascent air-cargo service.

Boeing currently makes two of the planes a month as it attempts to resolve development snarls with the tanker. It plans to speed output to 2.5 jets a month next year to accommodate FedEx's 2015 order, with deliveries running over a five-year period beginning in the fiscal year that runs through May 2018.

Amazon this year announced two agreements to lease a total of 40 767-300s from Air Transport Services Group Inc. for a fledging network that would lessen the Internet retailer's dependence for deliveries on FedEx and UPS. As part of an agreement announced in May, Amazon could take as much as a 30 percent stake in Air Transport Services.

Boeing near $4 billion deal with Russian firm to save 747

Boeing Co. is nearing a $4 billion deal with Russia's largest air-freight company that would help extend the life of the iconic, hump-nosed 747 jumbo jet amid waning demand for four-engine aircraft, people close to the transaction said.

The U.S. planemaker is in advanced talks with AirBridgeCargo Airlines and its Moscow-based parent, Volga-Dnepr Group, to convert a year-old commitment into more than 10 firm orders for 747-8 freighters, two of the people said. The agreement could be announced as soon as the Farnborough Airshow next month in England, according to four people briefed on the deal, who asked not to be identified because the talks are confidential.

The deal would provide a crucial lifeline for the "Queen of the Skies" as Boeing tries to preserve production until the air-cargo market revives or shipping companies start to replace aging wide-body fleets. The 747 freighter, prized for a hinged nose that allows large cargo to be loaded at the front, is Boeing's second-most expensive commercial jet, with a list price of $379.1 million. Buyers typically negotiate discounts.

Converting commitments to firm orders starts the process of allocating manufacturing resources and production slots to build the planes.

A representative of Volga-Dnepr declined to comment on the talks, but said the airline plans to take all 20 jumbos it committed to last year. A Boeing spokesman declined to comment.

Airline Shift

Sales have dwindled for Boeing's four-engine 747 and the Airbus Group SE A380 superjumbo jetliner as airlines have shifted long-range travel to more-efficient twin-engine models like Boeing's 777. Boeing had just 22 unfilled orders for the 747 through May, according to its website. The planemaker halved annual output of its largest commercial jet to six planes in January, citing declining sales.

The potential Russian savior for the 747—which brought long-range travel to the mass consumer market when it was introduced by Pan American World Airways in 1970—isn't just a Boeing customer. Volga-Dnepr also transports large aircraft segments for Boeing's 787 Dreamliner from suppliers to the planemaker's factories.

At the Paris Air Show last June, Volga-Dnepr signed a memorandum of understanding to buy 20 of the 747-8 freighter. The company took delivery in November of the first two aircraft, so-called white tails built for other customers whose orders fell through.

The Russian freight hauler confirmed it is the unidentified buyer for two of the four jumbo freighter orders Boeing recorded in March, saying the planes will be delivered later this year. The first of those two 747s has been repainted with the livery of CargoLogicAir Ltd., a Volga-Dnepr subsidiary.

Air Canada launches ten international routes

Air Canada flight AC061 departed for Seoul, South Korea, inaugurating the carrier's 10th new international route in the past month. Since May 19, Air Canada and Air Canada Rouge have between them started seven new non-stop routes to Europe and one each to Asia, Africa and Australia as part of the airline's international expansion. In addition, Air Canada has also launched 11 new U.S. transborder routes since the start of May.

"Air Canada has undertaken the most intensive period of international expansion in its history. Over the past month, through Air Canada and Air Canada Rouge we have launched 10 new non-stop, year-round or seasonal services to international destinations on four continents. This gives customers, in time for this summer, more choices of destinations and routings than ever before," said Benjamin Smith,

*(**ROUTES** – continued on page 19)*

AirBridgeCargo adds sixth destination in China with launch of Chongqing flights

AirBridgeCargo Airlines (ABC) has of June 16th introduced another new destination to its expanding international network with the launch of flights to Chongqing, one of the leading commercial centres in China.

The new service operates from Moscow Sheremetyevo Airport two times per week, every Wednesday and Friday, and will be linked with ABC's Shanghai (PVG) flights returning to Moscow, complementing its PVG frequencies and accommodating cargo flows from the central part of China.

With the launch of Chongqing services, ABC's customers will have access to and from this important Chinese economic area and the guarantee of seamless and reliable connections to consumers in Russia, Europe and the USA via ABC's international hub in Moscow, which provides numerous connectivity options and delivery solutions.

"Chongqing is our sixth point in China, which makes our footprint in this country stronger and guarantees the coverage needed to ensure we are meeting our customers' needs," said Robert van de Weg, ABC's Senior Vice-President, Marketing & Sales.

*(**FINED** – continued from page 1)*

little as one day.

Global Network

Chief Financial Officer Brian Olsavsky downplayed Amazon's ambitions in an earnings call in January, saying the company wants to supplement the two shippers, not replace them. Documents reviewed by Bloomberg News reveal the company may be planning a bolder strategy to create a global delivery network to control the flow of goods from factories to customers' doorsteps.

At the same time, Amazon is developing drones capable of short-distance, rapid deliveries of small items. The company has received FAA permission to test unmanned aircraft and is also doing development in other nations.

The FAA didn't detail Amazon's previous violations the press release. According to previous press releases on its website, the FAA has opened enforcement actions against Amazon for shipping flammable paint and other items without proper packaging and marking in at least four previous cases since 2014. The agency sought a total of $314,000 in fines in those cases.

Port Everglades, Crowley Liner Services renew long-term agreement

Crowley Liner Services has entered into a new 10-year, $157.8 million lease and operating agreement with the Broward County Board of County Commissioners for a 99-acre marine terminal at Port Everglades. The agreement also includes two five-year extension options.

The lease agreement combines Crowley's original 74-acre leasehold with the 25-acre SeaFreight leasehold, which Crowley acquired in October 2015.

"Crowley became the first tenant in our Southport container terminal complex in January 1990, and has grown, and restructured, the terminal from its original 55.54 acres to become our largest marine terminal operator. We value our long-term partnership with Crowley Liner Services and appreciate the company's flexibility as Port Everglades continues to expand for future growth," said Port Everglades Chief Executive & Port Director Steven Cernak.

In Fiscal Year 2015 (October 1, 2014 through September 30, 2015), Crowley transported 145,940 containers through the Port, generating nearly 29 percent of the Port's total container revenue. During the same time period, SeaFreight moved 41,801 containers.

Under the terms of the new lease, Crowley's estimated annual regional economic impact, based on the projected level of activity by lease year six, will:

- Support 1,208 direct jobs
- Produce $209.5 million in personal income
- Yield $306 million in business services revenues
- Generate $103 million in local purchases
- Deliver approximately $19.5 million in state and local taxes

SCPA's SOLAS approach at Port of Charleston

The South Carolina Ports Authority filed a rule in its Marine Terminal Operating Schedule (MTOS) outlining its process for adherence to the IMO regulations regarding Safety of Life at Sea (SOLAS) Regulation VI/2. This approach is consistent with the U.S. Coast Guard Maritime Information Safety Bulletin dated April 28, 2016 on this topic,which outlined that existing procedures to comply with U.S. terminal safety regulations could be used to comply with this important regulation.This provision allows the Port of Charleston to provide VGM data directly to ocean carriers via EDI 322 messages and provides that shippers using the Port of Charleston authorize this practice, unless they make other arrangements with their ocean carrier.

All export containers will be weighed on calibrated and certified truck scales upon arrival at the Port of Charleston.The weight of the truck tractor, chassis and other ancillary equipment such as gen sets will be subtracted from the gross weight, yielding the gross weight of the container and cargo. This gross weight will be provided to the respective ocean carrier as the VGM via EDI 322 message and will be made available to the stevedores stowing cargo in the port on a real time basis, so that ships can be efficiently and safely stowed. Shippers can also provide their separately developed VGM to the ocean carrier on mutual arrangement with that ocean carrier.

Panama Canal conducts trial transit through the expanded Cocoli Locks

The Panama Canal conducted another successful trial transit in the expanded canal. The transiting vessel, a U.S.-built crane ship named the Oceanus, was maneuvered through the Pacific-facing Cocoli Locks by Panama Canal Pilots Fernando Jaén and Ricardo Varela.

The Inauguration of the Expanded Panama Canal took place Sunday, June 26 with the first commercial transit of the COSCO Shipping Panama.

The expanded canal will double the waterway's cargo capacity, enhancing the canal's efficiency, reliability and customer service. The new waterway will provide greater economies of scale to global commerce as Neopanamax ships will be able to transit. In line with its focus on customer service since the handover to Panama nearly 20 years ago, the Panama Canal continues to provide the world, global commerce and individual segments with new products and services.

HANSA HEAVY LIFT uses flying deck to transport four giant cranes

HANSA HEAVY LIFT has transported four RTG cranes on behalf of deugro (Finland) Oy, each measuring 29.0m x 12.0m x 24.0m and weighing 132 metric tons, from Ukraine to Egypt.

The global tramp carrier successfully lifted each RTG at both the port of loading and the port of discharge, deploying the two cranes of the HHL Kobe, which have a combined lifting capability of up to 800 metric tons.

In order to accommodate all four pieces of cargo on deck, a so-called "flying deck" was created on-board the vessel, which is a transversal extension platform and consists of two tween deck pontoons to provide an extended stowage area.

"We had to pay special attention in positioning the cargo due to the small tolerance for placing the flying deck and driveway pontoons on hatch covers," said Ian Broad, Director Cargo Management, HANSA HEAVY LIFT.

"In addition to a structural assessment, several 3D simulations were required during the planning stage due to the height of the cargo to find the perfect manoeuvre needed to avoid the boom structure of the vessel's cranes coming into contact with the unit during placement."

The first two RTG cranes, once lifted, were driven to the forward end of the hatch covers using their own electric motors. The third was lifted using the on-board cranes and placed onto two tween deck pontoons, which then acted as driveway access to the flying deck pontoons.

Once the driveway tween decks had been removed, the fourth and final crane was lifted and placed on the hatch covers between the cranes of the HHL Kobe.

Only a small gap of 9cm was left in-between two of the RTGs so that one of the vessel's own cranes could be brought down to a resting position, in order to avoid violating air draft restrictions in the Bosporus Strait.

The *HHL Kobe* transports four RTG cranes to Egypt

PRPA hosts Mexican Inbound Trade Mission

The Mexican Inbound Trade Mission took place in Philadelphia, PA from June 14-16. Forty participants from Mexico, mostly produce and meat exporters, joined with buyers from California, Arizona, Idaho, New York, Florida, New Jersey and Pennsylvania. The Trade Mission was organized to support the SeaLand Atlantico container service, connecting the Mexican ports of Veracruz and Altamira with Port Philadelphia.

(L to R) Tom Mutz – Penn Warehousing, Tim Brown – Horizon Stevedoring, Dionisio Cos – Frio Puerto Veracruz, Manuel Cabrera-Kabana – Frio Puerto S.L., David Apseloff – AGRO Merchants Group, Sean Mahoney – PRPA, Maria Cisneros – Suro International Importers, Elisa Alejandra Vázquez – La Huerta, David Ponce – Amazon Produce Network, Neal Rider – AGRO Merchants Group

(L to R) Yamil Vallejo Murillo – Productores y Comercializadores Agropecuarios Rancho Las Ánimas, Abraham K. Weller – Agencia Aduanal Lara Valerio & Asociados, Eduardo Serrano – Grupo Arias, Eduardo Alvarez Cid – Productores y Comercializadores Agropecuarios Rancho Las Ánimas, Danilo Izeli – JBS USA

(L to R) Joseph Fox – PRPA, Sean Mahoney – PRPA, Tim Brown – Horizon Stevedoring

(L to R) Abraham K. Weller – Agencia Aduanal Lara Valerio & Asociados, Yamil Vallejo Murillo – Productores y Comercializadores Agropecuarios Rancho Las Ánimas

(L to R) Edward Henderson – PRPA, Christian Holt – HOLT Logistics, Byron Montalvo – HOLT Logistics, Sean Mahoney – PRPA

(L to R) Megan McCormick – Philadelphia Regional Port Authority, Nancy Sindo – PRPA, Dionisio Cos – Frio Puerto Veracruz, Amanda Prinski – PRPA

Hanjin Shipping suffers setback as Seaspan opposes fee cut

Seaspan Corp. said it won't accept Hanjin Shipping Co.'s request for a cut in charter rates by about 30 percent, dealing a blow to efforts by South Korea's biggest liner to revamp debt amid a prolonged trade slump.

The Hong Kong-based ship lessor could instead consider ordering new, fuel-efficient vessels from a South Korean shipyard and leasing them to Hanjin Shipping, helping improve the liner's competitiveness, said Gerry Wang, Seaspan's chief executive officer. Hanjin Shipping operates seven container vessels leased from Seaspan.

"We do not accept any rate cut," Wang said in a phone interview. "We have never done it. We won't tolerate a contract re-negotiation. Any call for rate cut is illegal by international laws."

Hanjin Shipping is in talks with shipowners to reduce charter fees as part of a requirement by creditors in exchange for funds to improve its financials. The South Korean government is reviewing various measures, including possible mergers, to revive an industry struggling with mounting debt after years of losses from weak demand.

Visible Result

Hanjin Shipping is having "continuous discussion with Seaspan" and making all "effort to bring the best visible result as soon as possible," the Korean company said in an e-mailed response to a request for comment.

The Seoul-based company is in talks to lower fees for 60 container and bulk ships it has leased from 22 owners by some 30 percent for a period of about three-and-a-half years, the South Korean company said in a June 14 regulatory filing. Hanjin Shipping is also meeting with its bondholders to persuade them to take part in the restructuring plan led by the creditor banks.

"This increases the uncertainties of the restructuring plan," said Park Moo Hyun, an analyst at Hana Daetoo Securities Co. in Seoul. "Fundamentally, Hanjin Shipping needs more efficient vessels if it really wants to remain competitive."

Durable Solution

Wang said he met with Hanjin Group Chairman Cho Yang Ho this week. Discussions centered around a long-term solution for the shipping company, which is to have a modern fleet that will be cost efficient, Wang said. Seaspan has ordered container ships from South Korean shipyards, including Hyundai Heavy Industries Co. and Samsung Heavy Industries Co., worth a combined $8 billion.

"We lived up to all the contractual obligations 100%," even during the difficult times through the global financial crisis, Wang said, referring to the shipbuilding orders placed with South Korean shipyards.

Hyundai Merchant Marine Co., the country's second-biggest container liner, reached agreements to cut charter rates for three and a half years in exchange for new shares and debt for the adjustment.

Active Steps

Hanjin Shipping has been unprofitable in four of the past five years. The company's cash on hand fell 56 percent from a year earlier to 241 billion won ($206 million) at the end of last year, according to data compiled by Bloomberg.

South Korea has been taking more active steps to help its shipping businesses cut debt and weather the slump that has led some cargo carriers to report losses or smaller profits. Worldwide, shipping companies have been shrinking their workforce and exploring consolidation after years of overcapacity depressed freight rates.

Seaspan currently has an operating fleet of 89 vessels, according to its website. It's customers include Maersk Line, Hapag-Lloyd AG and Cosco Container Lines Co.

Wainwright Industries/TVS Supply Chain Solutions expanding logistics footprint in Charleston

Wainwright Industries/TVS Supply Chain Solutions South Carolina has announced plans for a second Charleston location to serve growing third-party logistics and supply chain demand by South Carolina Ports Authority (SCPA) customers.

"Expansion by Wainwright into a second Charleston location to serve broader markets is exciting news for SCPA," said Jim Newsome, SCPA President and CEO. "Wainwright is a leading service provider in the forest products market, SCPA's top commodity by volume. Its growing footprint in Charleston is critical to supporting the cargo volume increases expected at our Port in the years ahead."

Wainwright's new North Charleston location will provide warehousing and value-added logistics services for some of SCPA's largest markets, including forestry products, which represents 15 percent of SCPA's total cargo volume. The 212,000 square foot, rail-served facility is a significant expansion in size and product offering from its existing Ladson facility, which serves the automotive segment.

The new location is a CSX rail-served building on North Rhett Avenue in Hanahan, close to Charleston marine terminals. Importantly, it expands the Port's capabilities to serve rail-dependent cargo, such as paper, from across the Southeast.

"We are very proud and excited to be expanding our operations in Charleston, South Carolina, and look forward to continuing a strong partnership with SCPA," said David Robbins, Wainwright & TVS President and CEO.

"This expansion will complement our existing service offerings and allow us to establish new business partners in the ever growing South Carolina region."

*(**ROUTES** – continued from page 17)*

Air Canada.

Along with the launch of daily, year-round 787-9 Dreamliner service non-stop between Toronto and Seoul, Air Canada mainline has also started non-stop, year-round 787-8 Vancouver-Brisbane service that increases to daily. Air Canada mainline has also launched up to five-times weekly, year-round service between Montreal and Lyon, operated by a 767-300ER.

Air Canada Rouge has begun operating seven new seasonal flights since May 19. The new city pairs include: Toronto and London-Gatwick, Glasgow, Prague, Budapest and Warsaw; Vancouver-Dublin; and Montreal-Casablanca. Flights will be operated with an Air Canada Rouge Boeing 767-300ER.

Also since the start of May, Air Canada has launched 11 new transborder routes to the U.S. The new pairings include: Toronto and Washington-Dulles, Jacksonville, Fla., Portland, Ore., and Salt Lake City; Vancouver and San José, San Diego and Chicago; Montreal and Philadelphia, Denver, and Houston; and, beginning June 18, Calgary-San Francisco.