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GARMENTS & APPAREL
YEAR END ANALYSIS

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# Trump presidency viewed as plus as ports seek infrastructure gains

By Paul Scott Abbott, AJOT

Having Donald Trump in the White House is apt to help advance infrastructure improvements at ports and throughout the U.S. supply chain, according to the head of the American Association of Port Authorities.

"We do fully expect that it's going to take a combination of sources and resources at the local, state and federal levels, as well as private sector," AAPA President and CEO Kurt Nagle said Dec. 6 in response to a question from the *American Journal of Transportation*. "Certainly, President-elect Trump has talked very vocally about desire to rebuild America's infrastructure, talking about up to $1 trillion of an infrastructure package in the new Congress."

Nagle noted that, at a Dec. 1 rally in Cincinnati, Trump explicitly talked about the need to deepen U.S. harbors to accommodate larger vessels.

"So we think there is a recognition by the new administration and certainly in Congress, by what we saw from the FAST Act and hopefully a water resources bill this week, that we need to invest in not just our overall infrastructure but certainly our transportation infrastructure and specifically our freight transportation infrastructure if we're going to be able to compete internationally," Nagle continued. "It's obviously a priority that the president-elect has stated."

Kurt Nagle, president and CEO of American Association of Port Authorities, sees a Trump presidency as favorable for port infrastructure.
(Photo by Paul Scott Abbott, *AJOT*)

Nagle said he is "extremely encouraged" by Trump's expressed commitment to freight infrastructure, including through anticipated introduction early in his administration of a freight infrastructure funding package.

Nagle made the comments in a teleconference linked to release of a report from the American Association of Port Authorities and the American Association of State Highway and Transportation Officials.

Interestingly, the other AAPA participant in the teleconference, M. Kathleen Broadwater, deputy executive director of the Maryland Port Administration and 2015-16 chairwoman of AAPA's Legislative Policy Council and Freight Task Force, refused to comment on the impact of a Trump presidency, firmly stating, "I have no opinion on that topic."

The newly released report, "The State of Freight II: Implementing the FAST Act and Beyond," says "freight took a major step forward" with the December 2015 signing into law of the Fixing America's Surface Transportation Act. But, the report says, "the promise of a 21st century freight network has yet to be fulfilled."

"Just six months after passage of the FAST Act, with over $258 billion in identified freight projects from just 18

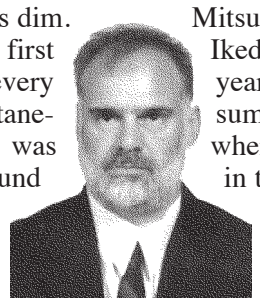
*(**PLUS** – continued on page 13)*

# 2016 - a year in review: "For the first time ever all shipping sectors went bad"

By George Lauriat, AJOT

Everything old is new again.

Liner shipping, like all other sectors, suffered a bad year in 2016 and prospects for 2017 are just as dim. It's curious that it was the first year in living memory that every shipping sector was simultaneously depressed and there was no in-house innovation around the corner – like a switch from sail to steam or (later) steam to oil power or, more recently, the introduction of containerisation – to provide future relief. It simply was a bad year all around.



The title and the words above, sans 2016 and 2017, were the opening paragraph of a 1982 year-end wrap up on shipping published in the February 10, 1983 edition of the Hong Kong-based Far Eastern Economic Review. It was a depressing article about poor returns, shifting alliances [liner conferences], excess capacity, mergers and bankruptcies.

But the story serves as a reminder that we've sailed these seas before and the author was wrong in 1982 and would be wrong again today, despite the temptation to write, "For the first time ever all shipping sectors went bad." In reality 1982 wasn't the first time nor will 2016 be the last time, but understanding underlying causes could prove useful in making the dips a little more palatable.

The year 2016 was indeed a very bad year for liner shipping and the prospects for year 2017 seem dim albeit with numerous caveats that could alter any prognostication.

Like the year 1982, containership operators are not alone in their distress as virtually every sector from tankers to bulk and break bulk carriers are all bumping along the bottom.

Mitsui OSK Lines' CEO Junichiro Ikeda, who was around a half-year at the helm, pretty much summed up the sorry situation, when in January 2016 he wrote in the New Year Message, "Our business climate remains severe. Fleet oversupply is still an issue, and we see few prospects for recovery with the Chinese economy slowing down and markets stuck at historically low levels for both containerships and dry bulkers. The drop in crude oil prices does provide a tailwind with the twin benefits of reducing bunker costs and spurring the tanker market. However, low crude prices also raise concerns… we cannot realistically expect favorable conditions will go on forever in the tanker market."

Ocean shipping has with annoying regularity pitched into depression and risen again from the depths, only to repeat the pattern all over. Admittedly, with each gut wrenching, nauseating cycle there have been structural changes to the industry and that's happening today. However, thus far, those structural changes have done little to smooth out financial turmoil.

## The Makings Of A Very Bad Year

There are many factors that contributed to making 2016 a bad year for container ship operators starting with the ROI (return on investment) and container freight rates. Like most things, the seeds of the problem were sowed several years back (it takes

*(**BAD** – continued on page 10)*


# Stretching garment sourcing

***The shift in garment production to "frontier" manufacturing is stretching garment sourcing in ways few would have imagined a decade ago. China is being forced to move up the value chain, under siege from garment apparel manufacturers in countries like Burma, Cambodia, Vietnam and Bangladesh. For logistic providers, this requires a global restitching of supply chains.***

By Matt Miller, AJOT

For years, garment retailers have been juggling productions costs and quality with the time it takes to get their finished products to market. It's a perpetual balancing act, and one that has become ever more complicated as labor costs in China have spiked and consumer demands for near immediate gratification of trendy, fashionable clothes at everyday prices – so-called fast fashion – have grown.

This has led to both a diversification of sources and a partitioning of production. Greater automation, technology and robotics play a growing role as well, all working to shrink the actual labor component. On the horizon is widespread use of 3D printing, now the exclusive domain of high fashion, which will allow the production of a piece of clothing at home with the exact specifications of the person wearing it.

## New Sources

Everyone is scrambling, including the logistics providers who are under constant pressure to get the goods from factories to stores faster and cheaper. Add to all this growing demands for social compliance, including worker pay, factory conditions and human rights. The biggest concerns are aimed at many of the fast-growing producing countries, notably Bangladesh and, most recently, Myanmar.

There are several trends coursing through the trade at the same time. None of these are new or revolutionary, but are working to gradually transform the garment industry into a truly global undertaking.

"It's an ongoing process we've seen over the past several years," said Vinod Rangarajan, with the fashion and apparel consultancy 703 Advisors.

China remains by far the world's largest garments producer. Last year, it exported some $175 billion worth of clothing, 50% more than the European Union, and 39% of global totals.

So saying, many labels continue to gradually shift production especially of lower cost apparel to frontier markets, most notably Cambodia and Vietnam in Southeast Asia and Bangladesh and Sri Lanka in South Asia. China's efforts to move production inland to cut costs hasn't proved a suitable antidote either, as it adds to transport time and expense.

In 2015, according to the WTO (World Trade Organization), clothing exports from China declined 6%, while Vietnam's increased by 10% and Cambodia by 6%.

With labor costs one-third that of China, Myanmar is coming on strong. Its exports grew by almost 50% in 2015, but from a much smaller base. Myanmar's garment exports last year totaled a tad shy of $1.5 billion, while Vietnam's hit $28 billion and are expected to touch $30 billion in 2016. Bangladesh appears to have recovered from the disastrous factory fire three years back and exported $26 billion last year, a 6% gain. Cambodia exported almost $6 billion in 2015.

China has honed its garments-related shipping as well as production, with everything from expedited customs and efficient freight forwarding to onsite distribution facilities. Vietnam has poured huge sums into port and container terminal building and modernization, although it continues to suffer from poor roads and feeder infrastructure.

It's a far different story in Myanmar's major port of Yangon, where growing trade has overwhelmed the strapped and inefficient facility. Earlier this year, shipping companies reported loading and unloading delays of anywhere from five to 10 days. The port struggles with dilapidated equipment, inadequate terminals and low worker productivity. Because the country imports – mostly from China - pretty much everything necessary for garments production, the supply chain can get hung up at many different junctures. Complicating the process even more, containers exported from Myanmar to Europe and the US, tend to get transshipped from Singapore, Malaysia or Sri Lanka.

So, shippers must factor in even longer transportation lead-times than usual to make sure they get their products into stores on time. If a producer

*(**STRETCHING** – continued on page 4)*

# Never heard of Tianyuan garments? They're moving to Arkansas

By Matt Miller, AJOT

In October, Chinese apparel maker Suzhou Tianyuan Garments Co. announced it would invest $20 million in an old, Arkansas metals fabrication plant and convert the facility into a state-of-the-art garments factory. Tianyuan said it would begin to make clothes in the plant in late 2017, marking the first time a Chinese garments manufacturer would be producing its wares in the US.

The announcement was met with great fanfare, especially as Tianyuan, which produces primarily for Adidas, said it would be hiring 400 textile workers. However, don't expect this to signal an onslaught of foreign producers to American shores.

"Some textile manufacturers have moved back to the US. There's some resurgence there," said Vinod Rangarajan, with the fashion and apparel consultancy 703 Advisors. But [labor rates] are still "not that competitive."

Reshoring, or on-shoring, is a hot button issue these days, with the Trump election and pressure the president-elect has put on individual manufacturers such as Carrier to keep workers in the US.

The textiles and garments industry itself has managed to hold its own and even expand production modestly since the Great Recession. However, the labor force remains a fraction of what it was in years past, a combination of both outsourcing and increased automation. According to the National Council of Textile Organizations, which represents the industry, American-made textile products totaled some $76 billion in 2015, a 14% increase over 2009. Yet, the number of workers last year stood at 390,000. That's barely half the number of textile workers employed a decade before and just 16% the total textile-related American workforce in 1973.

How much of the recent gains can be attributed to reshoring? The answer: Not much at all.

Consultancy A.T. Kearney investigates the reshoring of manufacturing in general and publishes an annual reshoring index. Its latest study, based on 2015 data, makes two points: The first is that for every one dollar of American manufacturing that left American shores last year, just 12 cents worth of offshore production came back. That's by far the biggest gap since 2004, the year the consultancy began to tally results.

The second takeaway is that apparel reshoring in particular amounts to just 12% of all published cases of manufacturing-related reshoring over a five-year period. From 2011 to 2015, that equals just 77 cases. To make matters worse, 2015 represented a huge drop in the total number of manufacturing-related on-

*(**MOVING** – continued on page 6)*

# Clothes exports to US fuel Kenya plans for cotton revival

Kenya plans to revive its cotton industry, a major foreign-exchange earner until the 1980s, amid strong demand for lint from domestic mills and the potential to supply manufacturers exporting clothing and textiles to the U.S. under a preferential trade deal.

The government is planning training and credit facilities for farmers as part of a bid to restore production that peaked at 38,000 metric tons of seed cotton in 1984-85. Kenya currently produces 15,700 tons of seed cotton, creating about 5,240 tons of lint. Demand for the latter is about 37,000 tons, with the shortfall imported from neighboring countries, according to Fanuel Lubanga, a development manager at the state-run Agriculture and Food Authority.

The initiative comes as manufacturers in East Africa's biggest economy are counting on apparel exports to the U.S. growing 5 percent this year after the U.S. extended its African Growth and Opportunity Act, or AGOA, by a decade.

"The potential that we have for our cotton through the AGOA exports is a strong motivation to grow the industry," Lubanga said in an interview in the capital, Nairobi. He said national output is expected to double during the 2017 harvest because farmers are now using seeds bought from Israel instead of recycling seeds, previously a common practice.

East Africa could potentially export garments valued at as much as $3 billion annually by 2025, according to a 2015 McKinsey report. Affordable electricity and cheap labor—with monthly salaries as low as $60—make producers such as Kenya and Ethiopia attractive to investors, the study shows.Export ZonesKenya exported clothing valued at $380 million in 2015, with companies including Puma SE, Wal-Mart Stores Inc., JC Penny Co. and Hennes & Mauritz AB among those who source garments from Kenyan Export Processing Zones, which employ more than 66,000 people. While EPZ manufacturers currently use no domestically grown cotton, instead importing Asian fabrics, the Industry Ministry is working on ways for Kenyan farmers to secure contracts to sell to them, Lubanga said.

The six-member East African Community, which includes Kenya, is working to revamp the domestic garment market by banning secondhand clothes imports at the end of 2018, the Kenya Association of Manufacturers said in April. Rwanda has already banned imports of leather, secondhand clothes and shoes, the governor of that country's central bank said earlier in November. Kenya imported used clothing worth $243 million and weighing more than 100,000 tons in 2013, according to data by the United Nations agency Comtrade.Kenya's textile industry declined in the 1980s after market liberalization policies demanded by multilateral lenders exposed the market to secondhand imports. The country now has six cotton mills compared to 52 in 1991, while there are four ginneries, compared with 24 that year.

"Turkish investors have shown interest to grow cotton on a large scale in Siaya," Lubanga said, referring to a county in southwestern Kenya, without giving more information.U.S. grown cotton, which closed trade at 73.08 cents per pound on the ICE Futures U.S. on Nov. 23, has gained 13 percent this year.

Demand for lint "is still high, both locally and internationally," Lubanga said. "The prices have been high in the past few years, which we hope will remain at similar levels."

# China transforms frontier neighbors with railways to power

China's investment is transforming its smaller Southeast Asian neighbors like never before while helping turn Cambodia, Laos and Myanmar into bigger destinations for its exports.That's driving some of the world's fastest economic growth rates and providing Chinese companies with low-cost alternatives as they seek to move capacity out of the country. It's also helping Asia's largest economy and nations in its orbit adapt to what looks more and more like a new era of waning U.S. commitment to the region from a more inward-looking administration of President-elect Donald Trump."China's definitely looking at these countries in general as an area where it can sell

*(**TRANSFORMS** – continued on page 6)*

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*(**STRETCHING** – continued from page 2)*

can't make up that difference somewhere else in the supply chain, it means decision-making must be made earlier, which further increases the risk of guessing wrong on trends or missing out on them altogether.

### Fast Fashion and the Race to the Bottom

Of course, moving the lower end garment production to the lowest cost producers is nothing new. Critics call it a race to the bottom. Some predict Africa will be the next destination of choice for cost-sensitive producers. A study a decade ago by the United Nations Industrial Development Organization called this "global apparel value chain."

However, that chain is becoming more complex as time and not just quality becomes increasingly important.

Fast fashion is the antithesis of the way the modern-day apparel trade developed. Pioneered and still dominated by the Spanish retailer Zara, fast fashion strives to place a piece of clothing on retail shelves in as little as two weeks after its design, with the ability to change patterns or colors pretty much on the fly, depending on demand. Lines can be tinkered with, changed or dropped entirely. Almost real-time data analytics can drive changes.

That's in stark contrast to the six months' advance apparel retailers usually commit to for about half of a typical seasonal line, according to Columbia Business School professors Nelson Fraiman and Medini Singh, who published a study on Zara several years back.

They called the goal of fast fashion "high-concept fashion at mainstream prices." The goal is to sell at affordable prices, but not be forced to discount heavily on what doesn't sell, by producing smaller batches.

Zara succeeds by sourcing half of all its factories within easy striking distance of its headquarters in the Galicia area of Spain and clustering them together, trading much higher wages for proximity to design and distribution. Other retailers are being pressured by customers and competition to offer the same kind of quick-change artistry. But they don't have the luxury of a group of factories within a short drive of their operations.

For fast fashion, said Rangarajan, one key is to have the basic fabrics in place at the factories, even before designs are ready. By prepositioning supplies, apparel companies can save the four to six weeks it would take to manufacture and ship the fabric to a factory, he said.

*(**TRANSFORMS** – continued from page 4)*

products and get good return for its investments," said Edward Lee, an economist with Standard Chartered Plc in Singapore. "China itself is getting more expensive for its companies, and that's reinforcing this trend."

China is investing in everything from railroads to real estate in Cambodia, Laos and Myanmar—the frontier-market economies of the Association of Southeast Asian Nations.

China Minsheng Investment Group and LYP Group, headed by Senator Ly Yong Phat, signed a $1.5 billion deal last week to build a 2,000-hectare city near Cambodia's capital, Phnom Penh, with a convention center, hotels, golf course, and amusement parks, the official Xinhua News Agency reported. The spending equals roughly one-tenth of the country's $15.9 billion gross domestic product.

### Belt, Road

In landlocked Laos, work started last year on the China-Laos railway, which will stretch 414 kilometers (257 miles) from the border to the capital, Vientiane. The project, part of Chinese President Xi Jinping's One Belt, One Road initiative, will cost $5.4 billion, according to Xinhua. Xi met last week with Lao Prime Minister Thongloun Sisoulith in Beijing, where he pledged stronger ties.

Myanmar, which is liberalizing its economy and adopting market reforms after a transition to democracy, is forecast by the International Monetary Fund to expand 8.1 percent this year, the fastest in the world after Iraq. De-facto leader Aung San Suu Kyi has been quick to engage China since taking office this year, including visiting Xi in Beijing. China is its largest trading partner, accounting for about 40 percent of Myanmar's total last year, and is building a special economic zone, power plant and deep-water seaport on the west coast.

Cambodia's economy is projected to grow 7 percent this year, while Laos is set for 7.5 percent expansion. Myanmar's currency, the kyat, was Asia's top performer in the first five months of the year, but has weakened about 10 percent against the dollar since June as the U.S. currency strengthened

### Garments, Shoes

Cambodia, Laos and Myanmar are becoming more incorporated with China's supply chains, buying intermediate goods from its factories and selling consumer items such as garments and shoes that are often made by companies owned or funded by China. Its imports from the three Southeast Asian economies more than doubled in the past five years, IMF data show.

Such dependence on China isn't without risks. Beijing accounts for the largest chunk of foreign investment in Cambodia and also about 43 percent of the country's total debt stock, mostly in loans from Chinese development banks to Cambodia's government, according to the IMF. Similarly, China's railroad in Laos equals about half of its $10.5 billion 2015 GDP.

"This reliance on a narrow production and export base has many downsides," the IMF said in a recent report. "A majority of Cambodian garment factories concentrate on cut-make-trim processes, which are at the bottom of value chain and also small part of the overall production. As a result, firms in Cambodia have limited leverage and autonomy."

Cambodia has gained particular appeal for Chinese manufacturers seeking to relocate, which aligns with China's strategy to export industrial capacity through initiatives such as One Belt, One Road. Cambodia's $121 average monthly wage is just a fifth of China's $613 average, according to the International Labour Organization in Geneva.

The biggest risk for frontier Asean economies is that Chinese inflows create "extractive" elites who entrench themselves in power, said Song Seng Wun, an economist at CIMB Private Banking in Singapore.

"These economies are getting a lot of money and opportunity from China," he said. "If wealth is concentrated in the hands of a few, that may lead to problems and instability. The key here is developing a middle income group that Chinese companies will be targeting as a consumer."

*(**MOVING** – continued from page 2)*

shoring compared to 2013 and 2014, according to A.T. Kearney.

A private organization called Reshoring Initiative published a different set of figures. It puts the total number of apparel-related reshoring at 102 companies totaling 6,700 jobs during the period 2007 to 2015, although 30 of these cases came in 2015 alone.

Quality control, time and proximity to market are the most obvious reasons for American domestic production. But almost by definition, that lends itself to higher-quality, higher-margin items, which in turn translate into smaller production runs. So, for example, the designer Todd Shelton relocated his production from China to New Jersey, opening a small factory in East Rutherford in 2015. It was a move that garnered extensive publicity. But the company employs just nine individuals and charges at least $200 for pair of jeans and at least $180 for a shirt, not exactly mass market.

Of greater promise is Under Armour, which inaugurated a new Baltimore manufacturing and design facility in June. The sports apparel maker trumpeted the center as state-of-the-art, with 3D printers, full-body scanners and robotics. But while the company promises the facility will help "reinvent" the apparel manufacturing process, no one anticipates Under Armour will move production wholesale to the US.

Two management professors who have studied the issue – Morris Cohen at Wharton and Hau Lee at Stanford – came to this conclusion: Reshoring is not a myth, they said, but it's not a phenomenon, either.

*Jaime Lobo*
Director, Panama Operation Center
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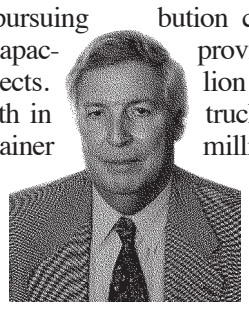
# Port of Montreal targets significant growth

***The Port of Montreal's plans for growth are outlined in an interview with Sylvie Vachon, president and CEO of the Montreal Port Authority (MPA), and Tony Boemi, VP growth and development.***

By Leo Ryan, AJOT

The past few years have seen the Port of Montreal post healthy gains in total and container traffic while pursuing infrastructure and capacity expansion projects. A force to reckon with in North Atlantic container business in close competition especially with the Port of NY/NJ, latest statistics indicate Montreal is well on track to achieving another overall cargo record in 2016 thanks to a comparable box throughput to 2015 and robust increases in grain and liquid bulk volumes.



Clearly, Montreal has the wind in its sails, underscored by the recent addition of a new container facility aimed at helping the port to better respond to present and future demand, including the arrival of larger ships.

Last year, Canada's second biggest port after Vancouver handled 32 million metric tons of cargo. The container component translated into a record high of nearly 1.5 million TEU.

Interviewed by the *American Journal of Transportation*, Sylvie Vachon, president and CEO of the Montreal Port Authority (MPA), and Tony Boemi, VP growth and development, shared their views on the potential of this key Canadian gateway on the eastern seaboard.

***AJOT:*** *What are the strategic advantages of Montreal as a North American multimodal gateway? And can it continue to compete effectively with Halifax and U.S. East Coast ports enhancing their capabilities to handle larger containerships?*

**Vachon:** Ranked the largest container port in Eastern Canada and the second largest in the country, one of our main advantages continues to be our strategic location. Our position, 1,000 miles inland from the Atlantic coast, places us at the centre of Eastern Canada and within proximity of the U.S. Midwest and U.S. Northeast consumer markets and distribution centers. In effect, we provide access to 40 million consumers within one trucking day and to 70 million consumers within two rail days.

Being the only port of call on the North American loop (for a number of carrier services), the Port of Montreal is a unique model

(*TARGETS – continued on page 12*)

Sylvie Vachon, Port of Montreal President and CEO


Viau Container Terminal will boost Montreal's handling capacity to 2.1 million TEU. (Photo: Port of Montreal)

# China exerts influence Asia wide on trade and investment

***Although the growth of China's economy is slowing, Beijing's influence in Asia and beyond is growing. But China is facing challenges both internally and externally, that could make it difficult to leverage the Middle Kingdom's rising influence.***

By Robert L. Wallack, AJOT

The Middle Kingdom's economy is faltering after decades of solid double-digit growth. Trade logistics policies and regional initiatives are attempts by the central government to attract more investments, boost exports and take Asia region leadership. In August, the Ministry of Commerce of the People's Republic of China (PRC) announced setting up seven new free trade zones (FTZ) after Shanghai and three other pilot FTZs started in 2013 and 2015, respectively. There is also more focus on reducing logistics costs for enterprise competitiveness. Regional initiatives are based on the Asia Infrastructure Investment Bank (AIIB) and the Regional Comprehensive Economic Partnership (RCEP) for trade.

### The Magic Number

The PRC's economy is expanding in the 6% range as measured by gross domestic product (GDP) for this year and forecasted for next year, which is the slowest rate in 25 years. This rate needs to stay at 6.5% in order to reach the goal of doubling per capita income by 2020, avoid social unrest from layoffs and create jobs. However, as a nation of savers, Chinese total household wealth rose $6.3 trillion to $23 trillion over the past 15 years, a gain of 265%, and on an average 9.4% annual rate over the next five years will reach $40 trillion by 2020. But the United States still remains the world leader at $86 trillion in total household wealth.

The economy managed to sidestep the 2008 global financial crisis brought on by the United States' mortgage crisis by adding its own massive debt and real-estate speculation. At present, China has $30 trillion of debt for a $10 trillion economy, which grew from 150% of GDP in 2008 to almost 300%, a *Barron's* report stated in November. Economists indicate that this debt could lead to another global financial and economic crisis.

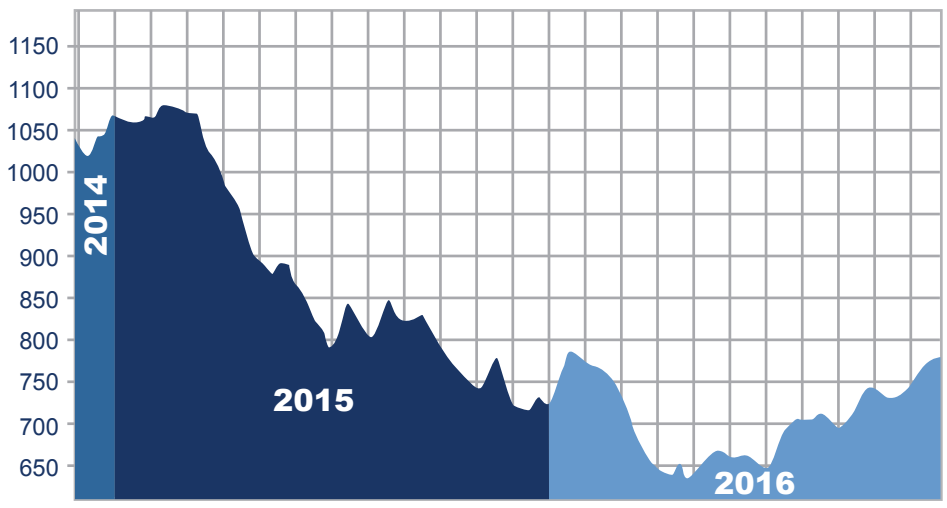
In addition, the Chinese economy is faced with U.S. trade protection by higher tariffs considered during the campaign by now president-elect Donald J. Trump. Voters in the U.S.A. expressed their fear of more job losses from globalization and Chinese dumping of low cost goods. After the November election, the currency markets are showing a stronger U.S. dollar and a weaker Chinese yuan currency of 6.88 to the dollar, which could cause more Chinese exports or possible trade wars. In fact, globalization of merchandise goods, services and people that began in the 1980s during the Reagan administration may be at a pause or in a long-term downward trend. The World Trade Organization (WTO) recent report stated average global trade flows grew 10% a year from 1949 to 2008, but dropped to 1.3% from 2009-2015.

### FTZs and a Service Led Economy

Amid this global economic and trade uncertainty,

*(INFLUENCE – continued on page 11)*

## China Containerized Freight Index




(*BAD – continued from page 1*)
approximately three years to build a containership) and the industry is now reaping the rewards (or lack thereof) from their endeavors. In a nutshell, there are too many large containerships chasing too little freight.

How bad is bad? Since 2015 CCI (Containerized Freight Index) composite index has steadily plunged from around 1160 (see graph) to a low of under 650 and even with the recent modest recovery is only around 800. After the 2009 global, financial meltdown, which saw ocean freight rates effectively plunge 0 return on voyages, there was a rapid bounce back in 2010. Following an age-old pattern, ship owners went into a building spree and from 2010 to 2015 added 311 vessels and 5.7 million TEU of capacity. Although vessel layups and scrapping have accelerated in 2016 and slow-steaming is de-rigueur, these solutions failed to redress the supply and demand imbalance. In turn, with slots out running demand, ocean freight rates plunged.

Again the $0 freight rate voyage has impaled any run at rate recovery. For example, in March it cost around US$400 to ship a forty-footer between China and Europe, a freight rate that would barely cover basic overheads – in essence a $0 freight rate. Rolf Habben Jansen, CEO of Hamburg-based Hapag-Lloyd noted at the time, "Rates must go up. We have too many trades where we are moving cargo below operating cost."

For containership operators the mantra is "rate restoration" – a goal easier said than done.

For the most part improving revenue in the cash starved system meant adding a menu of surcharges and fees, such as the Peak Season, Bunker, Currency Adjustment, Equipment Imbalance, Port Congestion, Inland Service, or Container Sealing fee, and Administrative just to mention a few.

### Shippers' Remorse

These serendipitous charges are vexing to shippers. BIFA (British International Freight Association) Director General Robert Keen revealed a level of frustration when he wrote, "Forwarders do not like shipping line surcharges and we have been challenging their legitimacy…Our members [BIFA] have become used to shipping lines adding peak season, fuel and currency surcharges, but the number of surcharges and fees continues to grow – often with no real explanation or justification. For instance, what does an extra 'administration fee' or 'container sealing fee' cover that is not in the standard service [contract] offered?"

But it is undeniable that shippers have largely benefited from this wind fall of surplus capacity and depressed freight rates. The ocean portion of the supply chain represents pennies when compared to total cost of items to consumers. For example, on $100 plus athletic shoe the freight charges are less than a dollar and the entire supply chain might account for only $5.

Still there are major concerns among retailers with the new road map for the containership industry. Alliances, slot charter agreements and mergers are occurring at a dizzying rate as liner competition gives way to cooperation. For shippers the once wide highway of global trade seems to be more a narrow lane leading to a cul-de-sac of fewer options and higher costs.

Recently the EC (European Commission) approved the take over of Emirates-based UASC (United Arab Shipping Corp) by Hapag-Lloyd. EC Commissioner Margrethe Vestager in charge of competition policy noted, "European companies rely on container liner shipping services for their transatlantic shipments. It's very important that the markets remain open. The commitments offered by Hapag-Lloyd ensure that the takeover will not lead to price increases on the routes between Northern Europe and North America."

For the moment, "price increases" are modest in respect to historical rates, but BCOs are nervous about the long-term impact of industry consolidation on rate-making.

### Industry Consolidation

Surcharges aside and with the low freight rates, containership operators are hemorrhaging cash. For many the losses have and will be fatal. The London-based shipping consultant Drewry's estimates that the containerships' operators will collectively lose $5 billion in 2016. While there has been a modest increase in revenue, and Drewry's is forecasting revenues of $143 billion for this year, this pales in comparison to $218 billion the carriers notched back 2012. What is particularly chilling is the low freight rates are occurring during a period of exceptionally low bunker prices (Over $700 per ton 2012 to less than $300 per ton 2016), which are likely to rise in the near future.

The containership industry has few answers to the dismal returns. Ships are now larger and more efficient.

(*BAD – continued on page 16*)

*(**INFLUENCE** – continued from page 9)*

a PRC consumption and services led economy is slowly emerging. In the meantime, government leaders are initiating international trade and services arrangements to spur growth in the trade component of GDP (exports minus imports) similar to those that began in special economic zones in the 1980s and before China joined the WTO in 2001. A recent report in the *Wall Street Journal* shows that China's original export growth were from strategically situated special economic zones (SEZ) and free trade zones along the coast "when exports rose 14.2% a year from 1994-1999."

In August, the Ministry of Commerce announced the arrangement of seven new free trade zones that will be in various parts of the country. The plan is for the following provinces: Liaoning in the northeast, Zhejiang near Shanghai, Henan, Hubei, Sichuan and Shaanxi and in Chongqing municipality. The Shanghai pilot FTZ began in 2013 followed by Guangdong, Tianjin (near Beijing) and Fujian (across from Taiwan) in 2015. These pilot FTZs are to test economic reforms of more openness to foreign investment, international trade and easier flow of capital. Most comments requested for this report from various business sources in the PRC were not answered. However, the US-China Business Council (USCBC) referred to their recent survey report of September 2015.

The USCBC has 220 US companies as members of which 40 companies are registered in the Shanghai pilot FTZ. As of June 2016, 5,984 Foreign Invested Enterprises established in this Zone, according to the Hong Kong Trade Development Council. A few U.S. companies invested in the Tianjin, Fujian and Guangdong FTZs as of the end of 2015. Boeing, Honeywell and GE already have factories in Tianjin since the 1990s and have a presence in the Tianjin FTZ. The Shanghai FTZ is a three-year test lab for reform and subject to revision to be implemented nationwide, eventually. The report stated, "the Shanghai FTZ as having limited to moderate impact on improving access to the China market and certain sectors are still closed to investment or listed on the negative list to foreign investors. Some companies operating in the FTZ have benefited from expedited licensing approvals, importation, access to e-commerce, Renminbi (RMB) remittance and exchange."

Each of the eleven FTZ has investment and trade objectives based on their geographic location. Shanghai Zone is to support the goal of becoming a global financial center; Guangdong is to attract services such as shipping and trading for access to Hong Kong, Macao and Southeast Asia; Tianjin is to attract capital-intensive and technologically advanced manufacturing oriented toward north and east Asia; and Fujian FTZ is designed for financial leasing, e-commerce and logistics focused on Taiwan.

### Magnificent Seven?

The seven new pilot FTZs announced in August also have specific characteristics to deepen economic reforms and are aligned with the national strategies like the belt and road initiatives. Liaoning's goal is to transform the northeast old industrial base into a more competitive area; Zhejiang is to focus on commodity trade liberalization; Henan is to build a modern transport and logistics system to link the east with the west and north with the south; Hubei in central China will focus on emerging industries and build high-tech industrial bases; Chongqing is to open up western gateway cities; Sichuan is to open up western gateway cities for inland and along the sea, border and rivers, and Shaanxi is to facilitate the Belt and Road initiative to drive western development, according to the latest Hong Kong Trade Development Council report of September 2016.

The Negative List is a sticking point for foreign investors trying to enter the Chinese markets through these new pilot FTZs. The FTZs share the same list of investment restrictions, "The Notice of the Special Management (Negative List) of China Pilot Free Trade Zone on the Approval of Foreign Investments," issued by the State Council in April 2015. In 2015, an annual survey of 370 members of the American Chamber of Commerce in Shanghai "found that almost three-quarters believed the Shanghai FTZ offered no tangible benefits for their business." Chinese authorities claim that the negative list was cut twice down from 190 categories in 2014 to 122 categories closed to foreign investors. However, the European Chamber of Commerce noted that many "industries and sectors have merely regrouped" in the negative list. In addition, financial services and telecommunications are key sectors dominated by the state-owned companies.

DHL Global Forwarding (China) Ltd. has regional integrated warehouse services operating in the Shanghai pilot FTZ. Their business is spread out across all areas in the Wai Gao Qiao and Yang Shan Port FTZs and covers most sectors except perishables and dangerous goods. They found "no big difference for a logistics company including Customs processing before or after the so called China (Shanghai) Pilot Free Trade Zone." Since opening, the Shanghai FTZ expanded an additional area of 91.94 square kilometers (35.5 sq. miles) by including: Lujiazui Financial District, Jinqiao Development Zone and Zhongjiang Hi-Tech Park to reach 120.7 square kilometers (46.6 sq. miles). Despite lukewarm business sentiment, Shanghai Customs statistics show import and export volume reached $113 billion through August 2016, grew 6.5% over last year and Customs clearance time dropped by 3.68 and 2.17 hours, respectively for imports and exports from 2015.

Deeper reforms at the operating level are proposed by the State Council in August by a six-year plan to reduce logistics costs as a percentage of GDP for higher economic growth and enterprise profitability. The PRC has higher logistics costs as a percentage of GDP of 18% than India whereas the U.S. is 7.8%. Their goal is 16% by 2020 and they believe that by reducing the ratio of logistics costs to GDP by one percent can help industries save over $135 billion. This savings will be accomplished by cutting highway tolls and removing illegal fees charged by airports, ports and railways. The implementation and enforcement will be a challenge to the sprawling and fragmented logistics sector.

### Dueling Pacts: TPP and RCEP

The demise of the United States led Trans-Pacific Partnership (TPP) trade pact of 12 Pacific Rim countries after the election of Donald J. Trump

*(**INFLUENCE** – continued on page 15)*

*(**TARGETS** – continued from page 8)*

benefiting from the fully loading and unloading of container vessels. As a dedicated port of call, carriers recognize the efficiencies of our multimodal platform. Our proven on-dock rail known as The Montreal Model enables us to provide reliable and fluid services, valued by our supply chain partners.

***AJOT:** For the moment, vessels with nominal capacities of 4,400 TEUs are calling at Montreal within its draft limitations of 11.3 metres (37 feet). But will more dredging need to be carried out on the St. Lawrence River to protect Montreal's competitiveness if current carriers want in the near future to deploy post-Panamax "workhorses" of 7,000 to 8,000 TEU?*

**Vachon:** Here, it should be recalled that the Port of Montreal has been open to post-Panamax ships following a Canadian Coast Guard (CCG) decision in 2013 authorizing the passage of vessels up to 44 metres wide (144 feet) in the Quebec-Montreal section of the St. Lawrence navigation channel. The Port adapts to needs by closely monitoring the status of water levels and sharing this information with port users; by carrying out maintenance dredging; and by supporting the development and use of tools that enable ever more efficient management of the available water column.

***AJOT:** How would you describe the importance of the U.S. market as a whole for the port.*

**Boemi:** In 2015, 20% of the Port of Montreal's total containerized cargo was to/from the United States. Historically, the Port of Montreal has always been a leading player on the East Coast for Midwest containerized cargo. Our fluidity, low dwell times and connections to two Class 1 railways are some of the factors driving the success of the Port of Montreal with the Midwest Beneficial Cargo Owners and shippers.

***AJOT:** Is present capacity, including the Viau expansion inaugurated this past November, sufficient to meet anticipated container demand over the next few years?*

**Boemi:** With the construction of our new Viau container terminal, the port's capacity will increase by 600.000 TEU - from 1.5m TEU to 2.1m TEU. The first of two phases of construction is now completed, adding 350.000 TEU to the port's actual capacity.

Over the next few years, Termont and the MPA will establish a second berth and develop another container reception area, thus completing the second phase of this major infrastructure project. The terminal is operated by Termont Montreal Inc, which has been operating the port's Maisonneuve terminal since 1987. Mediterranean Shipping Company (MSC) is also a major partner in the project. Based on our current container growth projections, Viau terminal would allow us to sustain this sector's growth until the beginning of the next decade.

***AJOT:** When will the process be launched for a proposed big new container terminal at Contrecoeur 25 miles east of Montreal on the St. Lawrence River as part of a long-term blueprint?*

**Vachon:**: In December 2015, the Contrecoeur Port Terminal Expansion Project reached a new stage when the Montreal Port Authority submitted its project description to the Canadian Environmental Assessment

*(**TARGETS** – continued on page 16)*



# Montreal: North American gateway of choice for Hapag-Lloyd

*By Leo Ryan, AJOT*

Wolfgang Schoch, managing director of Hapag-Lloyd (Canada) Inc., is not shy about extolling the strategic hub role the Port of Montreal plays in the transatlantic trade of the German shipping line.

Interviewed in his Montreal office, he declared: "Montreal, in fact, is our most important port in North America, with more container throughput in 2015 than Los Angeles and Long Beach combined."

For Hapag-Lloyd, the transatlantic trade via Montreal and Halifax accounts for one fifth of its global container volume of 7.5 million TEU. And significantly enough, this Hamburg-based carrier utilizes Montreal as its main gateway not only for the Canadian market but also for the U.S. market.


Wolfgang Schoch, managing director of Hapag-Lloyd (Canada) Inc.

"Nearly 50% of our export cargo via Montreal comes from the United States," he said, pointing to such shippers as Ford, GM and John Deere.

One third of the import cargo transported by Hapag-Lloyd via Montreal has a final destination in the United States.

"In Montreal, we have a market share of 38%, and in Halifax it's 24%," said Schoch. "We became very strong in Canada after merging with CP Ships in 2005. Our first liner services to Canada go back to 1892."

Hapag-Lloyd offers three services in Montreal as well as three services in Halifax.

Commenting on Montreal's advantages, Schoch noted: "Montreal is a very fluid port. Dwell times in terminals are low. Between one and two days. This is competitively important when comparing to the US east and west coasts. Waterfront labor relations are stable, and price-wise Montreal is competitive with US ports."

Schoch affirms "Montreal is unique (among world ports) in that you are loading and discharging the whole vessel. The cargo comes in and goes out very rapidly and fluidly. That is what the importers and exporters want."

But Schoch also considers that further deepening of the St. Lawrence channels, beyond the current maximum draft of 11.3 metres (37 feet), should eventually be undertaken so that larger, post-Panamax vessels can call at Montreal fully loaded in order to reduce slot costs.

(Since May 2013, the Canadian Coast Guard has authorized post-Panamax type ships to sail in the Quebec-Montreal section of the St. Lawrence navigation channel. This would include

*(**CHOICE** – continued on page 22)*

# Mongolia adjusting to lower economic growth

***Mongolia's economic prospects are brightening despite the difficult conditions in global markets.***

By Robert L. Wallack, AJOT

Mongolia's economic growth prospects are brightening by the recent Oyu Tolgoi $5.3 billion underground copper mine investment and from more diversification to the agriculture sector. Despite the grim macroeconomic environment, numerous infrastructure projects in transportation and cross-border trade logistics will spur future investments. These projects include a new international airport, a northern rail connecting China to Europe and a cross-border economic zone with China.

In 2011, Mongolia was on top of the world benefiting from its abundant natural resources. Higher prices of copper, gold and iron ore along with bond investor enthusiasm helped boost its gross domestic product (GDP) to 17%. Since the drop in commodity prices worldwide and slower China demand, Mongolia is paying for the debt incurred during the boom years by a severe drop in foreign exchange reserves and a depreciating Mongolian Tugrik by 17% to 2,452 to the United States dollar. There is also investor abandonment of this once high flying frontier economy. As a result, government leaders are inviting the International Monetary Fund (IMF) for debt relief plans and to repay over $1 billion by January 2018 and securing currency swap programs from its southern border neighbor, the Peoples Republic of China (PRC). According to reports, Mongolia's debt is 78% of GDP and total debt owed to foreign creditors at $22.6 billion is nearly twice the size of the economy itself ($11.8 billion).

Even though Mongolia trades with 155 countries, this massive, fiercely independent central Asian country with a sparse population of 3 million depends on China and to a lesser extent Russia on the northern border for a vast majority of its trade and investment. Through September 2016, Mongolia's total trade turnover was $5.78 billion which shows a drop of 9.6% or $616.9 million overall, or a 5.9% drop in exports by $208 million of which copper concentrates are a large factor and a drop in imports by 14.3% by $408.8 million from 2015, according to Mongolia news reports. "Economic fundamentals remain weak and unlikely to improve this year. I am not expecting any real upturn until 2017," commented S.J. Potter, Managing Director, Wagner Asia Equipment LLC, a Caterpillar (CAT) mining equipment distributor in Ulaanbaatar, Mongolia in a recent e-mail to this reporter.

### Mining Other Opportunities

A major support to the landlocked economy is an underground mine located in the South Gobi desert near the China border named Oyu Tolgoi with copper, gold and silver deposits forecasted to produce by 2020 and reach 500,000 metric tons of copper a year by 2027. In May, Rio Tinto PLC, a major mining company, approved a $5.3 million expansion in a phase two of an underground copper mine. Phase one, the above ground mine, began producing in Oyu Tolgoi in 2013 and now output is 175,000 to 200,000 tons a year.

To offset the reliance on mining, the Ministry of Food and Agriculture is making policies to diversify away from mining of which copper was almost half of Mongolia's exports in 2015. At present, mining is 17.6% of GDP dropping from 21.8% in 2011 whereas agriculture grew from 2011-2015 from 10.2% to 13.3% of GDP. Target areas are approvals by China in 2015 for Mongolia meat exports and for Mongolia exports of meat to global markets as well as global exports of wool and cashmere from the nearly 60 million

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

*(**PLUS** – continued from page 1)*

states, 36 percent of the country reported seeing vast investment needs," according to the report's conclusion. "Similarly, with 29 states, representing 56 percent of the country, reporting 6,202 projects, there is a significant potential backlog in investment."

The report also cites the importance of greater funding eligibility for nonhighway projects and calls for greater coordination related to port channel endeavors between the U.S. Department of Transportation and the U.S. Army Corps of Engineers.

Suggestions offered by AAPA and AASHTO include:

- Continuing to provide Highway Trust Fund apportionments to states for highway freight projects through the National Highway Freight program while encouraging coordination with the U.S. DOT's Build America Bureau and national and state freight advisory committees to better leverage private-sector investment;
- Providing additional and ongoing funding resources for the overall multimodal freight network to supplement highway formula dollars while also funding discretionary grant programs;
- Re-establishing a properly funded and staffed Office of Multimodal Freight Transportation within the U.S. DOT Office of the Secretary to address multimodal domestic and international freight planning needs across DOT's various modal administrations; and
- Moving the harbor maintenance tax from discretionary to mandatory spending, enabling full tax revenues to be used for the intended purpose of navigational channel maintenance.

Go to *http://aapa.files.cms-plus.com/PDFs/SOF-2.pdf* to view the complete report.

*(**ADJUSTING** – continued from page 13)*

livestock or 18.6 head per each Mongolian. Parliament Resolution 75 was issued to create the "Khalkh Gol" Free Trade Zone (FTZ) in eastern Mongolia Dornod province. The FTZ covers 500,000 hectares (1.235 million acres) for 2,200 jobs in addition to farming, agriculture, logistical and tourist activities to yield about 141 billion Mongolian Tugrik ($58,045,470) per year for organic plant-and meat-based food production, according to the Ministry of Foreign Affairs, Mongolica in the Summer of 2016.

In order to reach globally, a countdown is beginning of days remaining for the grand opening of the new international passenger and cargo airport 52 km south of capital city Ulaanbaatar. The Khoshig Valley Airport scheduled to open this year will be an airline hub connecting Europe, East Asia, North America and Southeast Asia through the Polar Route. The $385 million project is a 40-year soft loan from Japan Bank for International Cooperation that started construction in April 2012 by a Mitsubishi-Choyoda joint venture. Major features are two runways, road and rail terminals, three million passengers per year capacity and tenfold increase in cargo capacity over the old Chingis Khan international airport.

### Aspiring Rail Links

North of Ulaanbaatar, bulk, agriculture and general container traffic will be well served by a rail project proposed by Northern Railways LLC, a subsidiary of Aspire Mining Ltd. Mongolia will become a vital rail link for China-Europe trade and Russia-China trade as part of the China One Belt One Road and Silk Road policies. This three-phased rail project begins with a 547 kilometers (32.3 miles) line from Erdenet to Ovoot serving many area mines. The efficiencies in time and cost savings are well documented for this transcontinental rail corridor.

TransCare GmbH, a global rail logistics consultant, did a study to prove the competitiveness of the rail link through Mongolia between Northeast China and Europe. The TransCare study indicated 1,881 cargo trains annually in service between China and Europe for bilateral trade worth $17 billion in the context of total trade of $3.5 trillion. This volume will rise to 5,000 cargo trains by 2020, according to the report in the ASIA Miner News. The TransCare study used entry point at Tianjin, south of Beijing and exit point at Slawkow, Poland. The Northern Rail Corridor with the Mongolian Erdenet-Ovoot link will be shorter than existing routes and better costs with fewer bottlenecks along the Trans-Siberian Railway directly north of Mongolia.


***"I am not expecting any real upturn until 2017."***

Although rail is no substitute for sea freight, this rail link will move China's current rail freight to Europe from 1 percent to 5-7% by 2020, according to a recent Aspire Mining Ltd presentation document. This rail corridor is the shortest distance for Chinese goods to reach Europe markets from northeast China. The other rail land routes are: China-Kazakhstan-Europe and China-Russia-Europe (via Manzhouli crossing in Inner Mongolia).

The Mongolian Cabinet approved a concession to Northern Railways in August 2015 supported by a consortium consisting of Aspire, China Railways 20 Bureau Group and China Railways First Design Survey and Design Institute. The $1.2 billion capital expenditures will move 30 million metric tons per year of freight. Aspire expects most funding to come from China as conveyed to this reporter by e-mail from their Managing Director on his recent visit to the United States seeking investors. Aspire documents indicate that financing can be drawn from the $40 billion Silk Road Fund, the $100 billion Asia Infrastructure Bank with mandates to facilitate international trade as well as from a $110 billion Japanese Infrastructure Fund, the European Bank for Reconstruction and Development (EBRD) and from the Asian Development Bank (ADB).

The second and third phases of the rail line are Ovoot to Arts Suuri at the Russian border of 230-250 km (143-155 miles) for $450-550 million and Arts Suuri to Kyzyl, Russia of 300-330 km (186-205 miles) for $675-$775 million. Northern Railways completed the scoping study on these two sections. There will be a five-year

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as president will cede Asia trade leadership to the China led Regional Comprehensive Economic Partnership (RCEP) excluding the U.S.A. in a 16 country trade liberalization pact. This will bolster China's global and regional cooperation and integration already underway from several strategic initiatives. These include the Belt and Road Initiative for construction contracts worth over $84 billion directed toward 65 countries and regions in 3 continents with a total population of 4.4 billion; the Silk Road Economic Belt; the 21st Century Maritime Silk Road started in 2013 by President Xi Jinping; and the 57 member nations' Asia Infrastructure Investment Bank (AIIB) funded with $100 billion that the U.S. has not joined.


China President Xi Jinping

The TPP has roots in the Bush administration to counter China's growing influence in Asia and the RCEP began meetings among the 10 ASEAN countries and Japan, South Korea, Australia, New Zealand and India in 2011. The TPP sought to reduce or eliminate tariffs on 18,000 categories of goods, but also bring developing countries into better labor and environmental standards and to cut nontariff barriers to trade such as enterprise subsidies and theft of intellectual property. The RCEP is planning to only reduce tariffs and not involve trade in services and investment or nontariff issues. There is much at stake since the Asia-Pacific accounts for 40% of the world's population, 48% of world trade and 57% of global output and set to grow as multinational manufacturers seek lower labor costs and China imports less materials for manufacturing.

Moreover, there are already more than 200 free trade agreements (FTAs) in the region with conflicting policies on rules of origin of which the Free Trade Area of the Asia-Pacific (FTAAP) is addressing for better harmonization among FTAs. The FTAAP concept has roots in the 21-member Asia Pacific Economic Cooperation (APEC) in 2006. In 2014 the APEC Connectivity Blueprint 2015-2025 was written in a Beijing APEC meeting.

A divergence of views on globalization clouds the prospects for trade agreements. The 24th APEC meeting concluded on November 20th in Lima, Peru (attended by President Obama) and touted the benefits of cooperation. IMF (International Monetary Fund) Managing Director, Christine Lagarde commenting on the APEC meeting said, "globalization is here to stay."

But there is a real pushback against globalization as the Brexit, the Trump election in the US (it is also worth noting that Hillary Clinton was also opposed to the TPP) and dozens of other incidents large and small from all corners of the globe illustrate. China's leadership is betting on regionalization over globalization and that all the Silk Road's highways and byways lead to Beijing.

*(**ADJUSTING** – continued from page 14)*
construction period and a 30-year operational concession before vested to Mongolia at the end of the 30 years.

## Mongolia FEZ

After years of discussions and planning, Mongolia completed construction of a Free Economic Zone (FEZ) in the southern border town of Zamyn Uud with light industry producing and exporting. The FEZ is expected to integrate with the Chinese border town of Erlian, Inner Mongolia for a fully functional cross-border economic and cooperation zone. All the infrastructure is completed and a 100 percent Mongolian invested business is producing from iron metal raw materials imported into the Zone from China and transforming the metal into building materials sold to Mongolian construction companies with potential export markets.

In September 2016, the Chinese began construction across from Zamyn Uud in Erlian, Inner Mongolia Autonomous Region that will connect the two border towns across 18 square kilometer (7 square mile) zone. This Zone will integrate international trade processing of import and export commodities, facilitate e-commerce, entertainment and financing. The cost will be $135 million for 33 kilometers (20.5 miles) of roads, drains, heating and telecommunication and expected to be completed in 2018 according to Xinhua reports. This cross border connectivity with China could help to improve corridor performance from the seaport in Tianjin, PRC where Mongolian shipping containers have difficulties.

Mongolia's logistics costs as a percentage of GDP are still quite high at 28% and ranked an improving score of 108 out of 160 countries in 2016 by the World Bank's Logistics Performance Index. The Index measures customs clearance, quality of infrastructure, track and trace, and timeliness by on time deliveries. By comparison, China ranked 27 and Russia was 99.

Another project is the implementation of the National Electronic Single Window. The Asian Development Bank (ADB) and the government of Mongolia agreed to a $29 million loan project this year: Regional Improvement of Border Services. This project will improve facilities and equipment at the border towns of the following: Altanbulag (near Russia), Bichigt, and Zamyn Uud (near China);

*(**ADJUSTING** – continued on page 22)*

*(**BAD** – continued from page 10)*
How much larger and more efficient can they be? Slow-steaming is already in play and layups, once an extreme answer, are as much a part of the operating routine as the endless surcharges. Ship scrapping has increased but has yet to yield a significant impact on over-tonnaging. The containership industry long ago squeezed out the inefficiencies of the back office - there is little more to pull out.

The only answer for containership operators is consolidation either through alliances, agreemeents or outright acquisition. But will any of this be enough to stop the bleeding?

The Hanjin bankrutpcy more than any other event has shaken the industry. Perhaps industry consolidation would have occured on its own accord but few can doubt that Hanjin slipping under a sea of red ink had an impact.

Take for example the forming of "The Alliance". "The Alliance" was formed by Hapag Lloyd (and UASC), the Japanese carriers MOL, K-Line and NYK (who have said they will form a single entity from their containership divsions) and the Taiwanese carrier Yang Ming. Hanjin was to be a part of the new alliance prior to the bankruptcy which unsettled the entire industry.

FMC Commissioner William P. Doyle at the NAPA (North Atlantic Ports Association) meeting in December when speaking about the ocean carrier alliances said, "It is noteworthy to point out that THE Alliance was filed in the wake of the Hanjin bankruptcy. Hanjin's bankruptcy has disrupted the entire international maritime supply chain. I am an advocate (and have advocated) of the alliance members providing safeguards in the event of future liner bankruptcies. Having said that, for the first time we are seeing an alliance agreement attempt to make forward projections on ways in which to deal with a failed carrier in an Alliance – or – more importantly, how the non-failing carriers can help the failed carrier's shippers and other customers."

Once approved by regulatory authorities the three main ocean carrier alliances in 2017 will clearly dominate the trade lanes. For example, on the Asia-Europe routes the Ocean Alliance, 2M and The Alliance will account for 95% of the slot capacity. On the Trans-Pacific, the tally is over 93%.

Recently, it was announced that Maersk would acquire Hamburg Sud Line, which follows the announcement of a merger of containership divisions for the three main Japanese containership carriers (see above), Hanjin's demise, NOL's (APL) sale to CMA CGM, the merger of Cosco and China Ship, and Hapag Lloyd's merger with UASC - which follows the takeover of CSVA.

The consolidation along with the new alliances dramatically alters the competitive picture.

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*(**TARGETS** – continued from page 12)*
Agency. Guidelines were issued and the MPA is proceeding with environmental impact studies. It is estimated that a first new container terminal on site could be operational in the next decade, conditional upon obtaining the required regulatory approvals and continued market growth. This terminal would add 1.15m TEU to the Port's capacity. The site is situated near rail and road links and an industrial neighborhood.

***AJOT:** The port recently announced a project that will reduce GHG emissions by optimizing truck routes and reduce dwell times at terminals. When will practical application begin of this important new initiative?*

**Boemi:** MPA announced last October 3rd the implementation of a project that will reduce greenhouse gas (GHG) emissions by optimizing truck routes to and from terminals located on Port of Montreal territory. The advanced new Trucking PORTal Web-based application will be a key tool to reach the goal of reducing wait times at port container terminals. A data retrieving system makes it possible to measure truck trip transits from entering to leaving the Port, and to relay this information in real time to drivers and dispatchers.

To achieve this, we rely on a combination of Bluetooth and RFID (Radio-Frequency Identification) technologies and license plate readers. Specifically, truck trips are captured at several points on Port territory, tracking their movement. This results in a comprehensive view of the traffic, bottlenecks and wait times at the various terminals. This information is sent to drivers in real time by means of a mobile application that they download on their mobile device (from the Apple App Store and Google Play Store), or directly on their computer (from www.portmtltrucks.com).

They use this information to plan their route to get to the Port and, while on Port territory, optimize the time it takes them to deliver or pick up cargo. The 53,000 web hits we saw during the first 3 weeks suggest that dispatchers and truckers are consulting the Trucking PORTal quite heavily!

***AJOT:** Has the special relationship going back several years with the Port of Antwerp lived up to expectations?*

**Vachon:** The Port of Antwerp has been our leading partner in containerized trade for many years. Our annual meetings with the Port of Antwerp allow us to strengthen our partnership through exchanges of best practices and identifying new market opportunities. In April 2016, we renewed our Memorandum of Understanding for an additional 3 years. With 1 out of 5 containers of our total volumes being exchanged with Antwerp in 2015, this port remains our largest trading partner. These strong ties have allowed us to increase our presence in emerging markets such as Africa, Middle East, India and Asian countries.

***AJOT:** Have you estimated the potential benefits for the Port of Montreal, in volume terms, of the Canada-European Union free trade agreement (CETA) that could be implemented in substantial part by the end of 2017 if the ratification procedures proceed as hoped?*

**Boemi:** First of all, it should be noted that Northern Europe and the Mediterranean markets represented 64% of our container traffic in 2015. In fact, the Port of Montreal alone accounts for one third of the Canada-EU trade in tonnage terms. Generally speaking, CETA offers a great opportunity for increasing trade between Europe Canada. We estimate that CETA could bring an increase in the order of 4% of the port's European business by 2020 through the proposed phased elimination of tariffs.

# AIR CARGO NEWS


## AeroUnion launches service at MIA

Mexican freighter airline AeroUnion began service at Miami International Airport on December 2 with two weekly roundtrip freighter flights that will serve a triangular route between Mexico City, Mérida and Miami. AeroUnion departs Miami at 8:00 a.m. and arrives in Mexico City at 10:00 a.m. every Tuesday and Friday. AeroUnion will utilize Airbus A300F or Boeing 767-200F aircraft for the new service. "We proudly welcome AeroUnion and its new cargo service to Miami-Dade County," said Miami-Dade County Mayor Carlos A. Gimenez. "MIA is to be commended for continually attracting a steady stream of passenger and cargo airlines to our community from around the world."

AeroUnion is the fourth all-cargo carrier to begin service at MIA this year. Most recently, U.S. freighter airline Northern Air Cargo launched four weekly charter flights on November 1, which include: two weekly roundtrip freighter flights on a triangular route between MIA, San Juan and Saint Martin; one weekly flight that will operate between MIA and Santo Domingo; and one weekly flight that will serve a triangular route between MIA, Port-au-Prince and Santo Domingo. Also in November, U.S. carrier 21 Air began six weekly frequencies between MIA and Bogotá, and two weekly flights on a triangular route between MIA, Panama City and Guatemala City. In April, Canadian airline KF Cargo launched charter freight service between MIA and multiple points in South America.

"Congratulations to AeroUnion on their successful launch into the Miami market, and we look forward to seeing them increase our trade volume with Mexico," said Miami-Dade Aviation Director Emilio T. González. "AeroUnion joins our roster of what currently includes 43 all-cargo carriers and 109 total airlines, which is the most at any U.S. airport."

To modernize its cargo operations and attract additional freighter airlines, the Miami-Dade Aviation Department is spearheading numerous short- and long-term improvement projects. The N.W. 25th Street overpass, completed by the Florida Department of Transportation in July 2016, has reduced congestion and travel time for cargo truckers who can now travel above busy local streets between MIA, State Road 826, and west Miami-Dade.

## American Airlines Cargo to benefit from use of 787-9 on international routes

This month, American Airlines launched its international Boeing 787-9 service between Dallas/Fort Worth (DFW) and Madrid Barajas (MAD) in Spain, offering cargo customers up to 36 LD3 positions, or 12 pallets, depending on the market.

The 787-9 is also currently operating from DFW to Sao Paulo (GRU) and, in January, will be added to the DFW-Paris (CDG) route. Similarly, in February of 2017, Cargo customers will also benefit from the use of the new 787-9 between DFW and Incheon (ICN).

"The introduction of the 787-9 brings another more fuel efficient aircraft type with even greater cargo capacity into the American Airlines fleet," states David Vance, American's vice president of Cargo Operations. "On routes where we operate the aircraft, our cargo customers will see notable capacity improvements. We are especially pleased that DFW to MAD is one of the first routes to benefit from the use of this aircraft, as there has been long-term demand for increased space."

Although the exact aircraft equipment for each route is subject to change, American plans to have four of the new 787-9s flying within its network by the end of 2017.

## IAG Cargo launches new Paris to New York route through OpenSkies

IAG Cargo has launched the start of a new Paris Orly to Newark New Jersey route, its first ever direct cargo route between France and the US. The service is expected to appeal to French forwarders looking to access the US market through a more local hub. The route will be served by a wide bodied Open Skies B767-200 aircraft and will operate four times a week. It is anticipated that fashion and textiles, perishables and spare machinery parts will make up a significant proportion of the commodity mix. Express products will be shipped under IAG Cargo's Prioritise offering while must travel emergency shipments will travel under the carrier's newly launched Critical product.

David Shepherd, Commercial Director at IAG Cargo commented: "This new development presents an exciting new opportunity that allows us to better serve our European customers. Our new route opens direct access from mainland Europe to the North-East of the USA maximising efficiencies and minimising security and handling costs for European forwarders. This launch demonstrates our commitment to investing in and delivering against market demand to meet the needs of global businesses, while our network and product portfolio is ideally suited to help support to the key commodity flows we expect on this route."

## Amazon delivery pilots ordered to end strike for retail peak

Pilots for the Air Transport Services Group Inc. unit that hauls packages for Amazon.com Inc. and DHL Worldwide Express were ordered back to work by a federal judge, halting a strike that threatened to disrupt holiday deliveries.

U.S. District Judge Timothy Black in Cincinnati gave a nod to the holiday shopping rush in granting ABX Air's request for a temporary restraining order for pilots to return to the cockpit.

"The public expects that purchases and shipments will be delivered in a timely fashion," Black said in his ruling. "Absent an injunction, ABX, its customers and the public will suffer immediate, irreparable harm. Imagine Christmas without Amazon!"

Julie Ford, a lawyer for the pilots union, said the union has withdrew picket lines to comply with the order, which is effective for five days under federal law.

"The union is obviously disappointed," Ford said in a phone interview.

The ruling cleared a major obstacle for Amazon headed into its first holiday shopping season since contracting with ATSG and another carrier to operate a fleet of cargo planes to shuttle inventory around the country. Those contracts reduced the company's reliance on FedEx Corp. and United Parcel Service Inc.

### Cyber Monday

The pilots returned to work in time for the online shopping peak between Thanksgiving and the following Monday. Online spending in the U.S. on Thanksgiving, Black Friday and Cyber Monday is expected to reach $8.4 billion, or 9.2 percent of all online spending in November and December, according to Adobe Systems Inc.

"We re-balanced capacity across our network of carrier partners to ensure there are no disruptions through the busy holiday weekend, and plan to leave these adjustments in place," Kelly Cheeseman, an Amazon spokeswoman.

DHL said its hub at Cincinnati/Northern Kentucky International Airport resumed operations and all delayed shipments were delivered.

About 250 ABX Air pilots walked off the job to protest the cargo carrier's alleged staffing shortages. ABX Air operates 35 flights a day for Amazon and 45 for DHL, according to the Airline Professionals Association, Teamsters Local 1224, which represents the pilots.

### Arbitration Required

In issuing his order, the judge said the dispute qualifies as minor because it involves only the interpretation of an existing union contract. That means that it must be submitted to binding arbitration, rather than be brought to a federal court, Black said.

"ABX and the other airlines that service DHL and Amazon are facing a staffing crisis, in large part because they cannot attract and retain talented pilots with the sub-standard pay and benefits they provide," Dan Wells, president of Teamsters Local 1224, said in a statement. "Pilots should not have to go on strike to get back provisions of a contract that was taken away from them just to ensure they have adequate rest and time with their families."

# Intermodal & Logistics News

## JAXPORT's new rail terminal is open for business

JAXPORT's new $30 million Intermodal Container Transfer Facility is now officially open for business.

The ICTF provides on-dock rail service to JAXPORT's North Jacksonville seaport terminals: the Blount Island Marine Terminal and the TraPac Container Terminal at Dames Point. The direct transfer of containers between vessels and trains speeds up the shipment process, offering shippers greater options and efficiencies.

The facility was constructed with $20 million in funding from the state of Florida and $10 million in federal TIGER-grant funds.

Rail that connects to CSX Transportation's main line allows for two unit trains each day. Ceres Rail Services is responsible for managing the day-to-day operations.

Along with the deepening of Jacksonville's harbor to 47 feet, the ICTF is one of several major capital projects at JAXPORT aimed at serving global cargo customers, increasing efficiency and contributing to the economic vitality of Northeast Florida.

## Wabash National's all-composite refrigerated trailer moves closer to production

Wabash National Corporation announces commitment from a fourth fleet to join the company's launch program for its Cold Chain Series refrigerated van trailer made with molded structural composites—the first trailer of its kind.

Leonard's Express joins Werner Enterprises, K&B Transportation and Combined Transport—with dealers Regional International, TEC Equipment and Wick's Truck Trailers—to bring the company's innovative refrigerated trailer to the North American market.

"The launch program for our Cold Chain Series composite reefer continues to move forward as planned," said Brent Yeagy, president and chief operating officer. "Refrigerated carriers see the superior performance benefits in our new molded structural composite technology. Many carriers have been very interested in participating in the launch program so they can better understand the value of the performance benefits on their operations."

"We're excited to show the progress we've made since we introduced our prototype trailer in February," added Robert Lane, director of business development for Wabash National's Commercial Trailer Products. "We've spent the past eight months in R&D undergoing further testing and qualifications and finalizing repair procedures. This reefer is unlike anything on the market today."

Wabash National's Cold Chain Series refrigerated van is made out of the company's proprietary molded structural composite with thermal technology (MSCT), which improves thermal performance by up to 25% and is up to 20% lighter, while significantly improving puncture and damage resistance. In addition, the molded structural composite floor system promises higher floor ratings—up to 24,000 pounds.

"What this means for our customers is improved thermal efficiency, reduced fuel costs, increased payload and cargo capacity, optimized utilization and enhanced durability," Yeagy explained.

Molded structural composites are used in a wide range of applications, including aerospace, automotive, marine and commercial construction. This is the first time the technology is being used in the trailer industry. Wabash National also utilizes this technology in its previously commercialized refrigerated truck body.

Production and field testing for the initial launch trailers will begin in the first quarter of 2017.

## Former Labor Secretary Chao said to lead transportation agency

President-elect Donald Trump has picked Elaine Chao, a former U.S. labor secretary, to lead the government's transportation policy and his plans to rebuild infrastructure in a program valued at as much as $1 trillion, according to a person familiar with transition planning.

Elaine Chao, a former US labor secretary

Chao, 63, a former banker who served all eight years of President George W. Bush's administration, would become secretary of the Transportation Department in Trump's Cabinet if confirmed by the Senate. Trump's economic advisers released a plan advocating the provision of as much as $140 billion in tax credits to support $1 trillion in infrastructure investment. The credits would be offset through tax revenue from the projects' labor wages and business profits.

The president-elect's transition website says the new administration seeks "to invest $550 billion to ensure we can export our goods and move our people faster and safer." The details on the structure of the plan are still to come.

### How Trump Might Try to Fix Bridges and Highways

Trump pledged in his victory speech to "rebuild our highways, bridges, tunnels, airports, schools, hospitals," an effort that "will put millions of our people to work." Power plants, ports, water pipes, sewage treatment plans, electrical grids, even parks and schools, can also fit under the expansive definition of infrastructure.

The Transportation Department has been the conduit for U.S. funding of highways, bridges and airports. It regulates airlines, automobiles, railroads, trucking and busing. The agency has a budget of about $95 billion and a total of more than 57,000 employees within the agency and others it oversees, according to recent budgets.Among its operating units are the Federal Highway Administration, Federal Aviation Administration, Federal Railroad Administration and the National Highway Traffic Safety Administration.

Chao in June joined the Hudson Institute, a Washington-based policy group, as a distinguished fellow focusing on topics including employment, labor mobility and trade.

Chao didn't speak English when she arrived with her family in the U.S. at age 8 from Taiwan, according to a biography on her website. She graduated from Harvard Business School and was vice president of syndications at BankAmerica Capital Markets Group and a banker with Citicorp in New York before entering public service that included leading the Peace Corps.

Chao sits on boards of News Corp., Wells Fargo & Co., Vulcan Materials Co. and Ingersoll-Rand PLC, according to data gathered by Bloomberg.

She is married to Senate Majority Leader Mitch McConnell, a Kentucky Republican.

## Shuster selected to return as Transportation and Infrastructure Committee Chairman

U.S. Rep. Bill Shuster (R-PA) statement regarding his selection by the House Republican Conference to continue serving as Chairman of the Committee on Transportation and Infrastructure:

"It is an honor to be selected again by my colleagues to serve as Chairman of the Transportation and Infrastructure Committee in the next Congress. I am extremely proud of the achievements of our Committee over the last four years. Working across the aisle, we have worked hard to improve our infrastructure through legislation like the FAST Act for our Nation's roads, bridges, and rail systems, multiple water resources bills to improve our ports and waterways, important authorizations of the U.S. Coast Guard, pipeline safety legislation, bills to improve disaster management and shrink the federal government's real estate footprint, and other measures.


# Joint venture of DP World and Quebec pension fund to invest in ports

By Leo Ryan, AJOT

Canada's second largest pension fund and DP World have announced a C$5 billion (US$3.8 billion) joint venture that will invest in ports and terminals around the world, including Asia and Latin America. It's another illustration of Canadian pension funds increasingly targeting investments in ports and terminals as reliable, steady sources of cash flow and with financial returns potentially exceeding publicly-traded stocks and bonds.

Dubai-based DP World, which operates some 77 marine and inland terminals and handles more than 170,000 TEU per day, will own 55% of the yet-unnamed investment platform, and the Caisse de depot et placement du Quebec (CDPQ) will control the remainder, according to a statement released on Dec. 2.

As a first step, the Caisse will acquire for C$865 million a 45% stake in two of DP World's Canadian container terminals in the ports of Prince Rupert and Vancouver, where capacity expansion is underway. DP World will also be taking over a container terminal at the Port of Saint John, New Brunswick in January.

DP World and the Caisse have also structured their agreement to allow up to one quarter of new investments to be allocated to greenfield projects - meaning they would not shy away from building something new from scratch as opposed to investing in an existing facility.

Michel Sabia, chief executive of the Montreal-based CDPQ, said the partnership will give the Caisse "access to high-quality transactions and the opportunity to invest in the best port infrastructure worldwide."

Sultan Ahmed Bin Sulayem, chief executive of DP World, said that opportunities in the global port and terminal sectors are "significant."

He said the partnership with the Caisse "offers us greater flexibility to capitalize on these opportunities while maintaining a strong balance sheet and retaining control. By combining our in-depth knowledge of container handling and CDPQ's expertise in infrastructure investing and long-term horizon, we can continue to develop the port and terminal sector globally."

The Caisse, which has about C$255 billion in net assets under management, has a 27% interest in Australia's Port of Brisbane as part of its infrastructure portfolio.

Earlier this year, the Canada Pension Plan Investment Board was part of a group that purchased Australian port and rail operator Asciano Ltd. for A$9 billion. And the Ontario Municipal Employees Retirement System agreed, with partners, to buy a 50-year lease to operate the Port of Melbourne in Australia for A$9.7 billion.

# Carrier conundrums: HMM, the 2M Alliance and Korea Line

By George Lauriat, AJOT

The 2M Alliance, composed of the two largest containership operators, Maersk and MSC (Mediterranean Shipping Corporation) reportedly announced it will not admit Hyundai Merchant Marine (HMM) as a full partner in the agreement but will explore other options such as slot exchange or purchase agreement.

Lloyds List reported Maersk as saying, "The parties are therefore discussing the possibility of HMM partnering with the 2M network through a slot exchange and purchase agreement. The partnership discussions are ongoing and include the possibility of Maersk Line taking over charters and operations of vessels currently chartered to HMM with the aim of deploying them in the 2M networks. The discussions include how we can improve our products on the Pacific trade."

Since cutting a deal in March and avoiding bankruptcy, South Korea's Hyundai Merchant Marine (HMM) has anticipated joining the largest of all shipping agreements, the 2M Alliance, composed of the two largest containership operators, Maersk and MSC (Mediterranean Shipping Corporation). While HMM is a fraction of the size of the two giants, it nevertheless appears a good fit. HMM has maintained the position that in either late November or early December a "formal agreement" would be inked in respect to the VSA (vessel sharing agreement).

However, last week, Maersk threw a spanner into the formalities. The Danish mega-carrier, in a widely reported statement on the agreement talks, noted, "Since July 2016, 2M has been in discussions with the Korean container shipping line, Hyundai Merchant Marine (HMM), on HMM joining the 2M vessel sharing agreement (2M VSA). The parties have discussed the possibility of HMM joining 2M as an operating partner and now decided to look at other cooperation possibilities… The parties

*(**CONUNDRUMS** – continued on page 22)*

# Triple Indemnity sought under the Shipping Act

By Matt Guasco, AJOT

In September of 2012 the Department of Justice found evidence among eleven Roll-On/Roll-Off carriers of misconduct under maritime regulations. The FMC (Federal Maritime Commission) allows carriers to jointly set pricing and make adjustments to combined capacity, if these events are filed in advance. Undocumented action is subject to fines and compensation to injured parties up to twice the value of assessable damage.

## Shippers File for Anti-Trust Compensation

Subsequent to the investigation, the FMC began a series of reviews and penalties levied against participants in the above investigation. In separate actions, shippers began to come forward seeking compensation from the federal courts under the Clayton Anti-Trust Act. In June 2013 a consolidated lawsuit was filed in the U.S. District Court for New Jersey. The suit alleged anti-trust immunity had been violated and requested three times the compensation for damages.

## Clayton Verses the Shipping Act

In 1890 Congress passed the Sherman Act as a means of preserving free and competitive trade. It was designed to prohibit collusion among business interests at the expense of the consumer. The Clayton Act passed in 1914 refined the definition of unfair competition and further prohibited the creation of business trusts. It also allowed injured parties to collect three times the value of damages in cases of proven wrong doing. In 1984 the Shipping Act outlined procedures for collective activity among ocean carriers including rate agreements filed with the FMC. It further defined exemptions from antitrust legislation.

Section 40307 outlines these to include "an agreement or activity relating to transportation services within or between foreign countries, whether or not via the United States …." It further stated under subsection (d) that "A person may not recover damages under section 4 of the Clayton Act (15 U.S.C. 15), or obtain injunctive relief under section 16 of that Act (15 U.S.C. 26), for conduct prohibited by this part (i.e. the Shipping Act as outlined above). So, the civil case against the carriers was dismissed on August 28, 2015 finding on behalf of the defendants. The Plaintiffs retain their right to request damages at twice the value from any review and judgment filed with the FMC.

## The Case Goes to Appeal

Last month the U.S. Court of Appeals heard the opening arguments on the civil antitrust

*(**INDEMNITY** – continued on page 21)*

## 12th Annual Hwy H2O Conference

The 12th Annual Hwy H2O Conference was held at the Hilton Toronto Airport Hotel, Canada on November 16-17, 2016. The highly successful conference explored the issues and potentialities of the marine industry of the Great Lakes and the Saint Lawrence Seaway system.

(L to R) Sam LaMacchia – Ogdensburg NY Port Authority, Helen Jenkins – Advisian Ontario, Janenne Pung – Great Lakes/ Seaway Review, Clayton Harris III – Illinois International Port District

(L to R) Gerd Warkus – Hansa Heavy Lift, Julia Fields – Chamber of Marine Commerce, Ottawa, Peter Eisenhardt – Spliethoff

(L to R) Frank Robertson – Oshawa Stevedoring, Aron Gampel – Scotiabank

(L to R) Jim Athanasiou – St. Lawrence Seaway Mgt Corp., Danny Vancoppenolle – Port of Ghent

(L to R) Bruce Hodgson – St. Lawrence Seaway Management Corp., Patricia Byrne – CSX, Zelko Kirincich – Port of Oswego NY

(L to R) Alan Taylor – Highway H2O, Martha Hammill,Terrence Hammill – Port of Oswego NY



# Looking at AAPA's infrastructure wish list

*By Matt Guasco, AJOT*

The American Association of Port Authorities (AAPA) recently released a statement echoing President-Elect Trump's pledge to "Make America Great Again." In a letter to the transition team, the association outlined several areas for investing the $1trillion pledged by the GOP for rebuilding America.

### Upgrading the Last Mile

In 2015 President Obama signed the current FAST ACT into law. FAST (Fixing America's Surface Transportation) provides a long-term plan for rehabilitating our nation's roads and bridges. In addition the bill allocates money under the D.O.T to address intermodal projects, allowing ports to better connect the berth to the beltway. It looks at alternative ways to move freight. Moving containers and trailers by water under Short Sea Shipping is also being studied under FAST. The AAPA is asking that $1.25 billion be earmarked under the D.O.T's Offices of Multimodal Freight Transportation and the Maritime Administration to study new projects.

### Maintaining our Ports and Water Ways

The association is asking for a definitive budget and increased funding under the Harbor Maintenance Tax (HMT). The HMT in the past hasn't always been fully spent, nor has it been granted to ports based on cargo volume. The AAPA would like part of the money to be set aside for dredging and maintaining with additional funds given to ports for discretionary spending.

HMT dollars could be used in part for waterborne projects to ease the flow of cargo across the quay.

### Securing Our Ports and Marine Borders

Increases to the Port Security Grant Program of at least $100 million have been requested by the AAPA. Funding should be directed to our nation's ports and prioritized by their threat potential.

Additional money could be used to hire more Customs and Border Protection agents beefing up the maritime staff at major gateways. More Radiation Portal Monitors could be purchased adding an additional layer of security at U.S. Seaports.

### Environmental Stewardship

The EPA's Diesel Emissions Reduction program should also receive increased funding. Ports would be able to partner with the Department of Energy and private enterprise to create new technologies for reducing airborne emissions. Further support for Clean Air Action Plans adopted by ports and terminals would allow the marine industry to move forward in their effort toward cleaner air. Programs to address coastal erosion and natural disaster would allow ports to plan mitigation strategies.

### Investing in America's Maritime Future

AAPA's President and CEO Kurt Nagle said, "it is vital that the United States invest significantly in its ports and freight network…" Our seaports are truly a National Treasure. They account for over a quarter of our economy and support 23 million jobs according to the AAPA. Ports and the private sector plan to spend around $155 billion on infrastructure over the next five years.

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*(**INDEMNITY** – continued from page 20)*

case against the Ro/Ro Carriers. Shippers in the collective lawsuit are still vying for triple damages. So far initial reaction by the three-judge panel appears to support the District Court's dismissal. This would return the matter to the FMC for disposition. Plaintiffs who pursue it further would only be entitled to compensation under the current regulations. If however the judges overturn the ruling! The implications of this action are mindboggling. For one thing it would set a new precedence for further lawsuits. Not only that, but it creates a major riff in the Shipping Act which clearly defines antitrust exemptions.

# ZIM to enhance its Atlantic network

ZIM has announced a significant upgrading of its Atlantic network, offering improved connections between US, Canada and the Mediterranean, starting April 2017, subject to FMC approval.

ZIM Container Service Italy (ZCI) - A new premium string, offering improved service to the Italian and French markets, connecting with Canada and the US East Coast, with faster transit time, additional ports of call in Italy and a direct call in Fos, France. This service will operate 5 vessels on the following rotation: Salerno - Livorno – La Spezia – Genoa – Fos Sur Mer – Halifax- New York - Norfolk – Savannah – Salerno

ZIM's flagship service, ZIM Container Service Atlantic (ZCA), operating 7 vessels, will focus on the East Med and Spain, with a new call in Algeciras, serving the South Spain market and adding new direct calls in two major Turkish ports- Izmir and Mersin. • ZCA upgraded rotation: Ashdod - Haifa - Izmir - Piraeus - Barcelona - Tarragona - Valencia – Algeciras - Halifax - New York - Norfolk - Savannah - Valencia - Tarragona – Mersin – Ashdod

The two current well-established dedicated services, MGX and MPS, will continue to operate as follows:

• Mediterranean Gulf Express (MGX) providing a fast, direct service between Mexico, US Gulf and the Mediterranean, with connections to the Caribbean and Central America: Cagliari - Livorno - Genoa - Barcelona - Valencia - Port Everglades - Kingston - Veracruz - Altamira - Houston - New Orleans - Tangier – Cagliari

• Mediterranean Pacific Service (MPS) – a direct service between US West Coast and the Mediterranean: Cagliari - Livorno - Genoa - Fos Sur Mer - Barcelona - Valencia - Tangier - Los Angeles - Oakland - Caucedo - Lisbon - Valencia – Cagliari

*(**ADJUSTING** – continued from page 15)*
improve the Customs information systems to become single window ready and begin preparations for the single window to include all trade related agencies and private sector entities involved in the supply chain for imports and exports. ADB also began constructing a new logistics center in Zamyn Uud to further modernize and improve the road and rail transshipments at the border crossing, especially for rail where the Mongolians and Russians have different rail gauge than the Chinese, which causes delays.

### Opening the Logistics Window

The Single Window project will have immediate impact on Mongolia international trade for companies such as Wagner Asia global imports of heavy equipment, vehicles and emergency parts for remote mining sites. The country of origin (CoO) document is required to clear goods into the country. The CoO process for emergency parts is cumbersome without the electronic single window and can cause millions of dollars in lost production at the mines. "For example, when an Oyu Tolgoi shovel costing $25 million and is supported by 7 to 8 moving trucks at $5 million each has an emergency part malfunction. The CoO document is processed by the CAT supplier in 3-5 days, electronically. The emergency case will require delivery in 48 hours," said Potter in a recent interview in Ulaanbaatar. The Single Window would expedite this process to meet the emergency at the mining site.

Mongolia's economy is making progress on numerous transportation and trade logistics infrastructure projects and operational improvements that began planning many years ago. The new airport, the northern rail link, and the Single Electronic Window and the cross border zone with China will bring new market opportunities across many industries. These adjustments together with implementation of agriculture policies will diversify from mining to sustainable long-term economic growth.

*(**CHOICE** – continued from page 12)*
6,000 TEU container vessels, but none of this size has yet called at Montreal.)

According to Schoch, the current market does not justify introducing larger vessels than the Toronto Express and Montreal Express with nominal capacities of 4,400 TEUs. "But in the medium and long term, we want to grow as the market grows."

*(**CONUNDRUMS** – continued from page 20)*
are therefore discussing the possibility of HMM partnering with the 2M network through a slot exchange and purchase agreement."

### The Hanjin Experience

What happened to change the nature of the talks? In a nutshell Hanjin happened, or more correctly, the South Korean court's decision to award the assets of the bankrupt Hanjin to a comparative unknown Korea Line.

Ironically Korea Line, South Korea's second largest bulk-shipping operator, itself filed for bankruptcy protection back in 2011. In 2013, the 29-ship Korea Line was bought by the Samra Midas Group (SM Group), a Korean construction and manufacturing company. While most shipping analysts expected Hanjin's assets to be absorbed by HMM, Korea Line reportedly simply offered a better bid. According to a report in the Korea Times, the SM Group offered a price of Won 225 billion (US$190,179 million), including a Won 165-billion (US$139 million) capital increase and a 60-Won billion (US$51 million) debt assumption for Hanjin. The assets include offices and networks, five 6,500 TEU vessels and a 54% stake in Total Terminals International (TTI) in Long Beach terminal with the remainder of the terminal owned by MSC. Interestingly, in late August the SM Group also assumed controlling interest in another bulk ocean carrier, Samsun Logix, buying the shares from Hong Kong based debt trader SC Lowy. These moves beg the question, with an aggressive parent in the SM Group looking for fire sales, is Korea Line poised to become a genuine player in the future? Early returns would say no, but there are reasons not to dismiss the possibility.

### Future Deployment

Even with the 2M announcement, it's unclear as to exactly how the deployment would work – Maersk taking over the vessels and operating them within the 2M network or some slot exchange on a mutually agreed services and routes.

And it is never easy, even in stellar market conditions, for the mouse to negotiate with two elephants, as is the case with HMM and the 2M Alliance.

Still HMM has already weathered the worst of the storm and with larger containerships on the way could find the elusive, right alliance fit.

And from another perspective, much of what has transpired (including the Hanjin bankruptcy) happened under the aegis of a South Korean Government, which acted uncharacteristically against the tradition of support for the industry – a situation that could very well change. If it does, Korea Line's prospects might look very different. And the ultimate cure all for carrier conundrums is an upturn in 2017.

# PTA hosts 37th Annual Steamship Night

The Pacific Transportation Association hosted its 37th Annual Steamship Night in San Franscisco, CA on October 13th. More than 500 people attended.


(L to R) Jack Carbone – Pasha Group, John Walter – Hutchinson Equipment Services, Susan Duran – Flexi-Van, Greg Bostwick – SeaCube

(L to R) Jim Togneri – APL, Brandon O'Meara – Port of San Franscisco, Peter Dailey – Port of San Franscisco, Greg Teshara – Hutchison Equipment Services

(L to R) Jahan Byrne – Pasha Hawaii & PTA Chairman, Jean Banker – Port of Oakland, Ricky Sun – Port of Oakland

(L to R) Hina Parikh – Pasha Hawaii, Marisa Good – Cost Plus, Rachel Vallejo – Cost Plus

(L to R) Joe Ritzman – SSA Marine, Susan Ransom – SSA International, Mike Polich – Tesla Motors

(L to R) Tony Brower – Brower & Co., Carlos Navarro – Sun Valley Rice, Julie Nemes

(L to R) Ethan Guiles – TSC Container, Andy Hemp – Maersk, Marina Bazana – TSC Container

(L to R) Heejoo Ramsey – Hyundai, Tom Binger – GlobeRunners, Joerg Zimmerman – Hamburg Sud

(L to R) T.F. Hau – OOCL, Jean Banker – Port of Oakland, Laura Williams – Pacific Merchant Shipping Association, Scott Taylor – GSC Logistics

(L to R) Marisa Good – Cost Plus, Rachel Valiejo – Cost Plus, Tina Valdez – Cost Plus, Sara Tenorio – ClearPoint

(L to R) Thompson – BNSF Railway, Kyra Kindon – COSCO Shipping

(L to R) Michael Nerney – Port of San Franscisco, Jane Wisdom – Hyundai

(L to R) Sandra Nguyen Thanh – Karl Gross Logistics, Eric Teegelaar – Interocean Steamship