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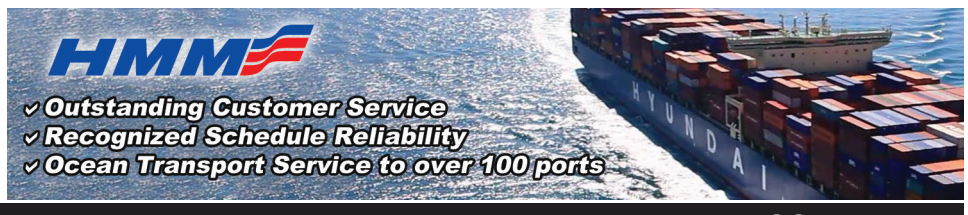

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OCEAN CARRIER REVIEW

page 2

WEST COAST PORTS OF NORTH AMERICA

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- Breakbulk Quarterly • Air Cargo Quarterly
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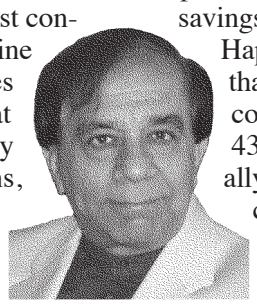
Hapag-Lloyd does not plan any further acquisitions "at least for now"

For the moment Hapag Lloyd doesn't have any plans for more acquisitions with the United Arab Shipping Co (UASC) deal slowly heading for conclusion. But as Manik Mehta writes from Hamburg, there are more items on HL's CEO Rolf Habben Jansen's agenda, such as re-paying shareholders, than the pending merger alone.

By Manik Mehta, AJOT

HAMBURG



Germany's largest container shipping line Hapag-Lloyd does not have any plans "at least for now" for any further acquisitions, after completing its upcoming merger with its one-time rival, the United Arab Shipping Co. (UASC).

"I believe that (after the merger) we will grow in size and also have the competitiveness which will enable us, on medium-term basis, to make money," noted Hapag-Lloyd's Chief Executive Rolf Habben Jansen at the company's recent conference for its 2016 performance. It was time to re-pay the shareholders who had done a lot of investment in the company during the past years, he said, adding that another merger was presently not on the card.

Hapag-Lloyd's Chief Executive Rolf Habben Jansen

Hapag-Lloyd's chief executive, apparently trying to allay the apprehensions of the shareholders over the delay in completing the merger with the UASC, averred that the merger could be completed "in a few weeks"; seeking an extension of the deadline had become unavoidable, he explained, because of the paperwork entailed. He conceded that the deadline factor had been "underestimated a bit". Hapag-Lloyd had originally wanted to complete the entire merger process by end 2016 but had to twice seek the extension of the deadline – the latest being until end May.

Following the merger with the UASC, Hapag-Lloyd will rise in global ranking and become the number five among the world's top container shipping lines; the Hapag-Lloyd management hopes to effect considerable savings through the merger. Hapag-Lloyd estimates that effective 2019 it could save some US$ 435 million annually. The shipping line could also benefit from the synergies emanating from

(ACQUISITIONS – continued on page 4)

The Hapag Lloyd *Kyoto Express* docked at the Port of Hamburg

The anatomy of a bankruptcy

The Hanjin bankruptcy shook the shipping world like no other. While it might not have directly been responsible for the realignment in ocean carrier alliances, it was certainly on every shipping executive's mind, a reminder of what could go wrong. Matt Miller examines the anatomy of the Hanjin bankruptcy and the wide legacy it leaves.

By Matt Miller, AJOT

Late last August, the Korean Development Bank (KDB) refused to provide additional financial support to beleaguered Hanjin Shipping, forcing the line into a South Korean court-ordered receivership. Bedlam ensued. Some ships were arrested and seized. Others bobbed aimlessly offshore, or were stuck in ports far from where they needed to be. Billions of dollars of cargo in thousands and thousands of containers were stranded. Freight forwarders, ports, trucking companies, NVOCCs and railroads all scrambled to figure out how to move goods and get paid, while angry creditors grappled with desperate shippers.

"That first month or two was chaos," said Asa Markel, a Los Angeles-based attorney with Masuda Funai.

Once the world's seventh largest container line, Hanjin was declared bankrupt in February by a South Korean court and liquidated; its ships sold for scrap. Some $5 billion in loans were pretty much wiped out, much of it held by KDB.

Hanjin's collapse in a battered global shipping market is still being assessed. So, too, is its impact on ship financing, which is already in turmoil and racked with enormous debt, huge uncertainty and danger. *(See related story, page 8)*

"The shipping business is so interrelated," said Arthur Rosenberg, a New York-based lawyer with Holland & Knight, with wide experience in maritime bankruptcies. "All it takes is one domino to fall and you have a bunch of teetering dominos."

Tentacles of Bankruptcy

The Hanjin disaster revealed deep fissures within the various legal regimes that govern vessels, shipping, commerce, transportation and bankruptcies. It graphically illustrates the inherent difficulties in a tangle of laws and jurisdictions that oversees bankruptcies in general and ships in particular.

"The tentacles of a maritime bankruptcy are far reaching," said Marilyn Raia, a San Francisco-based specialist in admiralty and maritime law with the firm Bullivant Houser Baily.

Those throughout the global supply chain assume a well-ordered legal system, so vital for commerce, always works smoothly. But a bankruptcy can throw multiple spanners into that chain.

Just one example: It's common practice now for freight forwarders and NVOCCs to issue what are called house bills of lading to the actual cargo owners. The intermediaries become the parties on a vessel's bill of lading. The intermediaries become contractually responsible for delivering the goods to their owners, not the vessels.

While more ships-related bankruptcies are pretty much inevitable, nobody wants a repeat of Hanjin, even on a much smaller scale. THE Alliance, a newly formed service network of five large shipping companies, announced last month it would establish an independently managed fund to protect beneficial cargo owners if a member goes bust.

To better understand the Hanjin case, it helps to fathom how bankruptcy and insolvency work globally. Laws and jurisdictions governing bankruptcy are anything but equal. That was perhaps Hanjin's biggest lesson.

Hanjin filed for receivership in Seoul, and then filed

*(**ANATOMY** – continued on page 8)*

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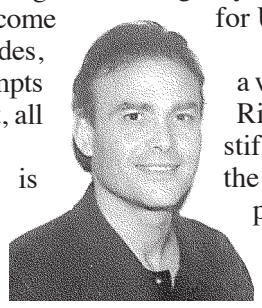
Jones Act reform: Going nowhere fast

Enforcement of Jones Act takes lead over change.

By Peter Buxbaum, AJOT

Some say that the Jones Act, nearly 100 years old, is one of those pieces of legislation whose time has come and gone. For decades, there have been attempts to repeal or modify it, all without success.



The pendulum is now swinging in the direction of greater enforcement of the Jones Act. Just last year US Customs and Border Protection created a Jones Act Division of Enforcement (JADE), primarily, it is presumed, to catch Jones Act violators in the offshore oil and gas industries. Just recently the Department of Justice settled a case which included payment by a shipping company of the biggest Jones Act penalty ever. *(See related story on page 6.)*

The Jones Act, passed in 1920, prohibits a foreign vessel from transporting merchandise between points in the United States. A violation of the Jones Act may result in the assessment of a civil penalty equal to the value of the merchandise. A waiver may be obtained, under limited circumstances, from the Secretary of Homeland Security. The act also applies to shipments from points on the North American continent to installations on the Outer Continental Shelf, hence the focus on oil and gas rigs.

Question of Exemptions

Reform efforts in recent years have concentrated on exempting specific trades, such as Puerto Rico, from the act. In 2016, an Alabama congressman offered legislation which would have exempted shipping to and from Puerto Rico from the Jones Act. Then-freshman Representative Gary Palmer, a Republican, said that the measure would provide the island commonwealth some relief from its current economic woes.

Palmer's was not the first legislation to try to bring relief to Puerto Rico. In 2013, Puerto Rico's resident commissioner in Washington pushed a similar measure, backed by studies from the Federal Reserve Bank of New York and the Government Accountability Office that concluded that costs are higher than they should be in the Puerto Rico trade, thanks to the Jones Act.

Jones Act critics say its restrictions inflate the price of consumer goods and inhibit economic growth in states and territories not part of the contiguous 48 states. Supporters of the law say that it is necessary for national security—by ensuring a ready reserve of US capacity in case of war or emergency—and creates jobs for US citizens.

"We need to act in a way that frees Puerto Rico from economy stifling regulations to the maximum extent possible to allow them to rebuild their economy," said Palmer. "The Jones Act exemption helps Puerto Rico, a US territory with limited access to cheaper transportation such as trains or trucks, by reducing prices for goods transported by water."

Two Puerto Rican economists found that between 1991 and 2010, the Jones Act cost Puerto Rican residents $16.4 billion. "Vehicles cost $6,000 more in Puerto Rico than on the mainland, and food is twice as expensive as in Florida, their study showed.

Not surprisingly, Jones Act stakeholders were dead set against exempting Puerto Rico from the Jones Act. "Such a change would put at risk the reliable, efficient service the island currently receives, as well as hundreds of private sector jobs on the island, with no offsetting gains," said Michael Roberts, senior vice president of Crowley Maritime Corporation, which runs maritime services from Puerto Rico to

*(**NOWHERE** – continued on page 6)*

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

the merger, not to mention surviving the fierce competition in the midst of the crisis that has plagued the shipping industry. Another advantage is that the merger would increase the size of the fleet to 240 ships. Also, since the average age of the ships is only 6.3 years, further investment in new ships will not be necessary. Indeed, the shipping company will now be able to return part of the chartered ships. This will mean, as Jansen put it, that "the money can now be used to paying our debts".

The Alliance

By partnering with several Asian players in what is described as "The Alliance", Hapag-Lloyd is trying to compete against leaders such as Maersk (Denmark) and MSC (Switzerland), as well as the CMA CGM (France). Indeed, size has become the key to survival for the container shipping lines by loading the ships to the maximum and thus reducing the costs.

Nevertheless, the close partnership also has its inherent risks and can evoke suspicions among the authorities of price fixing. A number of container lines have already come under the scanner of the U.S. Federal Bureau of Investigation. Jansen emphasized at the conference that his company was cooperating with the U.S. authorities, and did not expect that the investigation would delay the start of the alliance.

Meanwhile, Hapag-Lloyd has sighted light at the end of the tunnel after eight years of uncertainty resulting from the crisis in the industry. The turning point came, in fact,

*(**ACQUISITIONS** – continued on page 12)*

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CBP stepping up Jones Act enforcement

By Peter Buxbaum, AJOT

US Customs and Border Protection announced the creation of the National Jones Act Division of Enforcement (JADE) in July 2016, but tough enforcement of the Jones Act proceeded that development. Experts say that JADE's advent will likely herald an even tougher enforcement environment.

The Jones Act case that was settled earlier this month actually had its beginnings in 2011, when Furie Operating Alaska wanted to transport a Spartan 151 jack-up oil rig from the Gulf of Mexico to upper Cook Inlet, Alaska, for exploration work at its Kitchen Lights gas field. Furie chartered the Chinese heavy-lift vessel Kang Sheng Kou to carry the rig around South America and up to Vancouver, British Columbia. At that point, US-flagged tug boats brought it the remaining distance to Alaska.

Furie's managers had obtained a Jones Act waiver for the voyage during the George W. Bush administration, but it had expired, and the Department of Homeland Security during the Obama administration refused to renew it. CBP determined that the move violated the Jones Act and fined the company $15 million.

The company sued CBP in 2012 challenging the assessment of the civil penalty. Three weeks ago, Furie agreed to pay $10 million to satisfy the civil penalty originally assessed against it in 2011. It was the largest Jones Act penalty ever assessed.

DOJ contended that under the terms of US cabotage law, the jack-up should have been transported by a US-flagged, US-crewed vessel. "Resolution of this case demonstrates that the Jones Act will be actively enforced and that an intentional violation will not be rewarded," the Department of Justice said in a statement. "The settlement also provides closure to Furie and is designed not to undermine its ability to bring natural gas to market in Southcentral Alaska."

The settlement coincides with a growing debate over the use of foreign-flagged ships in the US offshore oil and gas industry. CBP plans to revoke a series of interpretations that allow the carriage of exploration and production components from US ports to Gulf of Mexico rigs on foreign ships.

Many industries other than oil and gas are affected by the Jones Act, noted David McCullough, a partner in the law firm of Sutherland Asbill & Brennan. "Often the rejection of metals, coal, agricultural products or consumer goods by foreign buyers or the inadvertent return of commodities to the US can ultimately result in a potential Jones Act violation," he said. "The potential for violations is exacerbated by Customs' strict interpretation of the Jones Act whereby using a foreign flag vessel to move merchandise from just one dock to another dock within the same port is considered to be a violation."

McCullough counsels caution by companies over decisions that risk potential noncompliance with the Jones Act or suffering substantial commercial losses through having to find an alternative buyer in another country.

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

the mainland. "It would also send a chilling message that would bring further investment in vessels built in US shipyards to a standstill."

"Exempting Puerto Rico from the Jones Act would do nothing to address island's debt crisis," added Matthew Paxton, president of the Shipbuilders Council of America, "and would actually jeopardize the more than $1 billion the US maritime industry has invested in the Puerto Rican shipping trade, as well as the thousands of good-paying jobs on the island."

The American Maritime Partnership, a prominent coalition of the domestic maritime industry, released a paper defending the Jones Act status quo. "The Jones Act is not a cause for the island's financial woes," said AMP Chairman Tom Allegretti. "The domestic maritime industry has made significant capital investments to service the economy and support thousands of family-wage jobs for Puerto Ricans."

It's worth noting that exempting US territories from the Jones Act is nothing new. Three are currently exempt from the Jones Act, including the US Virgin Islands.

That bothers Palmer. "Today shipping costs from the mainland to the US Virgin Islands," he said, "are nearly half that of Puerto Rico."

An exemption, Palmer argues, would also encourage business development. For instance, Puerto Rico's power companies would be able to replace foreign-sourced oil with cheaper, cleaner, US-sourced natural gas. And manufacturers in Puerto Rico would also no longer be at a cost disadvantage relative to Asia and other Latin American countries when shipping goods to the US.

That argument is popular among residents of Puerto Rico, as well as advocacy organizations like The Libre Initiative, a non-profit that "advances the values of economic freedom to empower the US Hispanic community so it can thrive and contribute to a more prosperous America."

Dan Garza, Executive Director for Libre, wrote a piece for the website Morning Consult that echoes many of Palmer's concerns: "Puerto Ricans simply can't have their goods delivered by trains or trucks. Rather, they rely on ships to bring most products to the island. As a result, any product that needs to be shipped to the island on a US ship comes at a higher cost."

"The Jones Act is a typical case of the government picking winners and losers, and Puerto Rico is one of the

*(**NOWHERE** – continued on page 12)*

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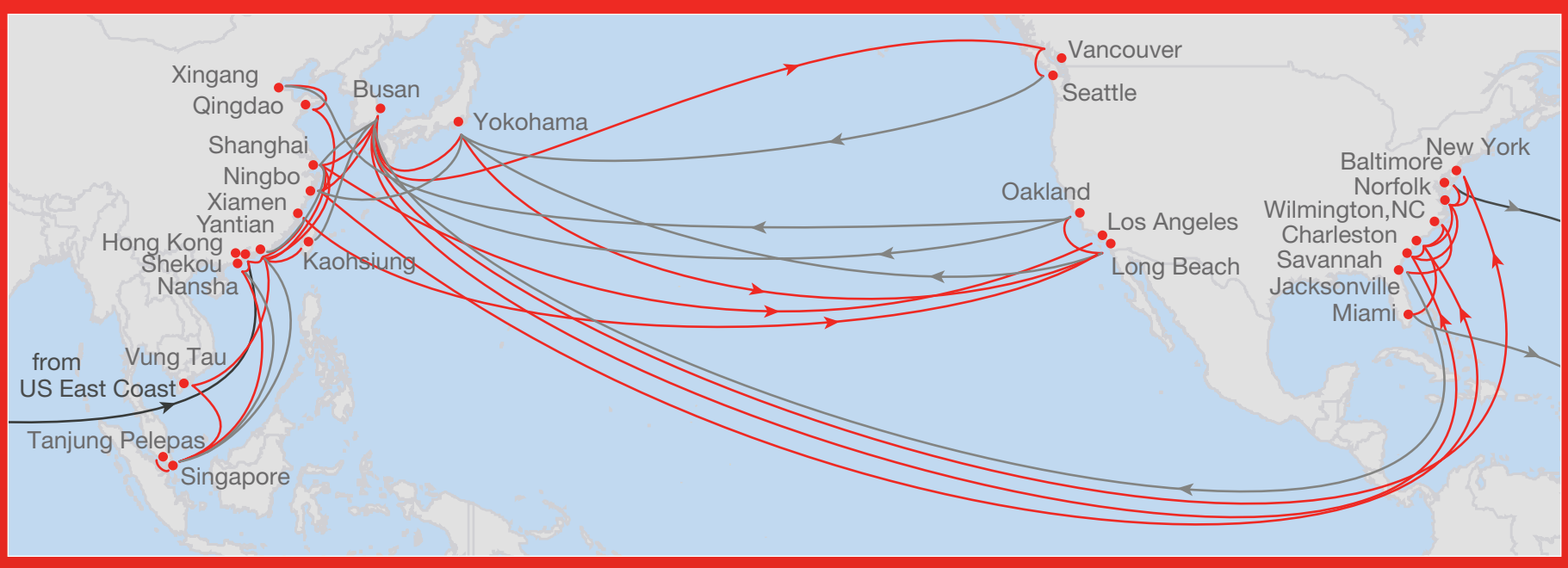

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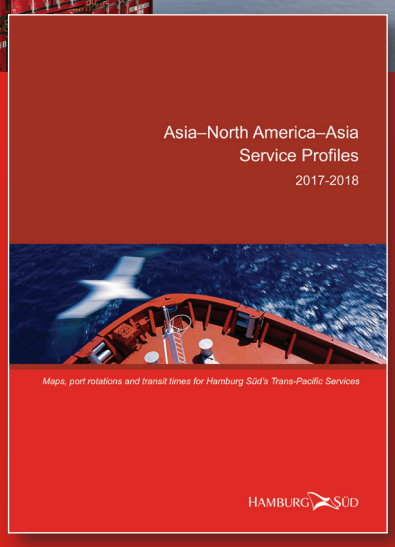

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*(**ANATOMY** – continued from page 3)*
supporting cases elsewhere. That may seem logical. After all, the company is Korean. Its biggest creditor was KDB. Its biggest shareholder was Korean Airlines.

But assets tell a different story. Hanjin ships and containers were scattered all over the world. Many ships that carried the Hanjin name were chartered from other owners. Tens of thousands of containers were leased.

The goods being carried were owned by a who's who of global companies and destined for ports, warehouses and, eventually, stores everywhere.

Were the containers carrying those goods part of the bankruptcy estate? Who had the right to hold them? Those are difficult questions in the best of circumstances.

Korean insolvency law, however, isn't nearly as developed, or as far-reaching as it is in the US, UK or some other western countries. Even one of Hanjin's lawyers in the US during a hearing termed aspects of Korean bankruptcy law ambiguous and unsettled.

Every Jurisdiction for Itself

While Korean lawyers sparred in that Seoul district court, the real battles took place in Singapore, China, the Panama Canal, Canada and the US. The Korean judge couldn't impose his will outside the country and it was pretty much every jurisdiction for itself.

Because Hanjin had an office and assets in the US, it could have voluntarily filed for reorganization in a US bankruptcy court under Chapter 11 of the bankruptcy code, several US bankruptcy lawyers believe.

"There was a sufficient jurisdiction nexus for Hanjin to file in the US. I don't believe that would have been issue," said Peter Goodman, a New York-based restructuring and insolvency lawyer with Baker McKenzie.

That would have changed the complexion of the case entirely. First, the filing of a Chapter 11 itself triggers an automatic stay, which prevents any creditor from foreclosing on, grabbing or seizing assets. It stops cold any lawsuits. It prohibits contracts from being summarily ended or providers to refuse service because of prior debts. The fundamental underpinning of a Chapter 11 is to preserve the value of the estate while everyone attempts to get the company up and running again. The basic precept of Chapter 11 is to treat everyone equitably.

In addition, Hanjin would have continued to be in charge of its operations. It would have attempted to gain what's called "debtor-in-possession" or DIP financing. While it's unlikely the shipping line would have survived, operations would have wound down in a much more orderly fashion.

A US bankruptcy court has more clout and reach than any other in the world. "US bankruptcy law applies globally to property of the estate wherever it is located. So that, when combined with the economic might of the United States, gives a debtor, and indirectly the bankruptcy court, a lot of power over foreign companies, even when it relates to transactions that have nothing to do with the US as long as it involves property of the estate", explained Goodman

Most other courts around the world recognize that automatic stay and any other orders a US bankruptcy judge issues. (China is an exception and it's questionable whether a Chapter 11 filing would have prevented the six Hanjin ships arrested and seized in Chinese ports.)

Examples of foreign companies filing for Chapter 11 court-administered relief in the US are commonplace. In February, for example, a joint venture between Singapore-based Ezra Holdings and Japan's Chiyoda Corp. and NYK Lines in offshore energy called Emas Chiyoda Subsea, whose major creditors are in Singapore, Norway and Britain, filed for Chapter 11 in Houston.

Christmas & Chapter 15

Instead, Hanjin requested a Chapter 15 filing. This ancillary filing merely acknowledges an overseas insolvency case and asserts bankruptcy jurisdiction in the US. As the Hanjin case demonstrated, a stay isn't automatic under a Chapter 15 filing and is subject to hearings and a judge's recognition of a foreign court and its viability. Hanjin's bankruptcy lawyers in the US took several days to get their act together, argue why a stay was necessary and seek proper court relief.

John Sherwood, a judge in the US

*(**ANATOMY** – continued on page 12)*

Ship finance in the wake of Hanjin bankruptcy

By Matt Miller, AJOT

Overcapacity continues to eat away at global shipping and that spells billions of dollars in non-performing loans. The Hanjin bankruptcy supplied ample evidence of what happens when banks finally pull the plug.

The Hanjin bankruptcy sent "a warning shot, big time, across [the bow of] the financial community," said Paul Slater, managing director of the consultancy group Qorval, and a veteran in maritime financing.

Yet, reaction to the collapse of Hanjin has been anything but uniform. It's not as if the bankruptcy triggered a worldwide freeze in ship-related finance, or even a major time-out.

In late October, the South Korean government announced it would create a state-owned ship financing company, with initial capital of almost $900 million. This is designed to underwrite the acquisition by South Korean shipping lines of new ships made in South Korean yards, which remains a massive part of the country's economy.

Or take a hedge fund-type operation called Northern Shipping, which is based in Stamford, CT. In December, it announced that it closed on a new alternative finance fund aimed at shipping and offshore oil services. It was able to raise more than $500 million, $100 million more than its initial target.

Northern Shipping joins dozens of private equity firms and hedge funds attempting to cash in on cheap shipping assets and even cheaper debt.

Those efforts are horribly risky. Hanjin's woes were well-chronicled months and years before it was forced into bankruptcy. What's really scary are the many ship owners who are teetering as well, but whose finances are hidden from public view.

*(**FINANCE** – continued on page 12)*

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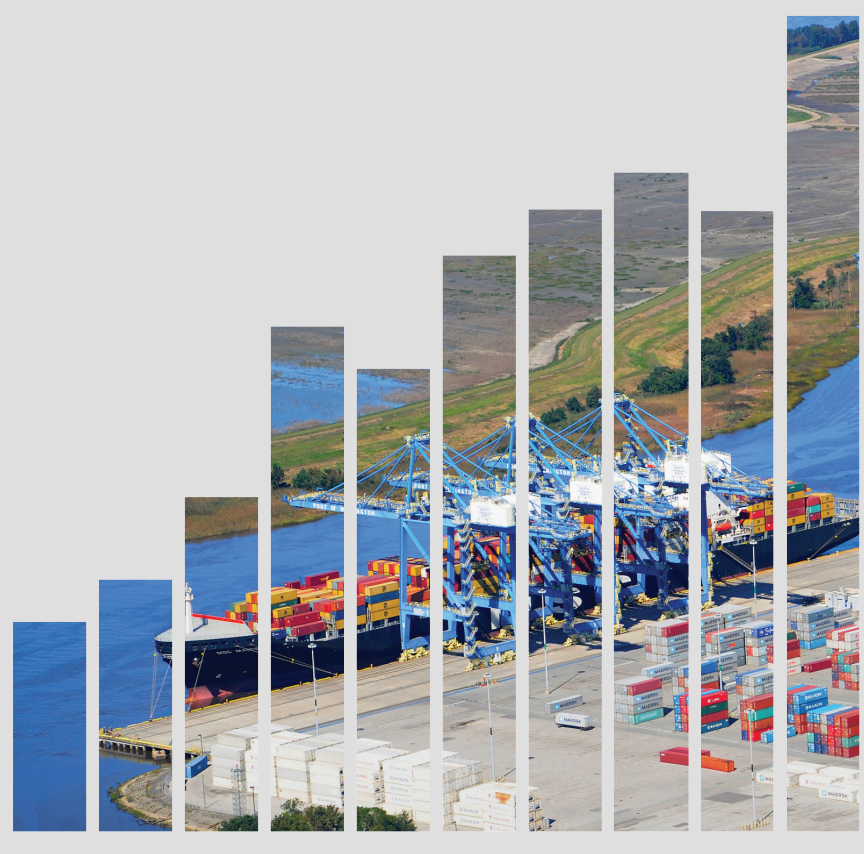

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"Alliances are everything"

In 2017, liner shipping feels the effects of global realignment of containership operations.

By George Lauriat, AJOT

"Alliances are everything," a US East Coast port executive noted just prior to the April 1st (2017) launch of THE Alliance.

He's right. Everything in liner shipping is about alliances: routes, rates, and ultimately ROIs (Return-On-Investments). It has often been remarked about the shipping business, the only constant is change – and if you don't like change, find another business. But change for the containership business is rarely true upheaval. Carriers come and carriers go, vessels get larger, schedules add and delete ports but the basic elements of the business are still there.

This time it's different. The combination of merger and acquisition activity, the reshuffling of the carrier alliances, and even without the Hanjin bankruptcy (see Matt Miller's story page 3), represents a nearly unprecedented transfiguration filtering through every aspect of the business. In fact, listening to Maersk's take on the digitalization of the industry (A presentation was made at CONECT's Trade & Transportation Conference by David P. Zimmerman, Vice President, Sales-North America for Maersk Line), a new type of business may be evolving right before our eyes.

But why now? The answer is not a "Eureka moment" as much as a weary admission of the obvious. Virtually all of the major containership operators have all come to the same bottom line conclusion – no one carrier, no matter how big or well managed, can go it alone. With that self-recognition, a global re-alignment of containership operations was a forgone conclusion. The only real question was what the realignment would look like and the influence it would have on vessel rotations.

Consolidation

2016 was a year of industry wide consolidation as a number of top containership operators merged and moved into new alliances either to improve efficiency, address financial problems or simply help balance the supply and demand conundrum (or all of the above). Often these are vastly complicated deals. The $8.7 billion COSCO-China Shipping merger (Beijing approved the merger in 2015), resulting in the new COSCO Shipping, involved 74 related transactions between China's two biggest state-owned shipping conglomerates.

The 2016 notable M&As included:

- Hapag-Lloyd & United Arab Shipping Company (UASC), now expected to be completed by end of the month – The merger moves Hapag-Lloyd up to the fifth spot with a market share around 7%.
- CMA CGM & Neptune Orient Lines (American Presidential Lines [APL]) – The merger places CMA CGM firmly as the number three boxship operator with around a 6% market share.
- The aforementioned COSCO & China Shipping – The merger gives the combined Cosco Shipping a 7% market share.
- Maersk & Hamburg Süd – The addition will give Maersk a 9.7% market share.
- The announced merger of Japanese carriers MOL (Mitsui O.S.K. Lines), NYK Line and "K" Line – The three Japanese carriers will total a combined 5.2% market share, in a deal expected to begin in April 2018.

Naturally, the last round of mergers has set into motion questions on who might be next as the number of top tier partners has suddenly become much smaller. Carriers, like Hong Kong based OOCL, South Korea's HMM or Taiwan's Evergreen, Wan Hai or Yang Ming are frequently mentioned as potential targets but more as speculation based on

*(**ALLIANCES** – continued on page 26)*

Harbor, infrastructure position SC Ports as last call for biggest ship ever to visit East Coast

Wide, deep channels and big-ship infrastructure will earn South Carolina Ports Authority the desired position as last port of call when the biggest ship ever to call the US East Coast, the *COSCO Development*, arrives in May.

"SCPA has worked aggressively for years to ensure we can efficiently work 13,000 twenty-foot equivalent unit (TEU) vessels and be the last Southeast port of call with no navigational issues," said Jim Newsome, SCPA president and CEO. "Our naturally wide and deepwater harbor, soon to be the deepest on the entire East Coast at 52 feet, can handle vessels the COSCO Development's size loaded heavy with cargo. Coupled with our landside capacity and infrastructure, including new super post-Panamax cranes, we offer our export customers the opportunity to load their goods in Charleston before the vessel departs for its return to Asia. It's ironic to say, but this is a case in which we've worked very hard to be last"

The ship, which measures 1,200 feet long and 158 feet wide, can transport up to 13,092 TEUs. It is deployed on the weekly OCEAN Alliance South Atlantic Express (SAX) service connecting Charleston with Hong Kong, Yantian, Ningbo and Shanghai via the Panama Canal. The SAX service is comprised of 11 vessels ranging in size from 11,000 to 13,000 TEUs.

Jaime Lobo
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*(**ACQUISITIONS** – continued from page 4)*
with the collapse of the South Korean container line Hanjin. Since then, freight rates had started, again, to rise on some routes. Prior to that, the big shipping lines had been undercutting their prices in a deadly price war. For the current year, Hapag-Lloyd's chief executive envisaged a moderate increase in freight rates. The rise in fuel prices should be offset by effecting savings.

Although Hapag-Lloyd could increase its container volume by 2.7% to 7.6 million TEUs in 2016, it reported a loss of 93 million Euro after having posted a profit of 114 million Euro in the previous year. The year 2017 also did not start on a bright note. The shipping line did not benefit to the full extent from the surge in freight rates because it had already made commitments to customers as a result of long-term contracts. At the same time, fuel prices have also been rising; the drop in fuel prices last year had provided some relief to the container shipping company.

However, Jansen said that a rise in the average freight rates and also in the freight volume was expected this year. "We expect in 2017 some recovery in the market but our success will depend, to a large extent, on how we can achieve sustainable freight rates," Jansen said.

But Jansen also delivered another solemn prediction: "we are convinced that in the future there will be only five to seven global shipping lines." And, of course, Hapag-Lloyd wants to be among the top players that control some 70% of the market.

*(**ANATOMY** – continued from page 8)*
Bankruptcy Court in New Jersey, had no experience in big maritime cases and struggled at first to balance competing interests and extremely loud voices. Those included cargo owners such as Samsung and Hewlett-Packard who faced the prospect of a calamitous Christmas season. (At one point, shippers estimated as much as $14 billion worth of goods were trapped by the bankruptcy and lawyers in his court joked that Judge Sherwood would have been the judge who killed Christmas had he not issued the necessary directives to untangle the mess.)

It took Judge Sherwood almost two weeks to issue a stay and the necessary orders that allowed goods to be moved. The first important order was called a protocol. It devised a kind of offset arrangement that enabled beneficial cargo owners or their 3PLs to pay necessary fees directly to ports, workers, warehouses, shippers and other transport companies such as rail and trucking, without involving or going through Hanjin. This allowed goods to get to where they needed to go.

Meanwhile, Korean Air, whose intransigence and lack of support had angered KDB, promised funds to keep Hanjin going, but dithered over terms and collateral. The money never materialized.

The Hanjin case was further complicated by certain maritime laws, laws unique to shipping. A kind of global maritime regime may be necessary for keeping ships, their owners, crew and cargo all safe, but can sometimes be at odds with efforts.

When Everybody is Owed Money...

"What happens when everyone is owed money? Whose rules are paramount? Bankruptcy court has to figure out a way to marry all these different sets of rules and it's really difficult," said Barbra Parlin, also a bankruptcy lawyer with Holland & Knight.

Examples abound. The notion of a ship arrest is unique, while laws governing liens are both complex and jurisdiction-specific. Judge Sherwood ruled that Hanjin ships could enter and leave US ports, without being arrested. That angered providers such as pilots and fuel suppliers who use the arrest mechanism to insure payment for services.

That raised the question among some whether bankruptcy law automatically trumps admiralty law. Everyone is bracing for the next case that tests these competing interests and no one is looking forward to it.

While any number of US bankruptcy and maritime lawyers maintain Hanjin's disastrous free-for-all could have been avoided had the shipping line filed for Chapter 11, some admit that course of action might not have been as easy to take as it sounds. As Hanjin's finances spiraled downward, the company kept looking and looking to the KDB for a lifeline, in effect, ignoring all other avenues, including a Chapter 11. That's the way Korean business has operated in the past and it's the way the country continues to function.

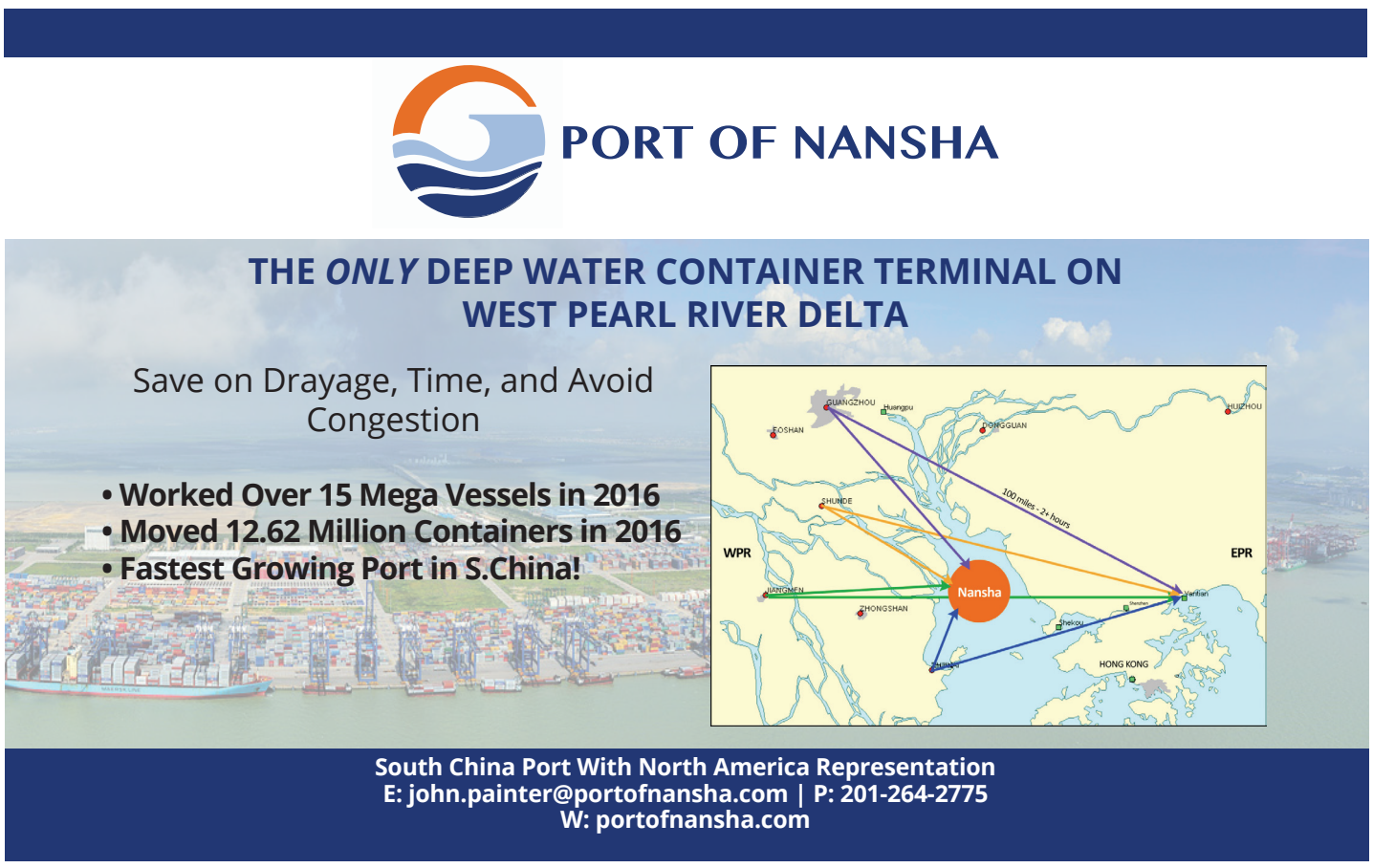
*(**FINANCE** – continued from page 8)*
One of the biggest concerns is Germany. Last September, a Reuter investigation concluded that German financial institutions and funds hold as much as $100 billion in ships-related debt, or about 25% of the global total.

It's believed that much of that debt is non-performing and held in part by banks and in part by investment funds called KG Houses. These are limited partnerships that acquire one vessel and then lease it to a shipping company. At the height of KG Houses popularity, some 440,000 investors had put money into these partnerships, according to a paper produced by the German law firm Kravets & Kravets. In 2007, KG Houses accounted for 26% of global order book tonnage. The investors were attracted to tax advantages and what they thought would be a guaranteed return.

Not only has that return evaporated, but investors could be on the hook for more. Under German law, if the investments fail within the first ten years, investors must cover any losses. What's more, their debt ranks behind bank debt so the chances of recovery are extremely slim.

*(**NOWHERE** – continued from page 6)*
hardest-hit losers of all," Garza concluded. "If Puerto Rico is ever to regain its footing and enjoy a thriving economy, the first step the federal government must take is to drop the Jones Act."

Despite these urgings, changes are improbable, primarily because supporters of the Jones Act wield significant, and growing, influence, on national policy. Palmer's amendment died a quiet death during the 114th Congress and has yet to be reintroduced in the current session.



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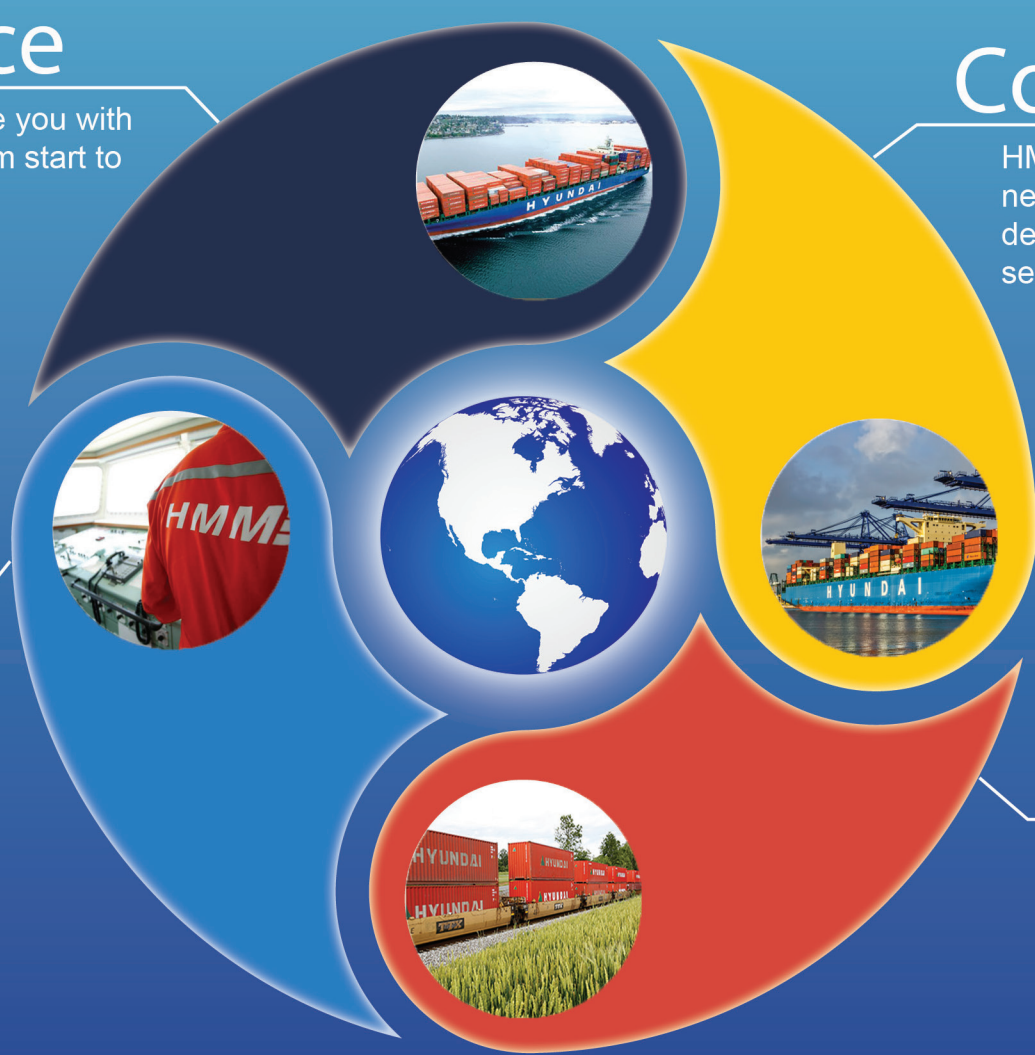

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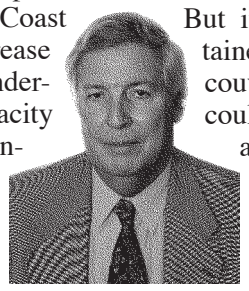
MSC recently increased its transPacific services to the fast-growing Port of Prince Rupert.

Canadian West Coast ports map major capacity expansions

By Leo Ryan, AJOT

With continued strong growth anticipated in maritime trade with Asia, Canadian ports in British Columbia on Canada's West Coast are jockeying for position to increase market share. Various projects are underway or on the radar screen for capacity expansions in such key sectors as container and breakbulk facilities.



In its latest container forecast for the West Coast of Canada, UK-based Ocean Shipping Consultants (OSC) took into consideration emerging global economic trends, including a slowdown in China. But it concluded, nevertheless, that container demand through the Port of Vancouver and the Port of Prince Rupert could attain 7.5 million TEU by 2030, or about double the current box volume of two Canadian ports which are clearly seeking to grab business away from US Pacific Northwest competitors.

*(**MAP** – continued on page 19)*

Mega-container arrivals will benefit California ports

By Stas Margaronis, AJOT

In an interview, Jock O'Connell, Beacon Economics' international trade advisor, told *AJOT* that the growing number of mega-container ships that are being delivered to ocean container carriers in 2017 and beyond are bound to benefit West Coast ports, including Long Beach, Los Angeles and Oakland, because "there are no ports on the East Coast and Gulf, at present, that can handle ships of this size."

Despite the fact that California ports have lost market share to ports such as Houston, New Orleans, Charleston and Savannah, "this is partly a function of the increased location of manufacturing in Southern States by global manufacturers. In the long-term, container volumes are going to continue to rise at California ports, especially with the arrival of the mega-container ships."

Another contributing factor is the expanded Panama Canal that is encouraging larger ship sailings to U.S. Gulf and East Coast ports. However, the Panama Canal does not have the capacity to handle container ships over 14,000 TEUs.

Houston, O'Connell noted, has seen a major increase in container volumes as a result of increased manufacturing and the Panama Canal widening.

Nevertheless, O'Connell emphasizes that "ports are at the mercy of the ocean carriers," and "as these ocean carriers have to utilize more of the 18,000+ TEU container ships that they have been ordering, then more and more of these ships are going to find themselves on the Asia to West Coast trade."

This view is shared by Alphaliner's Tan Hua Joo speaking at this year's Trans Pacific Maritime (TPM) conference in Long Beach. Tan said that a flood of new 18000+ container ships are being delivered in 2017 and 2018 and that

*(**BENEFIT** – continued on page 17)*

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West Coast gateways key plan of Claire's Stores' Winkleblack

Using multiple West Coast port gateways in an inland point intermodal supply chain model gives Deborah Winkleblack the diversified logistical strength she needs to make sure teens, tweens and other customers of Claire's Stores Inc. have the fashionable jewelry and accessories they crave readily available at their local mall.

Industry Profile

By Paul Scott Abbott, AJOT

Winkleblack, vice president of global supply chain for the worldwide specialty retailer, shares with readers of the *American Journal of Transportation* her views on the Claire's Stores distribution model, concerns about newly launched ocean carrier alliances, insights as a pioneering woman in the industry, and thoughts on the value of relaxation with pickleball, jigsaw puzzles and feng shui.

What impacts do you see upon the supply chain of Claire's Stores with the coming into operation of the new mega-alliances of ocean carriers?

We had meetings the entire month of March with each of the carriers, and our greatest fear, if you will, relates to what they are planning on doing with all of their services and how they are going to run and share their vessel rotations and terminals.

I can say that, with the last round of alliances over the past few years, they did not do a very good job of it, at least from a customer standpoint.

Without mentioning names, a specific example is that there were three carriers in one alliance and instead of just evenly allocating assets amongst themselves, they would run a specific string and one month use one carrier's terminal and the next month it would be the next one's and the third month it would be the third carrier's terminal.

That's a huge thing for us, because not all terminals have on-dock rails, and since we are 100 percent IPI [inland point intermodal] cargo into Chicago, the need for on-dock rail is everything to us.

We also know which terminals operate better than others for what your specific needs are; who tends to run short of chassis; who tends to bury their containers, and so on, and our shipments were suddenly routed via a terminal we would never have chosen on our own.

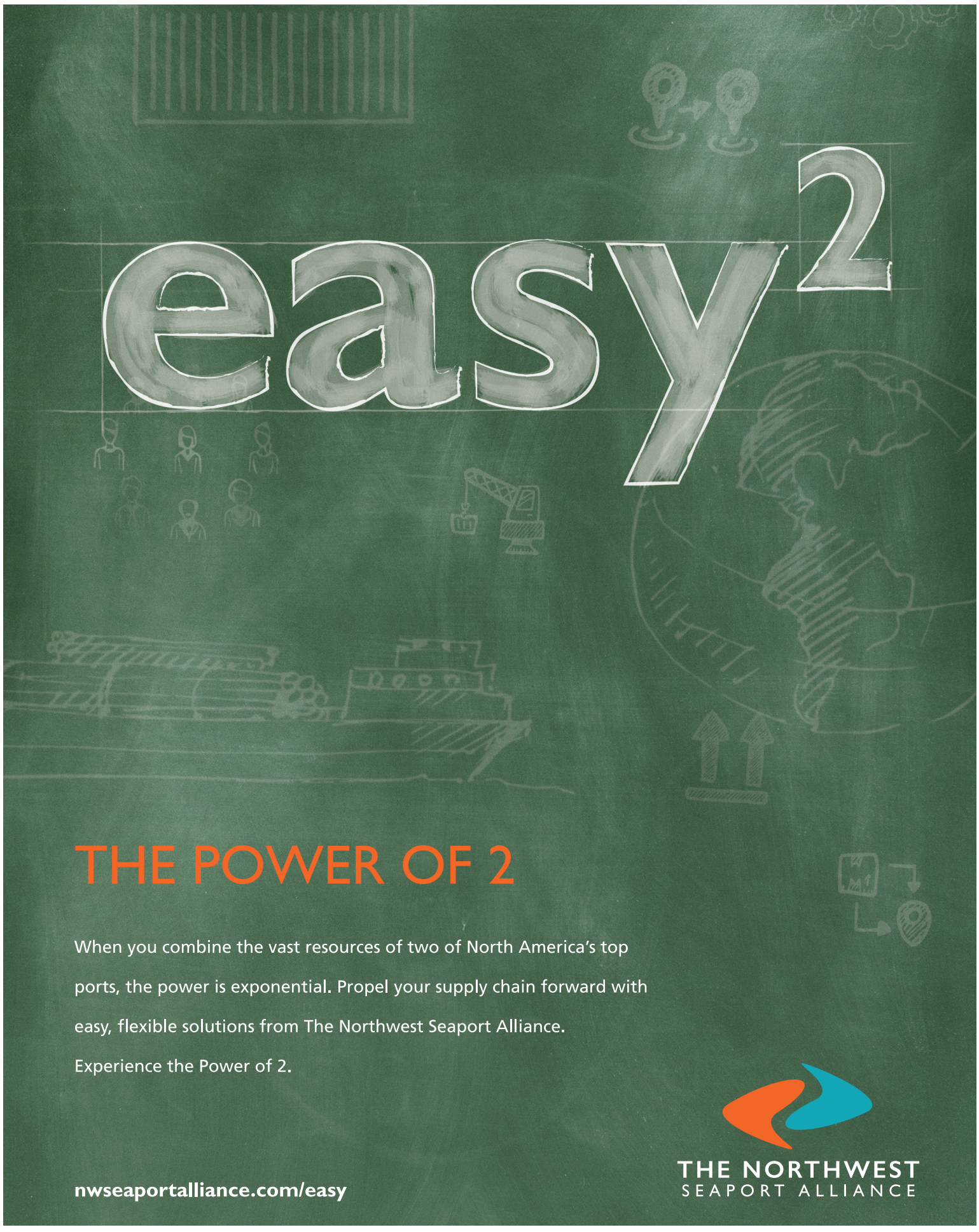
So the unreliability of all of this over the past two years was extremely damaging to our supply chain, and I'm not sure that they have figured it out for the future.

How did Claire's develop its North American strategy of relying entirely on inland point intermodal via three West Coast hubs – Prince Rupert, Pacific Northwest and Southern California – and how has it proven successful?

At the beginning, we did not have a large amount of imports, and the distribution center was in the Chicago area, because it's a good hub here, and everything

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

Deborah Winkleblack, Claire's Stores Inc.'s vice president of global supply chain, stops by one of the company's 3,200-plus retail locations.



(**PROFILE** – *continued from page 15*)
was going out to our stores via small package.

We need to be located in the Midwest, where we are going across the fewest amount of zones with these small parcel people. It works well for us.

Moving across the different West Coast hubs came by live-and-learn experiences. I refer to our risk management as being a moving target. We try to bring in goods across the different ports as much as we can, therefore also utilizing the three rails coming in from the West Coast [BNSF, Union Pacific and Canadian National] and including using the rail terminals here in Chicago.

So, when something goes wrong – and it will somewhere – if there's a typhoon somewhere out at sea, or a labor slowdown, only one string from one origin will probably be affected by it.

If at one of the ports there are weather issues or labor issues, our port diversification strategy will minimize our risk. The same thing is true with the rail. If we encounter rail delays or mudslides or derailments, this strategy minimizes the impact on us.

With more than 3,200 stores in nearly 50 countries worldwide, how is Claire's able to operate its supply chain via only three distribution centers, I believe those being at corporate headquarters in the Chicago suburb of Hoffman Estates, Illinois; Birmingham, England; and Hong Kong?

The one in Chicago covers 1,800-plus stores in the United States, Canada and Caribbean. The location allows us to get to all of our stores within one to five days using ground transportation.

Birmingham came into play when we purchased a couple of businesses in Europe back in the '90s, with the UK DC being the largest one, a small DC operating out of Switzerland, Germany and Austria and one more out of France. We slowly closed down the four small DCs and consolidated the distribution in Birmingham. And again, everything goes out to the stores via ground, which works well for us.

Hong Kong is home to our franchise business. We use a 3PL [third-part logistics provider] in Hong Kong, and sell ex-works to all of our partners [wherein the seller fulfills its obligation to deliver when it has made goods available at its premises]. Most of the product is made in Asia, and, with a large amount of the volume going into Dubai or South Africa, Hong Kong is a pretty good origin spot.

As the business grows, we'll look at either having more or even consolidating to two of them, but for right now those three locations work very well for us.

How have things changed for women in the logistics industry since you entered the business with Montgomery Ward back in 1973, staying there for 18 years before your 24 years at Claire's Stores, and, noting that you were honored in 2015 as an Influential Woman in Business by the Chicago suburban Daily Herald Business Ledger, what further progress do you see?

I admit, it was pretty rare for females to be in this occupation back in the '70s. I started out in freight accounting, so that was OK being a female. Then I moved to a position as a rate clerk that was available on third shift, so I could take some specific college courses during the day.

A little bit later, a dispatch position opened, and I wanted it because it paid more. When I applied for it, they just said no. When I questioned why, I was told, "We've never had a female dispatcher before." I argued that it was not physical work, that I would be sitting at a desk on the phone and the radio and may need to walk out onto the dock every now and then, and eventually got the position. From there, I moved into other transportation positions at corporate.

I remember at one of the first conferences I attended, I met a female journalist in the women's bathroom, and she laughed and said that one of the good things about women not being very wanted in this industry is that it means we do not have a long line for the bathroom.

Over time, as I moved over to the international trade side, there are more and more women in the industry. At the recent RILA conference [Retail Industry Leaders Association's Retail Supply Chain Conference in February in Orlando], there were probably five females out of 25 participants in a senior leaders meeting, so I think we are getting up there.

I do see the international side really growing in a lot of different areas. However, I have to say that I find domestic trucking to still be pretty much an all-boys club.

As you have several years of experience as a logistics instructor at the College of DuPage and Harper College, both in greater Chicago, what is the most important advice you give to students looking to enter the business?

Quite often when students are working on a degree involving some part of the supply chain, it is because they have friends or family in the field, and not because it is a career choice thought about in high school.

My advice is to learn as much as you can along the way, taking as many lateral moves that are available if promotions aren't in sight. Don't worry about the promotions at the beginning, because, in this business, every little thing that you are learning is going to add up to something big later.

Within the logistics or supply chain area, it is a love-hate relationship. If you don't absolutely love it, then leave it, because you're going to be very miserable.

It's very fast paced. Even though it makes sense when you understand the flow, like putting together the pieces of a jigsaw puzzle, there is a lot of having to understand how things are done. It could be how Customs operates in Russia vs. Canada, or how, in the United States, we have these national LTL [less-than-truckload] carriers that are not readily available in Europe.

You need to just go with the flow, learn what it is, and work with what you've got based on that, instead of trying to make it fit into something that you think should work for everyone.

How has your own academic background – with an associate's degree from Triton College, followed by a bachelor's in psychology from Elmhurst College and an MBA in international marketing from Rosary College – shaped your approach to your work?

(**PROFILE** – *continued on page 25*)

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*(**BENEFIT** – continued from page 14)*
this will flood the international container market with new excess capacity.

The response by ocean carriers will be to continue scrapping smaller vessels to accommodate the larger ones.

The new ships will be restricted to ports that have sufficient infrastructure to accommodate them.

Ports such as Long Beach, Los Angeles, Oakland, Seattle, Tacoma and Prince Rupert in Canada will be the beneficiaries of these mega-container ship sailings in North America.

Tan estimates that peak season growth in 2017 will see West Coast ports in North America enjoy substantial increases. In a PowerPoint presentation to TPM conference attendees, Tan made the following predictions:

US West Coast and North Europe will see the largest capacity increases.

During 2017 peak season vessel deployment, regional growth will improve over 2016:

- Far East-West Coast North America will see a 4.9% increase
- Far East-East Coast North America will see a 2.1% increase
- Far East-Northern Europe will see a 3.8% increase
- Far East-Mediterranean will see a 1.2% increase

Lytle Hails Port of Oakland's Turnaround

Port of Oakland Executive Director Chris Lytle said in his "State of the Port" address, "We are on a roll," as the Port racked up 2.37 TEU million in 2016, a 4% increase from 2015.

Containerized exports were up 10.5% in 2016, despite the high value of the U.S. dollar. Exports accounted for 52% of the Port's loaded container volume in 2016. Imports accounted for the rest.

Loaded container volume rose to 1.83 million TEU, an increase of 7.6% over 2015.

Lytle is predicting a 3-4% increase in total volume for 2017, and a 10% increase in exports.

Lytle says that the Port had come a long way since 2016. At that time, the Ports America terminal bankruptcy resulted in the shutdown of Oakland's Outer Harbor terminal. At the same time, continued truck congestion problems slowed pickups and deliveries at terminal gates, causing major delays and dislocations.

Lytle said he did not panic because the Outer Harbor capacity was re-directed to Oakland's other container terminals - Oakland International Container Terminal (OITC) and TraPac - with the result that "we not only retained the business but added volume."

Lytle ascribed the 2016 success to the following factors:

- A new appointment system for trucks improves efficiency of pickups and deliveries of containers.
- A new nighttime service for truck pickups and deliveries reduces congestion during the day.
- A GPS system identifies truck congestion at terminals and allows for terminals to better deploy resources.
- A cooperative labor environment fostered by the International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) has improved productivity.

Another success for the Port of Oakland is that the Port's revenue bonds have been upgraded by Fitch, the bond rating firm. Fitch increased the Port's ratings to an A from A-. Fitch has also affirmed the A+ rating on the Port's senior lien revenue bonds. Lytle noted that, "Fitch did this because things are going right."

Port of LB's Kenagy Optimistic About 2017

The Port of Long Beach reports "a modest boost in cargo during the first quarter of 2017, with overall throughput increasing 1.5% compared to the same period a year ago. All segments of containerized cargo grew year-over-year in the opening quarter of 2017, as imports climbed 2.1%, exports 0.4% and empties 1.5%."

"We're happy to see these gains during the traditionally slow period of the year," said Long Beach Harbor Commission President Lori Ann Guzmán. "We see a lot of upside for the remainder of 2017 as we expand our partnership with the world's second-largest line, Mediterranean Shipping Co., add new business and strengthen our relationships with our partners." "The rise in imports coming through Long Beach shows that consumers are feeling optimistic," said Port of Long Beach Interim Chief Executive Duane Kenagy. "Since their spending drives more than two-thirds of the economy, this is a great indicator for the jobs that depend on our Port as we head into the busiest trading months of the year." In an *AJOT* interview, Kenagy said the new automated Long Beach Container Terminal has been operational for a year and will be a major draw for ocean carriers as the larger 18,000 TEU begin to arrive.

Kenagy is hopeful that the plans for a new on-dock rail facility at Pier B will substantially increase the Port's ability to consolidate on-dock rail moves, reduce truck traffic, and speed container rail deliveries to customers in the Midwest and at other destinations.

Kenagy also told *AJOT*, "Community organizations will be the major beneficiaries of the new on-dock rail project because it will lessen truck traffic and emissions."

Kenagy said the Port will continue to be fiscally prudent in its operations and expects that its $4 billion capital investment will generate major improvements and revenues in the future and, "our continued high bond rating backs that up."

Port of LA Hopes to Top 9 Million TEUs in 2017

A spokesperson for the Port of Los Angeles told *AJOT*, "POLA had its best year ever in 2016 with 8.8 million TEUs. As I understand it, we are projecting low single-digit growth for

*(**BENEFIT** – continued on page 24)*

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US Pacific Northwest ports

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It's working. The Northwest Seaport Alliance which combines the cargo interests of the Port of Seattle and the Port of Tacoma is proving to be a successful, for the lack of a better word, "alliance".

- In 2016, the NWSA container volumes hit 3.6 million, highest level since 2007.
- In 2016, NWSA handled 3,615,752 TEUs for the year, up over 2%.
- Full imports for the year were up 6% to 1,391,590 TEUs and full exports increased 13% to 984,274 TEUs.

NSWA's domestic volumes (Alaska) saw a slight dip in 2016 as Alaska has been hit with a decline in oil and gas-related project activity due to low commodity prices. Overall domestic volumes decreased 1.5% for the year.

December's full import volumes recorded their highest for the month over the last five years. Following a solid November for full international imports and exports, the NWSA delivered another strong month in December with 14% and 6% increases, respectively, compared with December 2015.

Importantly in 2017 the port tag team shows no signs of slowing down. Through February the ports recorded an 8% year-to-date increase in container volumes and are up a 9.1% percent year-to-date increase despite fewer sailings. Compared to the same time in 2016, full export loads are up 4% and import loads more than 7%.

In other developments, Matson Navigation Company, Inc., announced it would use its joint venture partner SSA Terminals for stevedoring and terminal services at the Port of Tacoma when its existing agreement with APM Terminals (APMT) expires on December 31, 2017. "APMT has served us well. It just makes more sense to work with our strategic partner at Tacoma as we do at all of our other terminals on the West Coast," said Ron Forest, senior vice president – operations for Matson. "We expect a seamless transition and no change in our Tacoma operations from a customer standpoint.

Port of Vancouver USA – Port Clears 7-million Ton Mark

The Port of Vancouver USA set a new record handling over 7 million metric tons. The port posted 7.49 million metric tons in 2016, nearly 8% more than the previous record of 6.95 million metric tons.

"In nine years at the Port of Vancouver, I've never seen tonnage like this," said Port CEO Julianna Marler. "It's a testament to the investments we and our partners have made to provide world-class rail and marine services, access to efficient transportation and excellent customer service."

2016 was the year of exports. Exports increased to 6.32 million metric tons from 5.54 million metric tons in 2015 – a 14% increase overall. Grain continued to be the largest export item at the Port of Vancouver by volume, and in 2016 these cargoes increased a whopping 17.8% over 2015.

Some imports, such as wind energy components, increased in 2016, but overall imports were down 17% in 2016.

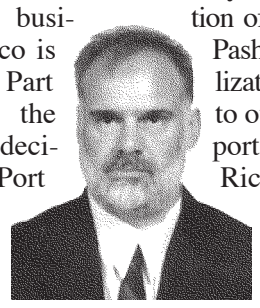
Despite impressive gains in overall tonnage, fluctuations in currency and the global economy had an impact on the port in 2016, contributing to a slight decline in operating

*(**NORTHWEST** – continued on page 20)*

Rise of California niche ports

By George Lauriat, AJOT

San Francisco Maritime Business Rolling



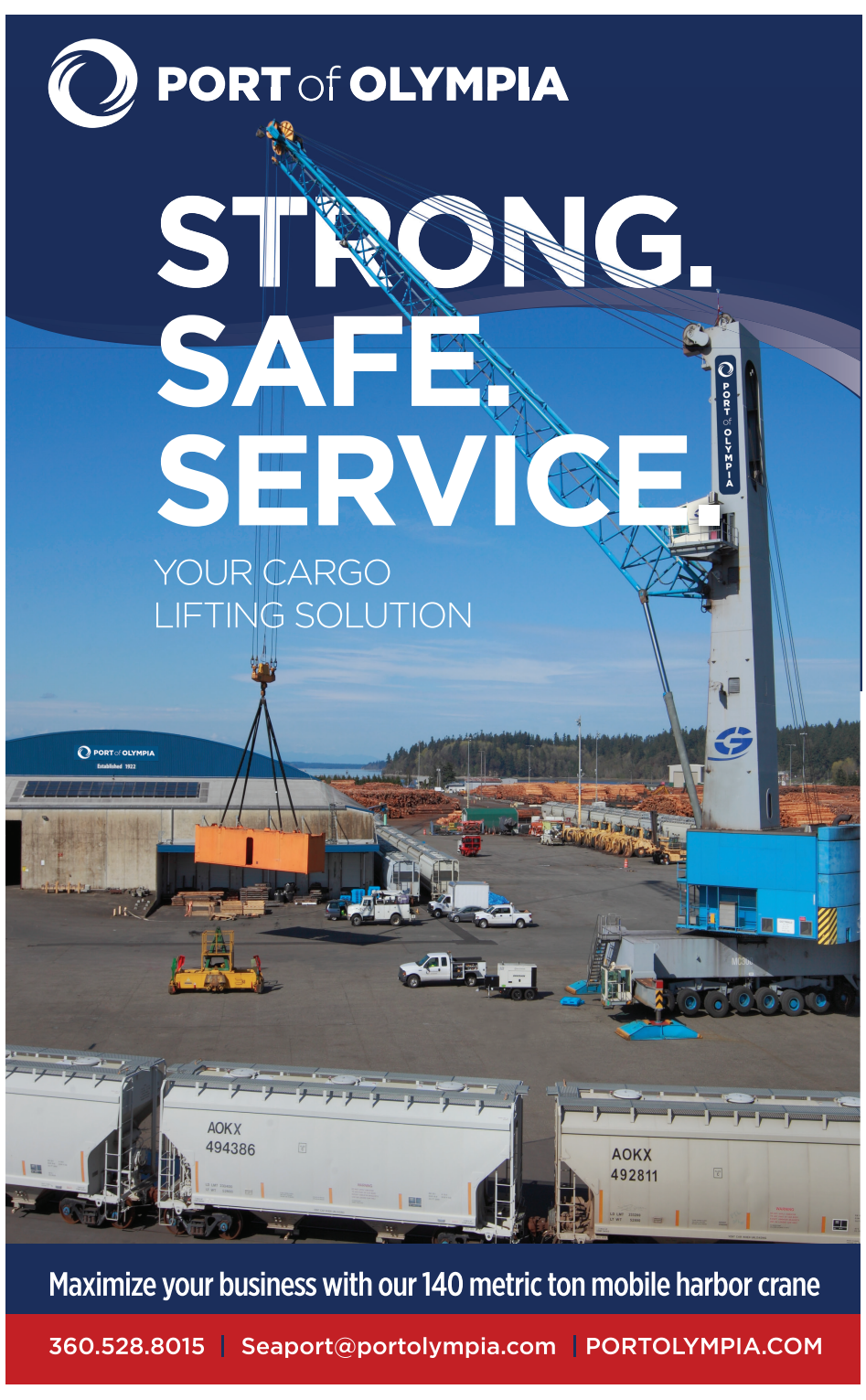
The maritime business in San Francisco is beginning to roll. Part of the reason for the improvement is decisions made by the Port Authority over the last few years are beginning to fulfill their promise. At the top of the list is Pier 80.

Pier 80 is the port's principal cargo terminal, a 60-acre facility with two warehouses and four deep-water berths. The facility had been in a downward spiral since the Great Recession of 2008, but the location has always held great promise. Last August things began to turn around as Pasha, a major auto handling group, took over the operations of Pier 80 after inking a 15-year lease with the Port Authority. Almost immediately the facility began filling with autos, both on the import and export side of the ledger.

While the ships are calling, it is a $10 million work in progress as the Pier shifts from being an emergency homeless shelter to a hub ro/ro port of call for Pasha's vehicle customers in the Bay Area. Part of the attraction of the Pier 80 deal for Pasha was the underutilization when compared to other West Coast auto ports like Benicia and Richmond which are already operating near capacity. Ports like San Diego (see below) are expanding their ro/ro facilities in anticipation of an increase in auto imports over the next decade. Pasha believes that when Pier 80 is completely renovated, it will be able to handle 150,000 vehicles a year and around 100 ships.

But there is another intriguing aspect to the facility revitalization. One of the first big export items was Teslas – perhaps the most recognizable brand name in the electric powered automotive sector. The Port of San Francisco is the closest port to the auto manufacturing facility in Fremont and hopes to become the primary export gateway for their vehicles – an important balance to an industry heavy on imports.

*(**NICHE** – continued on page 25)*



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*(**MAP** – continued from page 14)*

According to OSC, the container trade through the West Coast of Canada will progress at an annual compound rate of about 4% - thereby reinforcing the need for planned increases through the existing Deltaport and Centerm terminals in Vancouver and Fairview Terminal in Prince Rupert operated by DP World. The report also asserts that Vancouver's proposed giant Terminal 2 project on Roberts Bank (hotly contested by environmental activists in the region) will be needed by the mid-2020s.

Port of Vancouver

The Vancouver Fraser Port Authority recently reported that overall volume at Canada's largest port in 2016 decreased slightly to 136 million metric tons of cargo, down 1.8% from 2015. Sectors experiencing declines were offset by others that hit new records, including the bulk grain sector.

"One of our biggest strengths has been, and continues to be, the port's ability to accommodate the most diversified range of cargo of any port in North America," said Robin Silvester, president and chief executive officer of the Vancouver Fraser Port Authority. "Since 2013, the Port of Vancouver has experienced its fourth consecutive year of traffic volumes over 1.35 million-tons, despite global economic downturns."

Last year was the Port of Vancouver's third consecutive year of record volumes in bulk grain and its fifth year of an upward trend. Bulk grain export volumes through the port increased 1.3% from 2015, to reach 21.8 million metric tons in 2016. Strong global demand for Canadian agriculture was met with a bumper crop in Canada and increased exports of grain through the Port of Vancouver.

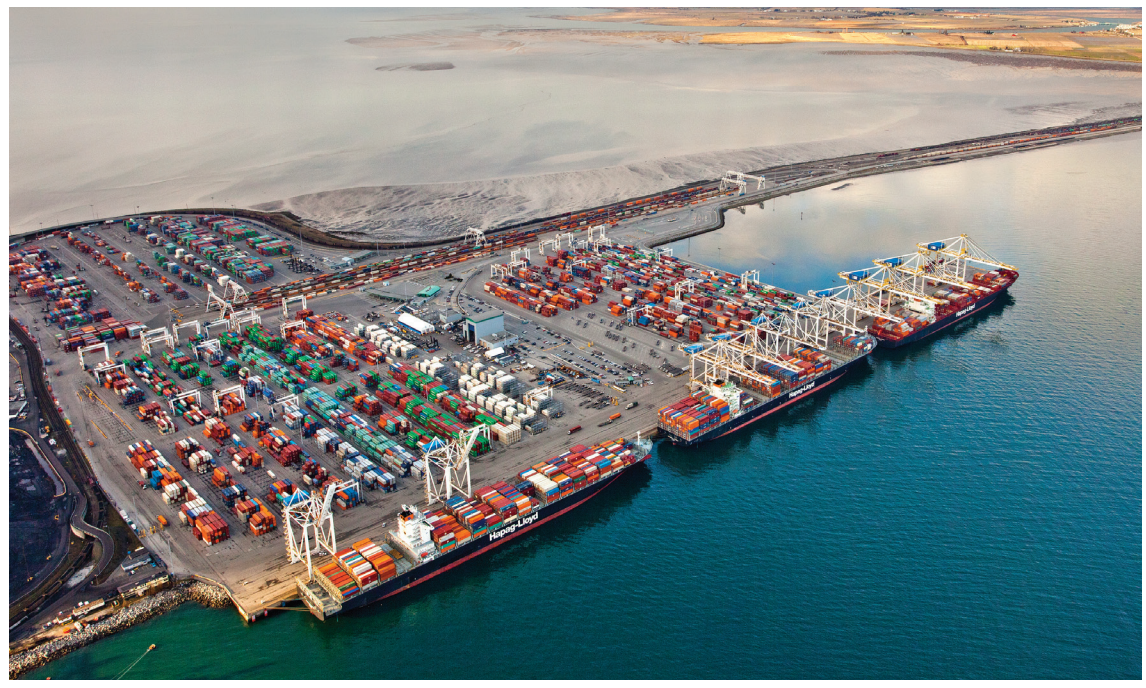
Containerized exports increased by 3.3% due to growth in woodpulp, grain and food and agri-product shipments. This increase was offset by a 2.4% decline in loaded import containers, partly due to the return of some traffic to U.S. west coast ports after their 2015 labor dispute, leading to a flat result in overall laden container volumes for 2016. Total box volume measured in TEUs declined by 4 per cent to 2.93 million units.

The Port of Vancouver regards Terminal 2 as a critical undertaking in order to compete for market share with other West Coast ports, including US ports, to accommodate the mega box ships now being deployed on the Transpacific trades with Asia.

A three-berth terminal at Roberts Bank would add 2.4 million TEU to the capacity of Canada's largest port. However, one environmental lobby group especially, called Against Port Expansion in the Fraser Estuary (APE), has opposed the project vigorously on the grounds of severe potential damage to the area's unique marine ecosystem encompassing some half a million birds passing through.

The port's environmental assessment statement comprises numerous mitigation measures. A federal government-appointed independent three-member panel is expected to produce a report by the coming fall.

Worthy of note, a small remote port located on a deep-water ocean inlet on Vancouver Island, Port Alberni, is trying to shake things up in a big way with an ambitious, futuristic plan unveiled several years ago (with so far no federal funding support) to build a huge automated terminal that would service vessels from barges of all sizes to 22,000-TEU container ships. It has been named the Port Alberni Transshipment Hub (PATH).



The Port of Vancouver wants to prepare for future demand by erecting a new mega terminal near the existing Deltaport on Roberts Bank.

With missionary zeal, port chief executive Zoran Knezevic has been affirming that "the merits of PATH speak for themselves."

The facility would unload containers from large ocean vessels and transfer them to barges or small feeder ships for delivery to customers

*(**MAP** – continued on page 20)*

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Ridley Island in the Port of Prince Rupert will soon be the site of a large container stuffing operation.

*(**MAP** – continued from page 19)*
at ports on the West Coast. PATH would serve distribution centers mainly situated along the banks of the Fraser River in the Greater Vancouver area via barging (consequently alleviating road congestion at the same time).

Prince Rupert

To say, meanwhile, that things are happening thick and fast these days at the northern BC deepwater Port of Prince Rupert, which offers notably the fastest transit times (via the Great Circle Route) between the West Coast of North America and Southeast Asia, is no understatement.

Since undergoing major transformation and revival in the past decade, the long-dormant and bulk-oriented port has arguably become the fast-growing container port on the continent.

Indeed, the person credited with this metamorphosis, Don Krusel, president and CEO, recalled earlier this spring to local business leaders how Prince Rupert was for years "cursed by history" – though still blessed by geography. "We are now both blessed by geography and blessed by history."

Then, to underline the progress, he made this prediction: "Today, we are the third largest container port in the country and before the next 10 years, we will overtake Montreal as the second largest container port in the country." (Last year, Prince Rupert handled 736,000 TEU, roughly half of Montreal's throughput.)

Last December, the port and DP World announced a significant milestone in the ongoing expansion of Fairview Container Terminal. Phase ll of the C$300 million project is more than 75% complete and on schedule to boost annual capacity to 1.35 million TEU by the third quarter of 2017. Eventually, the terminal served by CN's network reaching major markets in Canada and the United States is designed to handle 2.5 million TEU.

Next milestone will be the arrival expected later this spring of three Malaccamax dock gantry cranes. Each crane is equipped with a reach of 25 containers and will be capable of working the behemoths with carrying capacity of 20,000-plus TEU.

As part of the Gateway 2020 blueprint, the port is also giving emphasis to cargo diversification. In this regard, it signed a feasibility agreement with SSA Marine and its wholly-owned subsidiary Western Stevedoring to explore the viability of a breakbulk and bulk import/export terminal on the south shore of Kaien Island. The 80-hectare facility in an area which is already home to several small bulk terminals would be adjacent to CN's mainline.

In another major initiative, this spring, the Port of Prince Rupert announced an expansion project for containerized cargo on Ridley Island that will help crops from the Canadian agricultural industry reach international markets while broadening intermodal logistics capacities at the Port of Prince Rupert.

Ray-Mont Logistics is developing an integrated logistics and container loading operation – slated for completion this coming fall - at the south end of the Ridley Island Industrial Site on the recently-constructed Road, Rail and Utility Corridor.

The operation will involve pulses and cereals (such as lentils, peas, beans, soybeans, flax, and wheat) as well as other specialty agricultural crops transported in hopper cars by rail from Western and Central Canada and the US Midwest. The cargo will be transferred to ocean containers for export via the Fairview Container Terminal.

This initiative has elicited positive response from shipping lines calling at Prince Rupert. "This is welcome news," said a spokesperson for MSC, which has increased its transpacific services to Prince Rupert following last year's demise of Hanjin.

Nanaimo

The largest port on Vancouver Island, Nanaimo has been seeing steady growth in recent years. Total throughput in 2016 of 5.4 million tons represented a healthy spike from the 2015 volume of 4.4 million tons. And since 2010, the port has added 3 million tons to its overall volume.

The 2016 increase was chiefly due to a doubling of the number of raw log ships handled at the Assembly Wharf Terminal and a 21% jump in container cargo to 43,400 TEU.

*(**NORTHWEST** – continued from page 18)*
revenue, which decreased from $38.2 million to $35.9 million.

"These are the type of improvements that attract businesses to the port and help create jobs for the residents of Southwest Washington," said Marler. "We continue to find cost-effective ways to invest in your public port, planning for the future and working with our customers and partners to make sure those jobs and economic benefit are here for the long-term."

The Port of Vancouver USA has posted record tonnage for the past three years, and 2017 looks to be another good year.

Port Everett Maximizing Economic Impact

The Port Authority of Everett, Washington oversees a multi-faceted seaport organization. The Everett Port Authority has sought to maximize the advantages and economic value that a working waterfront can provide its community at large. Everett's port commissioners and staff have adopted a diverse approach to their mission as the key to a successful regional economic engine.

The Authority has committed not only to increasing the benefits that a working seaport can bring to its region, it has developed or expanded projects and as a result of this commitment, the seaport has been successful in attracting a variety of commercial cargoes. This has in turn attracted a number of large companies to establish themselves including Kimberly Clark and Boeing Company.

The Port of Everett operates five terminals with a total of eight working berths. Containerized products include airplane and aerospace parts. Moving in both import and export directions, the aerospace commodity value in 2015 alone grew to over $29 billion.

Working with the Port's operating staff, stevedore and terminal operating companies, Stevedoring Services of America (SSA) and Jones Stevedoring handle much of the ship and terminal work including the container facilities at both Pacific Terminal and Pier 1/ Hewitt Wharf. The Pacific Terminal provides a 650-foot berth with a 98-foot apron and alongside water depth of 40 feet. The terminal also provides 131 acres of paved, lighted storage area. This terminal handles the majority of Everett's container cargo, utilizing a 150 ton Gottwald Mobile Harbor Crane and two 40-ton container gantry cranes.

The South Terminal will be upgraded from 500 pounds per foot capacity to 1,000 pounds per foot to handle the larger containers that will handle Boeing's newest aircraft parts. The terminal will also receive two new 200-foot gauge overhead, rail mounted gantry cranes in anticipation of handling the larger Boeing containers.

Manufacturing aircraft and aerospace parts, Boeing is the largest industry in the Everett area and has had a significant impact on the port and city of Everett. A large number of port workers are connected to the handling of aerospace cargo. Snohomish County is also home to 170 aerospace suppliers. The parts include assemblies for Boeing's 747, 767, 777, and 777X aircraft as well as backup for the 787 Dreamliner.

Port of Olympia Posts Strong Growth in 2016

It's hard not to talk about the growth at the Port of Olympia. With a 288%

*(**NORTHWEST** – continued on page 24)*

Gulf looks to keep up with resin boom while non-box business nears recovery

By Paul Scott Abbott, AJOT

An upturn appears in the cards for carriers of outside-the-box cargo, while exports of petrochemical resins are booming to the extent that they are straining container availability in the U.S. Gulf.

Those are among takeaways from the Cargo Connections Conference, which also featured rail executives pushing for better customer service and a cry for favorable U.S. trade policies.

Things may be looking up for ocean carriers in noncontainerized business, according to leaders of a trio of such companies speaking at the conference, hosted April 4-6 by the Port of New Orleans.

"We're getting much closer to a recovery in our sector than we have been in a long time," said Edwin Bastian, global sales director for BBC Chartering USA LLC, the U.S.-based unit of the Germany-based global operator of 170 multipurpose and heavylift vessels.

The "many hurdles" the sector must yet overcome include "noncompensatory rate levels," Bastian said, citing a 50 percent decline in freight rates over the past seven to eight years.

"It's going to take probably twice that long to recover that," Bastian said, calling it "a tough cycle to break when we were all picking each others' pockets."

Bastian also noted fleet overcapacity, low commodity prices, limited capital investment and impacts of health, safety and environmental quality regulations.

Pieter Flohil, director of Dutch-flagged multipurpose vessel operator Spliethoff, said substantial capital is still invested in "substandard ships," which, he said, are likely to be very difficult to sell.

Flohil said huge overcapacity will "take time to get rid of" but added, "We seriously believe we are at the bottom of what could be a very interesting new cycle.

"From here on, we believe we're in for very nice and interesting tonnage," Flohil said. "We strongly believe the market is really bottoming out."

David Groves, director of Houston-based multipurpose fleet operator MACS Maritime Carrier Shipping LLC, formerly Galborg USA LLC, said "some challenging times" remain ahead, but rays of hope are provided by such opportunities as South African steel, a changing bulk market led by wood pellets and strong U.S. Gulf resin production and exports.

David Groves, director of MACS Maritime Carrier Shipping LLC, left, takes note of a point made by Pieter Flohil, director of Spliethoff. (Photo by Paul Scott Abbott, AJOT)

The Gulf petrochemical resins boom will be sustained as long as the United States continues to be the world's largest producer of fracked oil and gas, according to Dr. Walter Kemmsies, managing director, economist and chief strategist for the ports, airports and global infrastructure practice of the Jones Lang LaSalle commercial real estate firm.

"It is really a good time to be a Gulf Coast port," said Kemmsies, who pointed to recently expanded direct weekly services from the Port of New Orleans by France-based container line CMA CGM, including to Latin America, Asia and Northern Europe.

Nick Fafoutis, senior vice president of

*(**BOOM** – continued on page 23)*

Ex-FMC Chair Cordero new Port of Long Beach executive director

By Stas Margaronis, AJOT

The Long Beach Board of Harbor Commissioners recently named Mario Cordero, a former chairman and current member of the Federal Maritime Commission, as the Port of Long Beach's new Executive Director. Cordero, a Long Beach resident and attorney, served previously as president and as a longtime member of the Long Beach Board of Harbor Commissioners.

The decision will bring an experienced Long Beach political leader to the helm of the Port at a critical time following business losses related to last year's Hanjin bankruptcy and concerns that Long Beach's ambitious capital expansion plans may be causing long-term debt problems.

In choosing Cordero, the Harbor Commissioners have chosen an experienced insider with a long history in Long Beach and port politics who is also considered pro-labor.

It was noticeable that the Port's press release referred to Cordero as the next "Executive Director' after Slinger preferred referring to himself as the Port's chief executive officer a more corporate term.

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Cargo Connections Conference draws nearly 250 to New Orleans

By Paul Scott Abbott, AJOT

The Port of New Orleans' annual spring gathering of industry leaders has once again proven a big success, now rebranded as the Cargo Connections Conference.

The signature event, which was known for its first eight years as the Critical Commodities Conference, expanded its scope and took on a new name this year for its ninth edition, attracting nearly 250 participants to the New Orleans Downtown Marriott at the Convention Center.

Before business sessions took place April 5-6, many of the registrants enjoyed an April 4 welcome reception, with several caught in the camera lens by the American Journal of Transportation. *(For reports on conference business sessions, see page 21.)* *(Photos by Paul Scott Abbott, AJOT)*

(L to R) Christian Boedding – Costco Wholesale Corp., Michael Hoelzel – International Longshoremen's Association Local 1497, Terrill Roberson – International Longshoremen's Association Local 1497, Dennis Schultz – Costco Wholesale Corp.

(L to R) Sarah Hamilton – Companhia Siderúrgica Nacional LLC, Paula Pereira – Companhia Siderúrgica Nacional LLC, Jeffrey Allen – Coastal Cargo, Maria Recalde – Companhia Siderúrgica Nacional LLC, Janine Mansour – Port of New Orleans

(L to R) Mark McArdle – ExxonMobil Chemical, Kip Broussard – CMA CGM, Pierre Cote – ExxonMobil Chemical

(L to R) Rashard Howard – CSX Transportation Inc., Chuck Camp – Alabama State Port Authority, Tony Vasil – Port of Albany

(L to R) Jeff Uhl – Miller Transporters Inc., Ed Zaninelli – Griffin Creek Consulting, Jerry Matherne – DA Marine Fumigation Inc.

(L to R) Malcolm Edwards – Port Manatee, American Institute for International Steel Chairman John Foster – Kurt Orban Partners, Doug Wray – Ports America

(L to R) Mike Aitken – Lyle Machinery Co., Clem Barbazon – Pellerin Milnor Corp., Pat McDaniel – SEACOR AMH LLC, Richard Teubner – SEACOR AMH LLC

(L to R) Jimmy Baldwin – Coastal Cargo, Jeff Crysel – Norton Lilly International

(L to R) Sal Kass – Port Tampa Bay, Dave Simoneaux – Intermarine LLC, Jim Forsyth – Port Tampa Bay

(L to R) Tom Leatherbury – SSA Gulf Inc., Mona Phegley – Maritime & Commodity Services LLC, Bruce Yi – Canadian National Railway Co.

(L to R) Bill Payne – NYK Line (North America), James Parker – New Orleans Terminal LLC, Edwin Bastian – BBC Chartering USA LLC

(L to R) Matt Montalvo – CMA CGM, Dave Hotard – Boasso America, Joe Swartout – Ocean Transport Services

Nick Fafoutis, senior vice president of sales and COO of CMA CGM (America) LLC, right, draws smiles from, from left, Robert Landry, vice president for commercial at the Port of New Orleans; Keith Reardon, vice president of intermodal services at Canadian National Railway; Jack Oney, CEO of Oney Consulting (Photo by Paul Scott Abbott, AJOT)

(***BOOM*** *– continued from page 21)*

sales and chief operating officer of CMA CGM (America) LLC, said the new services from New Orleans are part of a concerted strategy to differentiate his ocean carrier firm from others and capitalize upon what he sees as a very bright future for the Gulf market, adding that he does not believe going into West and East coast ports is sufficient for container lines.

Fafoutis nonetheless said he anticipates equipment issues to continue in the Gulf at least through next year, with an insufficient supply of containers for exports.

"We want to grow," Fafoutis said, "but we can't do that if the boxes aren't here to do that."

Fafoutis said proactive efforts to improve that situation include partnerships with railroads and SEACOR AMH LLC, which last year began container-on-barge service along the Mississippi River from Baton Rouge to New Orleans using boxes floated down the river from Memphis.

Jack Oney, chief executive officer of Oney Consulting, who spent 25 years with Procter & Gamble Co., said he believes street turns of containers and other cooperative actions can help drive waste from the supply chain and assist in alleviating container shortages.

Robert Landry, vice president for commercial at the Port of New Orleans, said he sees progress with the opening last year of an on-dock rail facility linking Port NOLA's Napoleon Avenue Container Terminal to services of six Class I railroads.

Speaking on the same panel, Keith Reardon, vice president of intermodal services at Canadian National Railway, said the CN strives to do street turns with almost every container it can and emphasized the importance of reducing the cost of inland moves.

CMA CGM's Fafoutis said he believes Class I railways have made significant customer service strides of late, commenting, "I think railroads have become very customer-friendly over the past year."

But, in separate remarks, intermodal executives of a pair of Class Is said the rail industry still has a ways to go in that regard.

"We've got a lot of work to do to improve the customer experience," said Michael McClellan, vice president of industrial products at Norfolk Southern Corp., noting that the NS is focused on enhancing responsiveness in terms of pricing and providing "digitally driven, exception-based customer service" while re-engineering its fleet, going from 71 car types to 14, and investing in infrastructure.

Michael McClellan, VP of industrial products at Norfolk Southern Corp., says Class I railroads must improve customer service. (Photo by Paul Scott Abbott, AJOT)

"If you provide a crappy underlying service," McClellan said, "it doesn't matter what you do to your website or anything else – people aren't going to use you."

Speaking in yet another session, Eric Hansen, vice president of intermodal sales and marketing at the Kansas City Southern Railway Co., said the KCS, which he described as "the north-south railroad in an east-west world," is concentrating on "how can we better serve customers in terms of being easier to deal with."

Eric Hansen, vice president of intermodal sales and marketing at the Kansas City Southern Railway Co., sees the KCS as "the north-south railroad in an east-west world." (Photo by Paul Scott Abbott, AJOT)

Shippers must work with all modes to ensure a sufficiency of containers to meet demand, according to Brent Bordelon, commercial manager at Sasol North America, a leading – and growing – producer and exporter of resins and related petrochemical products.

Nick Iacopella, director of logistics for Grove Services, right, offers thoughts on poultry exports as Brent Bordelon, commercial manager at Sasol North America, listens. (Photo by Paul Scott Abbott, AJOT)

Calling container availability "a huge concern," Bordelon referenced the multibillion-dollar petrochemical complex Sasol is building in Lake Charles, Louisiana, and said, "Sasol's worst nightmare is we've spent $11 billion and we can't get our product to our customers."

Louis Rodriguez, president of TCI Packaging, a New Orleans-based firm providing packaging solutions to the resin industry, also cited lack of empty containers as a concern, saying, "High volumes create inevitable constraints."

TCI is among the partners with SEACOR AMH, the ports of Baton Rouge and New Orleans, CMA CGM and Ports America in the container-on-barge operation, which SEACOR Vice President Richard Teubner said is "set up for a good summer."

Meanwhile, Nick Iacopella, director of logistics for frozen poultry exporter

(***BOOM*** *– continued on page 25)*

Trade opportunity seen between Cuba and Port of New Orleans

By Paul Scott Abbott, AJOT

Significant potential exists for trade between Cuba's Port of Mariel and the Port of New Orleans, but U.S. trade policy and Cuban economic hurdles stand in the way, according to opening addresses today [April 5] at the Cargo Connections Conference in New Orleans.

Charles Baker, president and CEO of the Port of Mariel, said he perceives the three-year-old container facility on the northwest coast of Cuba, 26 miles west of the capital city of Havana, as the "new transport hub for the Americas" in "a very, very good location for a transshipment hub."

Charles Baker, president and CEO of Cuba's Port of Mariel, left, and Brandy Christian, president and CEO of the Port of New Orleans, respond to questions following their keynote addresses at the CCC in New Orleans. (Photo by Paul Scott Abbott, AJOT)

However, he cited the current U.S. embargo requirement that, in most cases, ships must wait 180 days after leaving a Cuban port before calling at a U.S. port as a major impediment.

Baker said he believes there is light at the end of the proverbial tunnel as far as removal of U.S. trade policy hurdles under the Trump administration, adding, "We're just not sure how far the end of the tunnel is.

"I think trade between the two countries is going to stimulate the kind of growth Trump is seeking," Baker said.

Baker also cited the sorry state of the Cuban economy.

"We saw the economy struggle, and we continue to see it struggle," he said, referencing the low per-capita income of the island nation. "It doesn't look good right now."

The average monthly salary of the 510 Cubans currently employed at the Port of Mariel is US$500, he said.

Nonetheless, container volume at the Port of Mariel grew from about 160,000 twenty-foot-equivalent units in 2014, its first year of operation following end of container traffic at the depth-challenged Port of Havana, to 330,713 TEUs in 2015 before leveling off to 325,319 TEUs last year. The Mariel port's current annual throughput capacity is 800,000 TEUs, with future expansion to boost that number to 3 million.

Baker said Cubans "need everything" in terms of goods, while export

(***OPPORTUNITY*** *– continued on page 25)*

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

growth in import volume, a 15% growth in export volume and a 20% increase in vessel calls over 2015, 2016 proved to be a strong year for the port. "Thanks to our strong partnership with current and new customers, our tremendous working relationship with ILWU Local 47, our continued investment in our facilities and strategic position in the marketplace, the Port of Olympia's Seaport continues to show strong growth," commented Len Faucher, Marine Terminal Director.

Among the port totals:

- Total log export went from 121,888,350 BF in 2015 to 140,132,360 BF in 2016
- 33,403.94 MT of Bulk Organic Grain (new for 2016) were shipped through the Seaport
- Vessel calls went from 25 in 2015 to 30 in 2016

"As much as we are thrilled with our 2016 results, we're even more optimistic about 2017," Faucher said. "We continue to pursue possibilities with new customers who see the value of shipping through our centrally-located facility."

Port of Longview – Windfall Year

2016 was a record-breaking year for the Port of Longview as the port handled over 8.3 million metric tons of cargo - the most cargo handled annually in the last three decades. The year represented a nearly 30% increase over the 6.4 million metric tons handled in 2015. Grain terminal EGT, LLC, alone moved over 6 million metric tons of primarily wheat, soybeans and corn. This marks EGT's best year since coming on-line in 2012. "This is precisely the tonnage outcome we were aiming for when EGT signed on at the Port of Longview," said Chief Executive Officer Norm Krehbiel. "EGT utilizes key infrastructure, such as the Port's dedicated Industrial Rail Corridor and our position on the deep-draft navigation channel, designed to efficiently move bulk commodities for the benefit of the entire region." Although dry bulks made up the majority of the tonnage in 2016, the Port had a strong year in breakbulk as well. The resurgence of wind energy cargo, coupled with oversized project cargo made for a well-rounded year and demonstrated the Port's flexibility in cargo handling. In April, The Port discharged wind blades for Vestas, utilizing both of the Port's mobile harbor cranes, on-dock rail. Using both Liebherr cranes in tandem, the 54-meter (177 feet) blades were lifted off of the vessel and placed on to railcars running along the Port's on-dock rail system for final destination in Illinois. In another unique move, the Port shifted barley originated from Canadian Malting Company in Calgary bound for Cevecería Centro Americana (Central American Brewing) in Guatemala. Arriving off the mainline rail via the Port's dedicated Industrial Rail Corridor (IRC), nearly 5,000 metric tons of Canadian malted barley was loaded to vessel at the Port's Berth 2 dry bulk facility. Berth 2 allows for cargo to be dumped from railcars onto a conveyor and directly loaded to vessel.

Grays Harbor Posts Record Export Volumes

Even with a strong U.S. dollar affecting trade again last year, the Port of Grays Harbor saw 98 deepwater vessel calls at their 4 terminals, which equated to more than 154,000 hours worked by longshoremen at the docks, the equivalent of 86 full time workers.

AGP's operations at Terminal 2 saw a record volume of agricultural products exported through the facility, which helped bring the Port's total tonnage handled in 2016 to more than 2.4 million metric tons.

"Following four years of rapid growth, we have focused these past two years on sustaining this higher level of economic activity and managing at this level across our major lines of business," explained Director of Finance and Administration Mary Nelson. "Our quick response to market conditions and strong fourth quarter results contributed to our stable financial position, or what we see as our new normal."

The U.S. Army Corps of Engineers began Grays Harbor maintenance dredging in the Grays Harbor Entrance, Point Chehalis and South Reach channels. A second Corps hopper dredge, the Essayons, is scheduled to dredge the Grays Harbor Bar, Entrance and Point Chehalis reaches.

The vessels are expected to dredge approximately 800,000 cubic yards of material from the Bar, Entrance, Point Chehalis and South reaches combined.

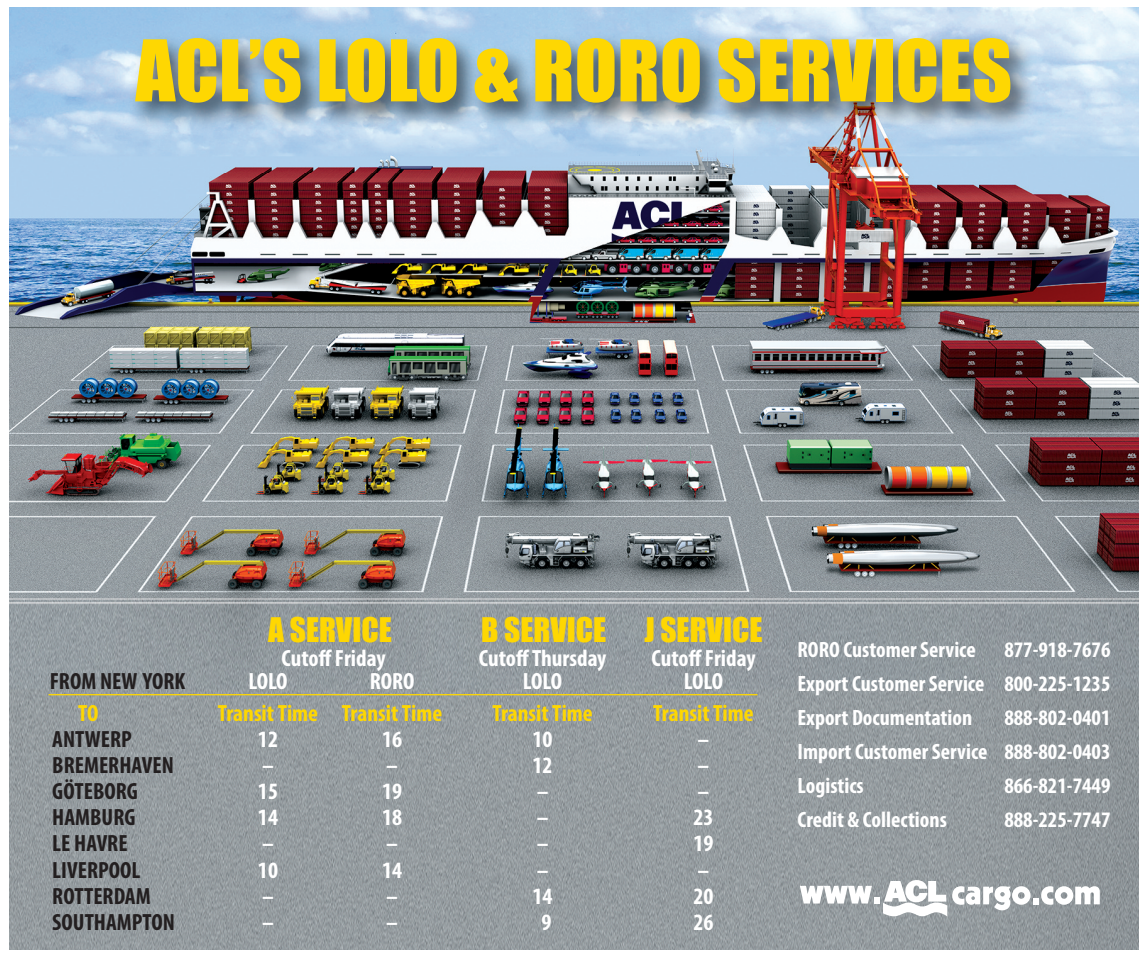
Port of Portland: More Good News Than Bad

Effective March 31, 2017 ICTSI Oregon, Inc. and the Port of Portland mutually agreed to terminate a 25-year lease agreement to operate the container facility at the Port's Terminal 6. The agreement allows ICTSI Oregon to be relieved of its long-term lease obligations and in exchange, the Port will receive $11.45 million in compensation to rebuild business, as well as additional container handling equipment, spare parts and tools at the terminal. That's the bad news, as the Port had hoped to build the box business. On the other hand, the somewhat overlooked auto business has continued to thrive in the Port of Portland.

In 2016, more than 50,000 export autos were handled at Portland, the largest total on the U.S. West Coast. What's more impressive is the total of auto imports and exports. Combined vehicle handling hit 291,000 units, a 11% increase over 2015. "With our proximity to Asia, Portland has become a leading auto distribution hub… We've seen significant growth in exports since 2012 and expect that positive trend to continue in 2017," Keith Leavitt, chief commercial officer said.

The Port of Portland and Auto Warehousing Company, received a state funding grant for $7 million expansion of the auto facilities in Rivergate Industrial District near Terminal 6. The plans are for AWC's development of a new 18.9-acre storage and staging yard to support export vehicles.

Article contributors: Martin Pilsch, Leo Ryan and George Lauriat



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

2017 in the 1-2% range. We would be very pleased to eclipse 9 million TEUs in 2017."

Cargo volumes at the Port of Los Angeles reached 8,856,782 TEUs in 2016, marking the busiest year ever for a Western Hemisphere Port. The previous record was set in 2006, when the Port of Los Angeles handled 8,469,853 TEUs.

The Port finished the year strong with December volumes of 796,536 TEUs, a 27% increase compared to the same period last year. It was the Port's busiest December and fourth quarter in its 110-year history. Overall in 2016, cargo increased 8.5% compared to 2015.

"I salute our industry stakeholders and thank Mayor Garcetti and the policymakers and agencies at the state and federal level that have supported our various Supply Chain Optimization initiatives over the past year," said Port of Los Angeles Executive Director Gene Seroka. "To handle this much volume with minimal issues is an extraordinary accomplishment and demonstrates our capability-building efforts here in the San Pedro Bay complex."

"We're proud to be the backbone that makes the San Pedro Bay port one of the world's leading trade gateways," said Bobby Olvera Jr., President of the International Longshore and Warehouse Union (ILWU) Local 13. "Longshore workers played a critical role in this milestone and we look forward to doing our part to process more cargo through the port complex in 2017."

"The San Pedro Bay port complex is unmatched in North America when it comes to speed, efficiency and reliability, and these record numbers are proof," said John McLaurin, president of the Pacific Merchant Shipping Association (PMSA). "Along with the increase in cargo, we're particularly proud that we're seeing increased efficiencies at our terminals, specifically with decreases in the amount of time it takes to pick up a container after it's been unloaded from a ship."

*(**BOOM** – continued from page 23)*
Grove Services Inc., is increasingly counting on supply of refrigerated containers in reliably getting product to global markets, including meeting burgeoning demand in Southeast Asia and West Africa.

Now, 80 percent of Grove Services' export volume moves in refrigerated containers, with the remaining 20 percent shipped via bulk and breakbulk means, numbers he said are reversed from just five years ago.

In his closing address, former U.S. Rep. Dr. Charles W. Boustany Jr., R-La., urged a multilateral approach to U.S. trade policy.

Boustany, a retired physician who served in Congress from 2005 through January of this year, said he believes it was a mistake for Trump to summarily remove the United States from the Trans-Pacific Partnership agreement.

Former US Rep. Charles W. Boustany Jr., R-La., calls for a multilateral approach to trade policy. (Photo by Paul Scott Abbott, AJOT)

"A winning trade policy cannot be defensive only," Boustany said, adding that a U.S. tax on imports, while likely to be challenged by the World Trade Organization, would "clearly be disruptive to supply chains."

Earlier in the conference, in a spirited discussion of U.S. trade policies, Steve Lamar, executive vice president of the American Apparel and Footwear Association, called such a border adjustment tax an "extinction-level event," with member companies of his industry group saying the import taxes they would pay would be three to four times their profits and thus they would be unable to stay in business. *(For reception photos see page 22.)*

*(**OPPORTUNITY** – continued from page 23)*
opportunities exist for artisan charcoal (some of which was shipped to South Florida's Port Everglades earlier this year), pharmaceuticals, frozen seafood, honey, Cuban coffee, tobacco and rum. Still, 90 percent of container capacity departing Cuba leaves empty, he noted.

Regarding the 180-day rule, Baker said, "We would really, really like to have our Achilles' heel removed by Washington."

In a presentation focused on the capabilities of the Port of New Orleans, Brandy Christian, who became that port's president and CEO in January, called New Orleans and Mariel "two ports that have been linked by history and hopefully more in the future."

Christian said petrochemical resins are helping spur a boost in New Orleans container volumes, which she projected will reach 550,000 TEUs this year after topping the 500,000-TEU mark in 2016.

She cited the on-dock intermodal rail facility opened a year ago at the Port of New Orleans' primary container terminal, as well as the fact that the port is served by six Class I railroads in addition to extensive barge links and trucks, with the latter mode eased by recent gate automation and appointment system implementation.

Christian pointed to smooth, efficient service offered by the Port of New Orleans, saying, "They call us the Big Easy, and that's what we hear from our shippers: It's just easy to do business in New Orleans."

*(**PROFILE** – continued from page 16)*
I was actually headed off in a psychology degree related to the mind-body connection, but, during all that time, I was working in logistics and enjoying what I was doing.

So, when I finished my undergrad and thought about what I was going to do, knowing that I liked the business world, I decided to work on my MBA, and most marketing courses are actually cross-referenced with a lot of psychology. Marketing is the psychology of selling something to someone, so I think they really go hand-in-hand.

Learning how people behave and recognizing that everybody behaves differently has helped me a lot in the international work here.

To me, the most important thing is learning – about the world and everything in it, because you don't know what you don't know. My early years framed my future, and because of it I started a scholarship fund at a local college [Triton College] called the Winkleblack Second Chance Scholarship. It is specific to females over 21, self-supporting, who did not attend or complete college after high school.

What outside interests take your mind off work?

My husband and I both like to go to plays. We're avid pickleball [a cross between badminton, tennis and table tennis] players. We love to travel, going to hokey little towns in surrounding states, as well as internationally.

When I really need to tune out the whole world, I do jigsaw puzzles. I did a 3D castle and recently made a flower vase out of a puzzle. It's interesting what they have out there now. I like it because I can work alone and it empties your mind. It's almost as good as meditation.

ITZ Ohlson
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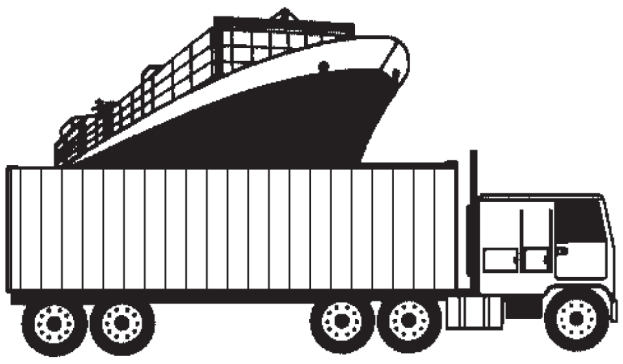

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*(**NICHE** – continued from page 18)*
An important, related project to Pier 80 renovation is rail track improvement. Back in 2011, the Port of San Francisco was awarded a $2.9 million grant from the US Department of Transportation's Federal Rail Administration (FRA) to rebuild Quint Street Lead, the connector track from the main line to the Port. The upgraded track enables heavier locomotives and large unit trains to come directly to the Port instead of stopping off in South San Francisco to switch out to smaller trains.

On January 12, 2017, the Port Commission approved a five-year lease extension for San Francisco Bay Railroad. SFBR invested $1.3 million dollars for 4,000 feet of new track in the rail yard. This replaces some of the track that was lost to Pier 80 due to the Pasha facility, and additionally helps stage trains needed for the Warriors Arena project.

With a grant received from the Bay Area Air Quality Management District (BAAQMD) and the US Environmental Protection Agency (EPA), the Port replaced an old locomotive to a newer and cleaner 90% cleaner locomotive. In a related move on January 5th, Caltrain announced Union Pacific would turn over their freight rail rights to Caltrain for the San Francisco-San Jose corridor and in turn Caltrain will hire a shortline operator. The operator will take over interchanging with the Port and all other freight and rail stakeholders on the Peninsula.

Although the cargo side is in a rebuilding phase, the cruise ship business continues to perform. There were 80 cruise ships in 2016, and approximately 290,000 passengers, which is similar to 2015. For 2017, 82 ships and 300,000 cruise passengers are expected. These numbers are up substantially from 5 to 6 years ago when there were 40 ships and 100,000 passengers. Pier 27, open since September of 2014, is certainly a reason for the growth, as well as the draw of the city itself.

Port of Hueneme Looks to Build Fresh Business

A little over 25 years ago the Port of Hueneme became, for all intents and purposes, a port with the official nod as a US port of entry. From the beginning the Port's calling card has been produce and now handles around 1.5 million in freight annually. While the "fresh" business is still paramount, there are a number of other sectors to the port. For example, in 2016 at the Port of Hueneme, automobile imports totaled approximately 300,168 tons. In 2016 over 300,000 autos were imported and 37,873 autos were exported through

*(**NICHE** – continued on page 27)*

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AIR CARGO NEWS

UPS buys first used Boeing 767s with new ones out of reach

United Parcel Service Inc. purchased its first used Boeing Co. 767s, grabbing older models that are in high demand as package shipments increase globally and production slots for new versions of the plane are sold out.

The three passenger aircraft, 767-300ERs that will be converted to carry freight, were bought "within the past couple of days," UPS spokesman Jim Mayer said. He declined to identify the seller or the cost and couldn't say when the new planes will begin flights for the Atlanta-based courier. The company has 59 of the model now, all ordered from Boeing in January 1993.

The 767, which debuted in 1982 as Boeing's first twin-engine wide-body, has enjoyed a resurgence as a freighter as the passenger version loses popularity. Boeing plans to speed output by 25 percent later this year as it juggles contracts to build the first of potentially 400 aerial tankers for the U.S. Air Force and 50 freighters for FedEx Corp.

"It's simply a plan for investment in capacity we need for growth," Mayer said of the 767 purchase. The planes will be deployed "pretty much anywhere we operate."

The price of used aircraft vary widely depending on age, condition and other factors. Consulting firm Avitas gives the 767-300ER a book value of between $9 million for a 20-year-old plane to $20 million for one that's a decade old.

UPS in October ordered 14 larger Boeing 747 jumbo jets valued at $5.3 billion amid strong package-volume growth in China and Hong Kong. Mayer didn't know if UPS had sought to order new 767s before buying the used ones.

Air Transport Services Group Inc. and Atlas Air Worldwide Holdings Inc. have been acquiring used 767s to operate for Amazon.com Inc.'s nascent air-cargo service. Each will operate 20 of the planes for the online retailer. Cargo Facts reported earlier that UPS purchased a 767 from Japan Airlines Co.

ANTONOV-2-100 lifts record weight at test flight at company's base in Kyiv

The ANTONOV AN-2-100 light aircraft, an up-to-date modification of the world's biggest bi-plane, the ANTONOV AN-2, performed a test flight at ANTONOV Company's test base in Kyiv, Ukraine on April 11, 2017.

The AN-2-100, which has a payload of 1500kg, lifted cargo weighing a total 3202kg, which is a new record for such class aircraft, to an altitude of 2700m.

The attempt to set the record was made by a crew of two ANTONOV Company Test Pilots, Sergii Tarasiuk, who piloted the flight and Valerii Yepanchintsev, who co-piloted.

The crew is known for their expedition to the South Pole on the ANTONOV AN-3 in 2005.

A report on the attempt to set the new record will be sent to the Fédération Aéronautique Internationale (FAI).

Leaders from Ukrainian aircraft industry companies and the United Aircraft Company participated in the event.

The AN-2-100 is intended for passenger, cargo, and mixed cargo-passenger journeys on local routes. It can be operated autonomously at small airfields, in a wide altitude range, under good and adverse climatic and weather conditions.

The main difference between the AN-2-100 and its predecessor is in a power plant with MC-14 turboprop engine, designed and produced by the Motor Sich Public Joint Stock Company.

The advantage of this replacement is the substitution of aviation gasoline with aviation kerosene. The aircraft profitability consequently rises significantly.

The AN-2-100 is further equipped with the AV-17 reversible propeller, instead of the AV-2. The operational empty weight of AN-2-100 is 200kg less than that of the AN-2.

The AN-2, the world's biggest biplane, was ANTONOV's first airplane.

The new aircraft was named *Henrih Ongirskii* in honor of H.H. Ongirskii (1939-2012), Deputy General Designer of ANTONOV Company, who made a great contribution to the AN-2 and AN-3 development program.

Emirates SkyCargo keeps perishables fresh with Emirates SkyFresh

Emirates SkyCargo, the freight division of Emirates, has launched Emirates SkyFresh - a suite of solutions that help maintain the freshness of perishables and fresh consumables during transportation.

Emirates SkyFresh brings together Emirates SkyCargo's state of the art infrastructure at its hub in Dubai, a modern fleet of wide-bodied aircraft including freighters, a range of innovative cool chain solutions including the brand new Ventilated Cool Dolly and experienced staff to ensure that perishables such as fruits, vegetables, fresh fish and seafood, meat and flowers maintain their freshness during the entire air transportation process.

Emirates SkyFresh will feature three levels - Emirates SkyFresh, Emirates SkyFresh Breathe and Emirates SkyFresh Active - offering varied levels of cool chain protection for different kinds of perishables. The basic solution, Emirates SkyFresh, is geared towards temperature tolerant fruits and vegetables and will offer quick ramp transportation and thermal protection through Emirates SkyCargo's White Cover blanket. Emirates SkyFresh Breathe provides protection for temperature sensitive perishables such as fresh cut flowers, ready to sell cut fruits and vegetables and fresh fish. Unique features will include prioritised ground handling as well as the use of the Emirates SkyFresh Ventilated Cool Dolly. Emirates SkyFresh Active will offer the highest protection for perishables that cannot withstand any temperature deviation using specialised temperature controlled containers during transportation.

MIA named top airport in North America for environmental management

On March 29, Miami International Airport was recognized by Airports Council International-North America (ACI-NA) – the leading industry organization representing the governing bodies that own and operate commercial airports in the United States and Canada – with its top award for environmental management. MIA received ACI-NA's 2017 Environmental Achievement Award in the Environmental Management category for the Sustainability Project at MIA, one of the largest energy-saving programs ever in the eastern U.S. The award was presented to MIA at ACI-NA's 2017 Airports@Work Conference in Las Vegas.

"This national award is well-deserved recognition for one of the largest projects Miami-Dade County has ever undertaken to reduce its greenhouse gas emissions and carbon footprint," said Miami-Dade County Mayor Carlos A. Gimenez.

Launched in August 2015 in partnership with Florida Power & Light Services (FPLS), the project has installed $32 million worth of air conditioning and ventilation upgrades, water conservation retrofits, energy-efficient lighting and other innovative solutions at MIA that will save the airport more than 35 million kilowatts of power per year and $40 million in utility costs over the 14-year contract period with FPLS.

*(**ALLIANCES** – continued from page 10)*

"last man standing" logic than balance sheets.

As important as the mergers and impending mergers might be to the ocean carrier box scores, the real game changer is the new system of alliances.

Ocean carriers are optimistic that such industry consolidation will lead to better asset utilization, lower operating costs and a reduction in the oversupply of vessel capacity.

The three main carrier alliances, 2M Alliance, The OCEAN Alliance and THE Alliance, are relatively similar in size and market share but have great variations in routes and coverages. Also, it is important to note that these are operational agreements as opposed to pricing or financial agreements that would violate numerous regulatory practices.

- 2M Alliance – Maersk, Mediterranean Shipping Company (MSC) and Hyundai Merchant Marine (HMM). The 2M Alliance opened for business in July of 2014. South Korea's HMM recently joined via a deal where they will share surplus capacity and purchase cargo slots with MSC and Maersk, officially starting this month.
- The OCEAN Alliance – Formed in April of 2016 by Orient Overseas Container Line (OOCL), Evergreen, China COSCO Shipping, and CMA CGM.
- THE Alliance – Comprised of Hapag-Lloyd, Yang Ming and Japan's three big shipping companies (MOL, "K' Line and NYK) now operating (April 2017).

Early Assessment

The dizzying deployment of the three mega-alliances has yet to be fully understood by either the participants, the shipping public or the regulators.

In some ways, the new alignment was inevitable. Once the 2M alliance was formed sans CMA-CGM, the die was cast for the Ocean Alliance to emerge as a competitor. And with the Ocean Alliance in play, the remaining top tier carriers were compelled to form THE Alliance.

Looking at the alliances holistically, even during the period of "freight conferences," there probably has never been this much "market share" in as small a group of carriers or alliances.

But market share often doesn't necessarily deter carrier competition. While it's a hard sell to differentiate one carrier from another when they are all on the same ships, never doubt the competition is still very keen.

In a recent presentation, Jay Buckley, executive vice president at Evergreen Shipping Agency (America), was quick to point out, "We [carriers] compete, not only with carriers outside [other alliances] but with other carriers in our own alliance…I even want the freight sailing [with an alliance partner] on my own vessel."

Besides the obvious competition between alliances, nearly all the major carriers have some services that fall outside the alliance agreements.

On the ground level, the differences between the carrier alliances is very significant. For example, in the Atlantic the 2M has around a 49% share, THE Alliance, 33% and The Ocean only 13%. But on the Transpacific the 2M has a 20% share while The Ocean has 42% and THE Alliance, a 29% slice.

It's too early to say whether the mega trio of alliances is going to solve the financial woes of the carriers. According to the Freightos International Freight Index, alliance members have been winning the battle of rate hikes with rates up 10% compared to 1% for independents. In all fairness, the independents rarely win these uneven contests.

Probably of greater significance is the supply/demand gap moving more in favor of the ocean carriers as net capacity growth (scrapping, postponements versus fleet additions) is looking to be less than 4% this year.

However, there may be an ordering issue as virtually all the alliances are adding tonnage in the 10,000 TEU plus category. 2M has 40 vessels over 10,000 TEUs scheduled for 2017, while The Ocean has 28 and THE Alliance, another 15 ships.

In recent years, the intra-regional carriers have out-performed major players and it's interesting that running contrary to the mainstream Evergreen placed two (2015/16)10 ship orders for vessels in the 2,800 TEU range destined for regional deployment.

Future

Where is it all heading with alliances, larger ships and complex rotations? Probably not exactly where either the carriers or shippers want but rather somewhere in between. Undoubtedly, better economies support better services – as was pointed out recently at the CONECT conference, *being the least worse of the worse* is not much of a business model.

Probably, the next big thing for the shipping industry is the big thing that every other industry sector has already been immersed in – the Internet. The expression "internet of all things" really hasn't hit the ocean carrier business beyond transactional processing the same way "Big Data" has redefined other industrial sectors. Maersk has already started looking at digitalization and from that, an industry may emerge where alliances aren't everything.

Intermodal & Logistics News

This merger of unequals works by keeping truckers happy

Mergers of equals are rarely all that equal and Knight Transportation Inc.'s combination with Swift Transportation Co. is no exception. But the trucking tie-up is still a deal constituents on both sides can appreciate.

The all-stock transaction announced by the two companies implied a valuation for Swift of $22.07, or nearly $4 billion including debt and the company's class B shares, based on last week's closing prices. That modest 10 percent premium falls well short of the $25-plus range that Swift commanded as recently as December, a price that analysts had been predicting it would reach again on its own over the next year. While Swift will account for about two-thirds of the combined company's Ebitda, its shareholders are getting just 54 percent of the equity.

On the surface of it, Knight appears to be making out like a bandit. The real payoff for Swift holders, though, is less about today's premium and more about the value created by becoming part of a stronger trucking giant. It may have been the bigger merger partner, but it wasn't necessarily better. Swift's adjusted operating ratio, a measure of profitability in which a lower number is better, stood at 92.9 percent last year, compared to Knight's 85.3 percent.

By closing that gap and making other improvements, Knight, the acquirer for accounting purposes, thinks it can double the companies' combined pre-announcement market value to about $10 billion over the next three years. It's an admittedly squishier pitch than a straight premium, but there's reason to think it just might work.

Trucking companies have been having a rough go of it lately as weak demand fails to soak up a capacity glut, limiting what carriers can charge for their services. Both Swift and Knight also said first-quarter adjusted earnings per share would fall short of guidance and lowered their forecasts for the second quarter, citing the ongoing "difficult" operating environment. The merger can't make the truck market rebound, but old-fashioned economies of scale will go some way in helping to shore up the combined company's ability to raise prices once there is stabilization. Better purchasing power and overhead savings, meanwhile, could help it weather the current margin pinch.

One quick way to ease the overcapacity issue would be consolidation of the two companies' capabilities. But, in a twist, Knight said it intends to operate the brands separately and doesn't anticipate major terminal shutdowns. The idea is that geographic scale will help the company handle a shortening of the supply-chain driven by Amazon.com Inc. and other e-commerce retailers' same-day delivery promises. E-commerce has been a double-edged sword for logistics companies, with the shorter, more disparate routes pressuring profits even as the boon in shipments aids revenue.

Blanketing the country in outposts has the side benefit of making drivers' jobs more convenient by keeping them closer to home. The relative dearth of drivers amid competition from other transportation industries means prioritizing their happiness is a smart move.

But the strategy also speaks to Swift and Knight's efforts to avoid the culture clashes that have felled past mega-mergers. Knight's founders used to work for Swift before launching their own trucking company and both are based in the Phoenix area.

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*(**NICHE** – continued from page 25)*

the Port of Hueneme, a record high year for vehicle imports and exports. For the same period, fruit and vegetable imports stood at over 108,000 tons and liquid bulk fertilizer hit 160,145 tons. Overall, cargo increased by 10.6% to 1,574,903 tons, a new record at the Port.

The Port's main calling card is still produce and in particular, bananas. The port attracts calls from global cool operators like Chiquita and Del Monte as well as regional distributors like Mission Produce, Calavo, Westfalia Fruit, Five Diamond Cold Storage and Sun Fresh. Hueneme handles annually nearly 700,000 tons of fresh fruit. Bananas are an important item and in 2016 the port handled over 117,000 tons of bananas accounting for $19.4 million in freight.

In February, the Port of Hueneme entered into a Project Partnership Agreement (PPA) with the United States Army Corps of Engineers to deepen the Port's general navigation areas to 40-feet Mean Lower Low Water. The dredging project which has been in the works for a couple of years is key to the Port's goal of handling the larger post-Panamax ro/ro vessels (the port handled its first post Panamax ship last year).

According to the documents, the proposed project's berth deepening effort "would include dredging activities to deepen Berths 1 and 2 along Wharf 1 to approximately -40 feet MLLW, to provide deep draft vessel continuity from the harbor, through the channel and to Berths 1 and 2 along Wharf 1. Through implementation of the project, vessels would no longer need to wait for higher tide to transit the channel and come to berth, increasing operational efficiencies."

Another big boost for the port was SeaLand's (part of the Maersk Group) decision last September to make the Port of Hueneme a port of call for the West Coast Central America (WCCA) service. The SeaLand service focuses on the fresh fruit and other agricultural goods traded between Southern California, Mexico, Central America and the West Coast of South America. It's important as the Port (located 60 miles northwest of the San Pedro Ports) is the only U.S. port of call in the WCCA rotation. What makes the service even more intriguing is that it is containerized, unlike the port's other main services.

Port of San Diego Gears Up

The Port of San Diego is gearing up for the future. San Diego, less than 30 miles from the border with Mexico, perhaps more than any other port in the nation has had to balance the many needs of the neighborhood against the demands of a working waterfront. In December, the Port of San Diego commissioners voted unanimously to remove two warehouses on the tenth Avenue Terminal. The decision wasn't easy for the port but was necessary to remove a bottleneck to port progress.

According to the report: "The plan provides a long-term road map for the terminal, outlining key cargo business markets. Certification allows construction on phase 1 of the Plan to begin in 2017. This plan is anticipated to increase the terminal's cargo capacity, create jobs and implement clean technology to reduce pollution."

The first phase of the terminal's new master plan, costing $24 million, includes the demolition of transit sheds 1 and 2 on the west side of the 96-acre terminal, a new area for temporary equipment storage and the completion of several rail improvements. Future phases would include:

- a 100,000-square-foot dry-bulk storage container;
- improved conveyor systems;
- demolition of Warehouse C in the middle of the terminal;
- and five new 270-foot gantry cranes.

The terminal improvements are projected to increase cargo from 1 million metric tons in 2014 to 4.7 million metric tons by 2035. An earlier projection showed an increase to 6.2 million metric tons.

Some of the freight would come in the form of dry and liquid bulk shipments, refrigerated food products and multipurpose general cargo. Multipurpose general cargo (ro/ro) would rise the most, from 85,131 to 733,050 metric tons.

Construction on Phase 1 is anticipated to begin by summer 2017 and is anticipated to take 33 months. Phase 1 will entail $24 million in Port and federal investment, which includes a $10 million TIGER grant.

The Port annually handles over 420,000 vehicles, mostly imports, making it one of the nation's top auto hubs. According to the Port's budget information, "National City Marine Terminal (NCMT)… has begun seeing automobile volumes that rival pre-recession numbers, signaling continued strength in this cargo sector. The District is working closely with port tenant, Pasha, to accommodate both international and Hawaii volumes, and proactively manage business growth. These efforts include recent inducement-calls at NCMT of Pasha's newest vessel, Marjorie C, which typically calls in Los Angeles."

In addition, the port has over 300,000 sq/ft of temperature controlled warehousing – the most on the West Coast – which makes it a top port for reefer goods. Recently, San Diego has seen its reefer numbers increase as Dole has boosted capacity with three new larger ships having moved into service. The new vessels have gone from 500-550 FEUs (forty-foot equivalent units) to 770 FEUs each.

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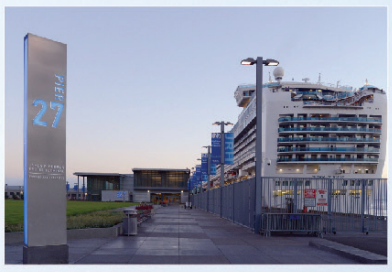

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