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THE SOURCE

Shipping Alliances Shore Up Industry, Unsettle Customers

By Costas Paris Jan. 3, 2017 5:30 a.m. ET Wall Street Journal

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Shipping Alliances Shore Up Industry, Unsettle Customers

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Maersk's Triple-E giant containership Maersk Majestic, at a Chinese port in September. A shift to bigger vessels has been contributing to congestion and delays at ports. Photo: aly song/Reuters

A tumultuous year in the container-shipping industry, which included one big operator going under and others bundling together to stay afloat, ended with three major alliances poised to dominate ocean trade for years to come.

Container shipping, which moves 95% of all manufactured goods, is estimated by industry executives to be worth $1 trillion a year. Traditionally controlled by sovereign-wealth funds and deep-pocketed individuals, it has been a fragmented industry over the past 30 years, with dozens of operators regularly undercutting each other on price. But overcapacity and sluggish global trade have forced the biggest players to merge or form alliances, allowing them to cut operating costs by hundreds of millions of dollars by sharing ships and port calls. The three major groupings, called 2M, Ocean Alliance and THE Alliance, have cleared most regulatory hurdles over the past two years.

2M, consisting of Denmark's Maersk Line and Geneva-based Mediterranean Shipping Co.—the world's two biggest operators in terms of capacity—is already under way, while the other two alliances expect to begin operations in April. One company left out, South Korea's Hanjin Shipping Co., is shedding ships and other assets after seeking bankruptcy protection in August.

According to marine-data providers, the three alliances, which comprise 11 shipping operators, will handle much of the container trade on the Asia-to-Europe and trans-Pacific routes.

"The few players left outside will either try to join in, shrink to become regional operators or go belly up," said Lars Jensen, chief executive of Copenhagen-based SeaIntelligence Consulting, adding the world's 20 biggest shipping companies are all expected to post a loss for 2016.

The concentration of power has raised concerns among regulators and cargo owners about price fixing and reduced services, though the Federal Maritime Commission in November said it saw no evidence of price collusion among the alliances.

Continued on page 2

A message from the President of Outsource, Paul Kalita

Farewell to 2016

The Outsource Family thanks our partner clients, service providers and friends for your support this past year. We would like to take this opportunity to wish each of you a Healthy, Happy and Prosperous New Year.

Welcome 2017

Shipping Alliances Shore Up Industry, Unsettle Customers (Cont'd from page 1)

"We have a monitoring process in place, and if there is an unreasonable increase in prices or a decrease in services, it could lead to an injunction to could break up an alliance or lead to other necessary action," said William Doyle, a commissioner at the U.S. maritime watchdog.

Nevertheless, the consolidation in the industry is limiting choices for shippers, said Peter Friedmann, executive director of the Agriculture Transportation Coalition, a trade body of 2,500 U.S. agriculture and forest-product exporters. "With the remaining ocean carriers now consolidating into just three alliances using megaships, while total capacity may remain the same, we are concerned by a reduction in the frequency of sailings," he said.

Maersk Line spokesman Michael Storgaard said with time the new industry configuration will allow for ample port calls and better reliability, with cost savings trickling down to customers. But he acknowledged the shaping up of the alliances will be disruptive. "When a container shipping line moves from one alliance to another, both alliances need to redo their networks. There will be shorter and longer periods with frequent changes to services and offered capacity and fluctuating reliability," he said.

Cargo owners say they are seeing up to 20% fewer containership sailings across main trade routes and a 10% drop in port calls since the introduction of bigger vessels, known as Triple Es, favored by the alliances.

A Triple E, which when turned upright matches the height of the Empire State Building, can move more than 18,000 containers. Its deployment is gradually replacing smaller vessels that because of their size tend to sail more often and serve more ports. Shipping companies say savings resulting from the alliances and bigger ships are passed on to cargo owners. They also say alliances, once in place, will provide more reliable service to cargo owners.

As the alliances take hold, the shift to bigger vessels is contributing to congestion and delays at ports whose infrastructure is geared toward ships with lower capacity. Triple E's also require larger-than-standard cranes to unload their cargo as well as more trucks waiting at the terminals to move products inland. While the bigger ships have caused friction among cargo owners, port operators and the shipping companies in recent years, most in the industry now accept that ports must be upgraded to accommodate them. The American Association of Port Authorities says close to $155 billion will be invested by 2020 to expand U.S. ports to handle bigger vessels.

TRANSPORTATION TRIVIA QUESTIONS

1) **What is the busiest commercial crossing along the international border?**

A. Rainbow Bridge **B.** Lewiston-Queenston Bridge **C.** Peace Bridge **D.** Ambassador Bridge

2) **How old is Mack Trucks?**

A. 55 years **B.** 93 years **C.** 116 years **D.** None of the above

3) **What does the gold bulldog signify on the hood of a Mack Truck?**

A. A rich owner **B.** A Mack powertrain **C.** An engine with more than 550 hp **D.** A dog lover

4) **What is the traditional maneuver called that a tractor trailer uses to make a right hand turn?**

A. Buttonhook **B.** Fly **C.** Zipper **D.** Cufflink

5) **What is the most visited tourist attraction in the world?**

A. Times Square **B.** Disney World **C.** The Colosseum **D.** Eiffel Tower

6) **How many Smithsonian museums and galleries are in Washington, D.C.?**

A. 10 B. 13 C. 17 D. 19

Answers Later In The Newsletter

FUEL REPORT

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon) http://www.eia.gov/petroleum/gasdiesel/

	12/19/16	12/26/16	01/02/17	Change from week ago	Change from year ago
U.S. National Average	$2.527	$2.540	$2.586	↑ 0.046	↑ 0.375

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Trump Taps China Critic Lighthizer for U.S. Trade Representative

By: Jennifer Jacobs | Jan 03 2017 at 06:48 AM Bloomberg News

President-elect Donald Trump has picked lawyer Robert Lighthizer to head the U.S. Trade Representative office, his transition team said Tuesday in a further sign the incoming administration will take a tougher line on China. "He has extensive experience striking agreements that protect some of the most important sectors of our economy, and has repeatedly fought in the private sector to prevent bad deals from hurting Americans," Trump said in an e-mailed statement. "He will do an amazing job helping turn around the failed trade policies which have robbed so many Americans of prosperity."

Lighthizer, who was deputy trade representative during the Reagan administration, would replace Michael Froman, the Obama administration's representative who led negotiations on a Pacific trade pact that would have covered nearly 40 percent of the global economy and was seen as a counterpoint to China's rising clout. Trump, however, argues that deals such as the North American Free Trade Agreement and the Trans-Pacific Partnership kill American jobs. He has vowed to make smarter deals and slap punitive tariffs on countries that violate trade rules, particularly China—a frequent target of his attacks.

As a partner at the Washington offices of law firm Skadden, Arps, Slate, Meagher & Flom LLP, Lighthizer has focused on traditional trade litigation, policy advice and legislative initiatives for a roster of large U.S. corporations and coalitions, according to the firm's website.

Lighthizer has previously accused China of unfair trade practices, in line with views held by Peter Navarro, a China critic who Trump last month named to head a newly formed White House National Trade Council. In a 2011 article published in the Washington Times, Lighthizer said that using tariffs to promote American industry was a Republican tenet harking back to pro-business politicians who established the party.

"The icon of modern conservatism, Ronald Reagan, imposed quotas on imported steel, protected Harley-Davidson from Japanese competition, restrained import of semiconductors and automobiles, and took myriad similar steps to keep American industry strong," Lighthizer wrote. "How does allowing China to constantly rig trade in its favor advance the core conservative goal of making markets more efficient? Markets do not run better when manufacturing shifts to China largely because of the actions of its government."

The choice of Lighthizer would make sense because Trump's economic plan is "Reagan-esque," said He Weiwen, deputy director of the Beijing-based Center for China and Globalization and a former business attache in Chinese consulates in New York and San Francisco. "In the second term of Reagan's administration, his trade team put a lot of pressure on Japan in bilateral negotiations," He said. "If Lighthizer is picked, a hardline approach towards China can be expected." Trump has also linked geopolitical matters to America's trade ties, suggesting his administration will consider the behavior of countries on defense and security in the framework of its economic relationships.

And later: "China has been taking out massive amounts of money & wealth from the U.S. in totally one-sided trade, but won't help with North Korea. Nice!"

The office of the U.S. Trade Representative is part of the Executive Office of the President, responsible for developing international trade and investment policy, overseeing trade negotiations and representing American interests at the World Trade Organization.

Another Strong Year for Airline Profits in 2017

Geneva - The International Air Transport Association (IATA) announced that it expects the global airline industry to make a net profit in 2017 of $29.8 billion. On forecast total revenues of $736 billion, that represents a 4.1% net profit margin. This will be the third consecutive year (and the third year in the industry's history) in which airlines will make a return on invested capital (7.9%) which is above the weighted average cost of capital (6.9%).

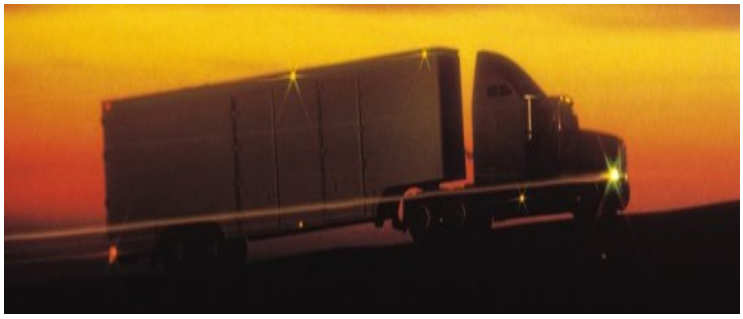
IATA revised slightly downward its outlook for 2016 airline industry profitability to $35.6 billion (from the June projection of $39.4 billion) owing to slower global GDP growth and rising costs. This will still be the highest absolute profit generated by the airline industry and the highest net profit margin (5.1%).

Editorial: Having made trade, transportation and logistics my profession these past 37 years, I tend to boil the US Economy into freight terms. The economy is a conglomeration of products and services, both important components. Products, i.e. raw materials, manufactured goods, distribution of wholesale and retail consumables etc., all get transported. The service industry still needs forms, paper, office supplies, tech equipment and many other "NON-INVENTORY" items, all that is transported.

Our economy has been stagnant for many years. Each of us has been waiting for a jump start. It is too early to state that has arrived but there are indications we're on the upswing.

Freight is our economy. Let's see if the below is a true indication along with last month's newsletter speaking of driver wages rising and employee retention at trucking companies stabilizing.
While looking at the ATA (American Trucking Association) website the following 3 articles were listed under their News and Info heading.

Economy



ATA Truck Tonnage Index Jumped 8.2% in November

American Trucking Associations' advanced seasonally adjusted (SA) For-Hire Truck Tonnage Index surged 8.2% in November.
December 20, 2016

ATA Truck Tonnage Index Fell 0.3% in October

American Trucking Associations' advanced seasonally adjusted (SA) For-Hire Truck Tonnage Index contracted 0.3% in October. .
November 22, 2016

ATA Truck Tonnage Index Fell 5.8% in September

American Trucking Associations' advanced seasonally adjusted (SA) For-Hire Truck Tonnage Index contracted 5.8% in September.
October 18, 2016

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Answers to Trivia

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Profit Improvement Plan
Leverage Opportunity Analysis
Baseline Measurement
Profit Improvement Measurement

Montreal: North American gateway of choice for Hapag-Lloyd

By: Leo Ryan | **Issue #639** | Dec 17 2016 at 10:25 AM | AJOT

Wolfgang Schoch, managing director of Hapag-Lloyd (Canada) Inc., is not shy about extolling the strategic hub role the Port of Montreal plays in the transatlantic trade of the German shipping line. Interviewed in his Montreal office, he declared: "Montreal, in fact, is our most important port in North America, with more container throughput in 2015 than Los Angeles and Long Beach combined."

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

"Nearly 50% of our export cargo via Montreal comes from the United States," he said, pointing to such shippers as Ford, GM and John Deere. One third of the import cargo transported by Hapag-Lloyd via Montreal has a final destination in the United States.

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

Customs & Border Protection (CBP)

In the years since the Sept. 11 terrorist attacks, perhaps no government agency has evolved as much as U.S. Customs and Border Protection. From port initiatives such as the Container Security Initiative to partnering with industry in the Customs-Trade Partnership Against Terrorism, CBP is now front-and-center on virtually every international company's radar screen. Failure to comply with CBP's myriad and seemingly ever-evolving regulations can cost a company millions of dollars in fines. Overseas, customs agencies can be even more of a bureaucratic minefield and corruption is rampant in many emerging markets. In an increasingly global marketplace, how companies cope with myriad customs regulations can spell the difference between success and failure in an international strategy.

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