

## NEWSLETTER 2010/6

DECEMBER 2010

### UNION CONFLICT ON THE HORIZON WITH AUTOMATION

Mark Rowsthorn, CEO of shipping and stevedoring giant Asciano foresees problems with the labour unions when the next wave of automation kicks in at Australian ports. This is forecast to be the adoption of automated straddle carriers controlled from a central location and one example of a terminal now working this way is Pasir Panjang in Singapore. Mr. Rowsthorn said automation "works where wages are expensive", which he indicated as being in the western world. He also said executives at ports in other nations would want to see automation working well in a big, dynamic and chaotic environment before they would commit to it. Yet when a delegate commented that other nations were worried about union reaction to automation and who then asked whether Mr Rowsthorn foresaw problems with the unions, he paused and replied: "the short answer is... yes". However, he said that where automation had been attempted previously, the relations with staff had been managed. Methods of management include hiring more casual and part time staff, by moving staff to other parts of the operation on the landside or retraining staff for other roles. "It has been done very well without any hours being lost," Mr Rowsthorn said. Commenting on Asciano's views on the matter, and seeking to reassure ports and carriers that there will be no major interruptions to business, Mr Rowsthorn said: "I think we'll introduce it in stages so that we can pause and test. And we can retrain people over time. Going in with a nuclear bomb approach won't work."

### CALLS FOR BETTER SHIPPER PROFILING

Speaking at the recent TIACA air cargo forum in Amsterdam, TNT Group CEO Peter Bakker said



governments should adopt a risk-based strategy to cargo screening and not "go after every shipment, it will be overkill." Noting that globalization would not have happened without the logistics industry, he pointed out: "Integrators handle 30 million shipments a day; have a combined fleet of 1,700 aircraft, employ 1.2 million people and operate 200,000 trucks." He suggested governments should be "very careful" in how they react to any new terrorism threat and said x-ray screening is not a 100 percent solution. He considered closer intelligence cooperation and better shipper profiling would also be required. Following the discovery of explosives hidden in packages from Yemen last week, Bakker revealed that earlier this week – (Continued on Page 2)

### WORST OF BOX SHORTAGE IS OVER

The chronic shortage of containers that disrupted global supply chains this year is unlikely to be repeated in 2011, according to Brian Sondey, chief executive of container leasing firm TAL International. Presenting the company's third-quarter results recently, Mr Sondey said that as container manufacturing facilities in China had increased production capacity, orders for new boxes were more likely to be fulfilled than they had been earlier in the year. "The extreme shortage that we saw earlier this year has to some extent already been mitigated and in 2011 we are not expecting to see the same level of production constraints. This year, shipping lines and leasing companies could not get any new boxes, which drove prices up very quickly, but in 2011 we don't believe we will see factories not meeting the orders placed," he told analysts. He estimated annual box manufacturing capacity to be about 3m teu, but he added that the supply of boxes in the supply chain would remain "tight".

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(Continued from Page 1) – TNT had diverted one of its flights from Athens to Liege to Bologna, Italy after the discovery of a suspicious package. Inspection of the shipment revealed it was an explosive device. Commenting on the need to find alternatives to carbon-based fuels, Bakker said that without a concerted effort, the air cargo industry might not have a future. "We can all resist change but if the least we can do is to look into biofuels then we have done something. If we don't solve the problem it could mean the end of our industry."

#### **COMPETITION WILL DRIVE CONTAINER PORT GROWTH: ACCC**

Australia's competition watchdog says increased competition at Australia's major ports will encourage stevedores to invest in terminals and maximise the use of existing facilities. Australia faces the looming prospect of a huge increase in the volume of boxes. Demand at Australia's major ports is forecast to almost triple during the next two decades as trade booms, the Australian Competition and Consumer Commission's annual container stevedoring report said: "The challenge we face as a nation is to improve productivity and to underpin Australia's economic performance." ACCC chairman Graeme Samuel said. "Competition is important for driving the stevedoring industry to invest in new capacity and use existing infrastructure to move containers on and off ships faster and in ever-increasing numbers." The report showed that while improved economic conditions boosted stevedore profits in 2009-10, some measures of capital productivity had not risen since June 2001. Decisions to allow a third stevedore to invest in additional capacity at the ports of Brisbane and Sydney will see Hutchison join those ports from next year. Shipping Australia hopes the ACCC findings will persuade the port of Melbourne to make a decision on its port infrastructure.

#### **NEW INCOTERMS 2010 COME INTO EFFECT 1 JANUARY 2011**

The International Chamber of Commerce (ICC) has announced that Incoterms® 2010 is scheduled to come into effect on January 1, 2011. To keep up with the rapid expansion of world trade and globalization, the Incoterms rules are revised about once a decade. Since the last revision in 2000, much has changed in global trade and the current revision will take into account issues such as developments in cargo security and the need to replace paper documents with electronic ones. The following terms from Incoterms 2000 have been deleted from the list: DAF, DES, DEQ and DDU. Two new terms have been added to the list: DAT and DAP. Incoterms 2010 has only two categories compared to four previously:

#### **Rules for Any Mode of Transport**

CIP - Carriage and Insurance Paid  
CPT - Carriage Paid To  
DAP - Delivered At Place  
DAT - Delivered At Terminal  
DDP - Delivered Duty Paid

EXW - Ex Works

FCA - Free Carrier

#### **Rules for Sea and Inland Waterway Transport Only**

CFR - Cost and Freight

CIF - Cost, Insurance and Freight

FAS - Free Alongside Ship

FOB - Free On Board

#### **AUSTRALIA RECORDS 6TH CONSECUTIVE TRADE SURPLUS**

Australia recorded a seasonally adjusted trade surplus of \$1.8 billion in September 2010, according to figures released by the Australian Bureau of Statistics. Trade Minister Craig Emerson welcomed the September data as a continuing sign of the underlying strength of the Australian economy. "It is the 6th consecutive monthly trade surplus - and only the 4th time in 40 years Australia has had six or more surpluses in a row," Dr Emerson said. However, Dr Emerson acknowledged the difficulties faced by exporters. The September trade surplus narrowed 28 per cent on the revised surplus in August 2010. It was in line with market expectations of around \$1.9 billion. Overall, exports of goods and services fell two per cent to \$24.2 billion, while imports rose by one per cent to \$22.4 billion. In September, coal exports fell by \$216 million, gas and petroleum exports decreased by \$243 million, while non-monetary gold exports increased by \$306 million. "Australian exporters are facing challenging times as the Australian dollar strengthens," Dr Emerson said. "The Government is making sure we continue to have an open, competitive economy and we are removing impediments to the expansion of exports for all sectors."

#### **CHARTERERS RE-EMERGE TO BACK BOXSHIP NEWBUILDINGS**

A surge of newbuildings underpinned by charterers is taking place, which may indicate confidence returning to the sector. Boxship charterers helped underpin newbuilding contracts for 64 vessels of nearly 400,000 teu signed in the third quarter of 2010, the highest quarterly level of newbuilding activity in 27 months. The ordering boost from July to September - 10 times the combined capacity ordered in the first half of the year - reflected returning confidence in the containership sector. Growth in trade on major shipping lanes, combined with slow steaming, cancelled orders and high scrapping rates saw demand outstrip supply, even though a record 228 ships have been delivered to the global fleet so far this year. However although most orders were contracted directly by container lines, the return of non-operating owners to shipyards was viewed as one of the strongest positive signals for the global containership fleet turnaround, according to Clarkson Research Services. "Of great importance is the re-emergence of charterers, who now appear to be more willing to consider offering forward period employment against orders," said the London broker's quarterly review and outlook. "This will potentially be a story that continues to develop over coming months, with liner companies

looking to take in new vessels with upgraded designs, without contracting them all for their own account." Leading the trend is Mediterranean Shipping Co, which has backed a three-ship order contracted in October by Greece's Costamare with 10-year charters at a daily rate of US\$43,000, according to filings.

### **EUROPEAN FORWARDERS SEE VOLUMES WEAKENING**

European freight forwarders expected October to be better than it actually turned out to be, according to Danske Bank's monthly European Freight Forwarding Index. The index level for October levels dropped four points to 64, but last month participants said they expected the index to increase by eight points to 74. The index is divided into two, one is forward looking and the other tracks the current volume situation. More than 140 forwarders participated in the survey, with their answers translated into an index value of between 0 and 100. Values above 50 indicate volume expansion. The report said the negative deviation was mainly driven by road and airfreight industries, whereas the sea sector remained strong. The forward looking index, for November and December, showed expectations had fallen, but that can be explained by seasonality. "A general comment among participants is that growth has levelled off a bit during October compared with expectations two months ago. The index for expectations dropped eight points to 63 in December, but we believe this is mainly due to normal seasonality in our index. The weakness in our freight index gives an indication that growth might be on a lower level in Q4 than we previously anticipated. However, so far we see no reason to fear a large setback in the market. After all, we only see a drop of four points in the index compared with September. We will become concerned if the index drops below 55 in November." Broken down by mode, the sea freight index for October remained strong at 69, while airfreight fell to 56 from the September figure of 71. Road freight saw a drop from 68 in September to 61 in October.

### **BOEING FORECASTS 5.9 PERCENT ANNUAL AIR CARGO GROWTH**

Aircraft manufacturer Boeing, showing strong confidence in air freight demand after the longest downturn in the industry's history, says world air cargo traffic will return to its 2007 peak by the end of this year and resume strong expansion over the next 20 years. Boeing said in its bi-annual World Air Cargo Forecast that it expects industry traffic to grow at a 5.9 percent average annual rate in the coming two decades, putting the business on track to triple by 2029. The forecast is in line with Boeing's forecasts from previous years and effectively shuts the door on a downturn that saw global air cargo traffic contract in two straight years for the first time in history. The business declined 13 percent over 2008 and 2009 from its peak in 2007, Boeing said. "Economic activity - world gross domestic product - is the key driver of the air cargo market," said Jerry Allyn, Boeing's vice president of strategic planning and

analysis. "Following the recession and a year of recovery, world economic growth is forecast to average 3.2 percent over the next two decades." World economic growth already is fueling strong expansion this year that will push traffic back to the levels of 2007 by the end of 2010, the manufacturer said. Boeing said it appears "many industrial shippers have turned to air cargo in response to the overcorrection that constrained capacity in other modes of transport, particularly containerships." Boeing expects Asia to lead the expansion in the near term and over the next 20 years. The company forecasts intra-Asia cargo traffic will grow 7.9 percent over the next two decades, led by 9.2 percent growth in China domestic air cargo. Intra-North America traffic, meantime, will grow only 3 percent per year while Europe-North America is forecast to grow only at an average annual 4.2 percent rate, Boeing said. Getting to 5.9 percent annual growth would mark a departure from long-term trends in the air cargo business. Boeing says world air cargo traffic grew at an average annual rate of just 1.9 percent from 1999 to 2009, and intra-North America traffic fell at a rate of 2.5 percent in that time.

### **'MODERATION' IN BOX RATES PREDICTED**

Container shipping is likely to see "moderation" in container freight and charter rates until at least 2013 as capacity rises faster than demand, Seaspan Corp. CEO Gerry Wang said: "recovery in 2013 will depend on whether demand holds up", Wang said as the company announced third-quarter results. He said "most ships on order will be delivered by the end of 2012 and 2013 would be an upturn year if our assumptions are proved to be correct. Until then we expect the industry to be in moderation and relaxed." Seaspan, which owns container ships and charters them to container ship lines, reported adjusted net profit of \$26.1 million on revenue of \$111.4 million, compared with adjusted net profit of \$20.2 million on revenue of \$74.1 million a year earlier. Seaspan owns 55 ships and will add 14 new vessels during the next 18 months. All of the vessels to be delivered are on charters averaging 12 years. The company this month announced financing deals that Wang said have secured funding for the ships on order.

### **SLIGHT FALL IN ASCIANO CONTAINER LIFT FIGURES**

Asciano Group has reported a 1.3% downturn in containers lifts in the first quarter of 2010-11 compared with the same quarter the year before. Speaking at the company annual meeting in Melbourne, chief executive Mark Rowsthorn said the results reflected strong growth from base customers being offset by the loss of a key customer. "We expect volumes for the second quarter of (2010/11) to reflect the normal seasonal uplift," he said. Mr Rowsthorn said increases in autobulk (cars) were encouraging, however, with volume increases in line with higher car sales. "The general stevedoring sector saw improvement... the number of vessels stevedored was well ahead of the previous corresponding period," he said. Overall, the company reported a net loss before tax of \$948.9m.

## **TRADE MINISTER WELCOMES AUSTRALIA-INDONESIA NEGOTIATIONS**

Trade Minister Craig Emerson has welcomed the decision by Australia and Indonesia to commence negotiations on a Comprehensive Economic Partnership Agreement. The announcement was made by Prime Minister Julia Gillard and Indonesian President Susilo Bambang Yudhoyono in Jakarta. Dr Emerson said an agreement would help build on the economic, trade and investment links between Australia and Indonesia. "The decision to commence negotiations sends an important message about the strength of the economic relationship between our two countries," he said. "Once finalised, this agreement would help unlock the untapped commercial potential between the two largest economies in the region." During a visit by President Yudhoyono to Canberra in March, Indonesia and Australia committed to a shared goal of increasing bilateral trade and investment. It followed the completion of the Australia-Indonesia Free Trade Agreement Joint Feasibility Study.

## **GOVT LOSES \$600 MILLION IN GST FROM ONLINE SHOPPING**

Peak retail industry body the Australian Retailers Association (ARA) said the Government could be losing up to \$600 million in revenue by allowing goods under \$1000 to be imported into Australia GST free. ARA Executive Director Russell Zimmerman said Australia's GST free threshold for imports created an unlevel playing field for all Australian retailers. "It is estimated that Australian consumers will spend in excess of \$12 billion dollars online this year and almost half of that will be spent offshore. That equates to approximately \$600 million in lost taxes but it also highlights a growing concern for Australian retailers who believe the GST free threshold is damaging trade for Australian retailers. It's never been easier or more cost effective for consumers to purchase goods from overseas. We currently have a situation where there is no GST or import tax charged for overseas goods less than \$1000; the Aussie dollar is almost matching the US dollar; and many overseas online shopping sites offer free delivery and easy return options. Leading into Christmas, the most important retail trade period, the ARA is seriously looking into this issue and will consider the views of its members as well as import taxes in other countries before bringing this issue to policy makers and legislators," Zimmerman said.

## **LEADING THE WORLD IN ELECTRONIC CERTIFICATION**

Export certificates for eight commodities are now being sent electronically to China, fast tracking Australian exports and providing an unprecedented level of security. The electronic data exchange system, called eCert, is now in place for meat, fish, dairy, horticulture, grain, wool, skins and hides and inedible meat product exports. Minister for Agriculture, Fisheries and Forestry, Senator Joe Ludwig, said "eCert ensured opportunities

for fraudulent activity were significantly reduced due to the high level of system security, which is great news for exporters and the Australian government. eCert provides assurances to our trading partners, in a more timely and secure manner, that our farm produce meets their import requirements. I am pleased to see industry, government and trading partners working side-by-side to deliver a stronger biosecurity system. Our goal is for more of Australia's trading partners to adopt eCert to maximise efficiencies for exporters and importing countries." eCert replaces the old paper-based system of providing export certificates, resulting in record transfer speeds. For example, China can now receive a certificate for a shipment of beef within minutes of Australia authenticating it. eCert implementation is a key element of the Government's \$127.4 million Export Certification Reform Package. Through this program, government and export industry representatives are working in partnership to reform export certification and inspection services. The Department of Agriculture, Fisheries and Forestry is also working to implement eCert with the United States, Japan and Hong Kong. It has already been implemented in Canada and Jordan.

## **SEASONS GREETINGS**

We take this opportunity to wish you a safe and joyous holiday season and a happy and prosperous 2011. We thank all of our clients for their continuing support in 2010 and look forward to working with you in the New Year.