Dear Customers:

This year is turning out to be one of the most challenging in recent memory in regards to importing merchandise. Even press such as the Wall Street Journal and others have picked up on the problems at Los Angeles and Long Beach and almost all other port complexes in the country. Rather than quoting endless articles dealing with the various issues causing all the problems like I did in my last email dated July 23, 2004 I shall try to be briefer and summarize the situation.

1.) Problem of delays

A.) Almost all ports in the US and Canada, but Los Angeles/Long Beach and New York/New Jersey in particular have been utterly unprepared for the steep increase in imported traffic. Most of them had anticipated increases from 5-8%. Actual increases have been about 15%. The result was that ports have not been able to unload vessels quick enough thus delaying vessels in their rotations. To remedy the situation Los Angeles/Long Beach terminal operators have agreed to hire 3000 now workers (for which over 300000 applied from all over the world). The first wave of these new employees (casuals) is now being trained and some of them have begun working).

B.) UP underestimated the growth as well and was completely short of workers and equipment. Just like the port terminal operators they are in the process of training thousands of new employees but since the security background checks and training are a lengthy process immediate improvement at the main railroads is not expected.

C.) Due to the delays caused at the ports and railroads it takes longer to re-position equipment to the Far East where empty containers are needed to load goods ready for export resulting in the first signs of equipment shortages in some of the main Far Eastern (Chinese) ports.

D.) As a result of the 2002 West Coast port lock outs and now because of the delays caused by lack of labor at main West Coast ports much freight that had previously moved via West Coast ports has been switched to move via the Panama Canal directly to the US East Coast ports. However, since vessels moving through the Panama Canal are limited in size, these All Water Carriers are now hopelessly overbooked and over the past 8 weeks have left hundreds of containers behind at Far East ports even after granting bookings (container space) to shippers/forwarders. This means that the old conventional wisdom "All Water Service via the Panama Canal" may take longer but at least one knows when the container will arrive" no longer holds true, as All Water carriers are now so frequently leave containers behind.

E.) Trans-Atlantic freight is also being delayed at port as East Coast ports have been unprepared for the sharp rise in container freight throughput (due to increased All Water Traffic from Asia). This has resulted in long lines at gates with truckers lining up to pick up chassis and containers. Currently truckers in the New York/New Jersey area have simply increased their pricing saying take it or leave it. There is currently more work (more containers and it takes longer to handle 1 container) out there for them to do than what they can handle.

F.) This one is not based on anything I read but strictly an observation on my part. Almost all of our import clients have been complaining that their Far Eastern suppliers are significantly behind their shipping schedules. This is probably in part due to the raw material and energy shortages experienced particularly in China. We have seen a sudden increase in freight bookings which started about 6 weeks ago. Accordingly I suspect that many factories are running several weeks/months behind schedule and are now shipping in order to still make it for the Christmas season. I expect that if this turns out to be so, that things are going to get still worse before they get better.

In order to keep freight moving we a generally instructing our offices in the Far East now to ship with the carrier offering space with the earliest advertised ETA. The exception is the East Coast where our instructions are to ship under the following priority system:
1.) AWS
2.) MLB via Tacoma/Seattle
3.) MLB via Los Angeles/Long Beach

We have service contracts with 14 carriers committing to moving over 120,000 TEU's. This means that we do have plenty of alternatives to secure space one way or another.

2.) Rise in cost

The following increases have been announced by ocean carriers

A.) Canada Maritime/Cast, Hapag-Lloyd - Imports via Canadian Gateways (even though I have not seen notices from other carriers it is safe assume that they will push for similar increases)
Effective October 1, 2004 - US$ 240.00/20' - US$ 300.00/40'

B.) Conference carriers from Northern Europe (Hamburg - Le Havre range) - Effective October 1, 2004 US$ 240.00/20' and US$ 300.00/40'

C.) The US South Europe Conference (Italy/Spain) - Effective October 1, 2004 - US$ 200.00/20' - US$ 250.00/40'

D.) Far East / USA - Bunker Adjustment Factor (BAF)
Effective October 1, 2004 - December 31, 2004
From US$ 175.00/20' to US$ 205.00/20; - From US$ 230.00/40' to US$ 275.00/40' - from US$ 260.00/40'HQ to US$ 310.00/HQ and from US$ 290/45' to US$ 345.00/45'
This translates into increase in BAF of US$ 30.00/20' - 45.00/40' - 50.00/40' and 55.00/45'

E.) In addition to all of the above I have just seen some announcements by Canada Maritime and CAST introducing the following charges effective 09/15/04:

ISPS (International Ships and Port Security) Terminal Security Surcharge ranging from EUR 5.10 in Spain and EUR 9.00 per container. This fee is actually levied by the various terminal operators who had to get their operations in compliance with new security measures. For this reason the charges may be different from terminal to terminal within the same country.

In addition there will be an ISPS Administration Fee of EUR 5.00/container or GBP 3.50/container respectively to cover for the added expense of paying and collecting the new fees (ISPS Terminal Security Surcharge) imposed by the terminal operators.

As every time carriers make such rate increase announcements one has to wait and see if any of the increases will go through and if so by what amount. However looking at the supply and demand situation one should expect some of the increases to make it through at least to some degree.

3.) Airfreight

So far airfreight has been moving comparatively smoothly and rates have been relatively stable not considering short term spikes and not counting the increases in Fuel Surcharge (FSC). However, I would not be surprised if airfreight from the Far East in particular may increase shortly as manufacturers and importers start rushing to make up for lost time in production and in consideration of the delays in ocean shipping. Christmas is now approaching shortly and some importers may have no choice.

Obviously I realize that this is another email filled with bad news and all I can offer is that we are feeling your pain. As a result of the various issues outlined above and not even mentioning the extra steps that need to be taken as part of national security it takes literally twice the time to handle a file compared to what it took 3 years ago. As a forwarder who as part of his services advances funds on behalf of importers, higher rates are never a good thing as it means for us more cash on the street to finance the same business with the same margins.

As always I assure you that we shall do all we can to keep your freight moving as fast as possible. We are in daily contact with our counterparts abroad who have been wonderful in searching and finding alternatives in moving your freight and in communicating such alternatives professionally and promptly.

If you have any questions or require additional information please do not hesitate to contact me at any time.

Thank you for your support and best regards
Andreas

I shall be out of the country starting September 16 and return to the office on September 21, 2004.

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