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PIERS

# Why NVOs Like Congestion

By Peter T. Leach

## Plus Market Dynamics: Imports & Exports 1H2015 vs. 1H2014

IHS MARITIME & TRADE

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# Introduction

This report is the fourth in a series published by PIERS detailing the performance of Non-Vessel Operating Common Carriers (NVOCCs) in the U.S. ocean liner trade markets.

The enclosed report examines the NVOCC market providing a 1H2015 vs 1H2014 comparison which provides ocean carriers, NVOCCs, importers and exporters a macro-assessment of the performance of NVOCCs in U.S. ocean liner shipping markets. This comparison offers a view of performance over time so the user can compare NVOCC performance with overall market growth. The report enables users to track import growth of the NVOCCs in the U.S. ocean liner trades and around the world.

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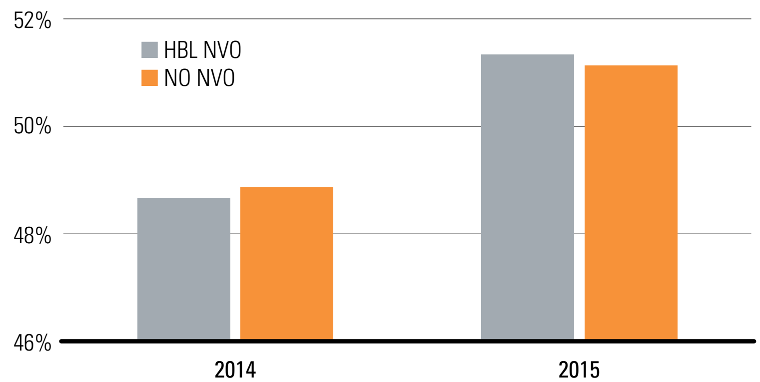
Figure 1

OVERALL NVOCC IMPORT INVOLVEMENT

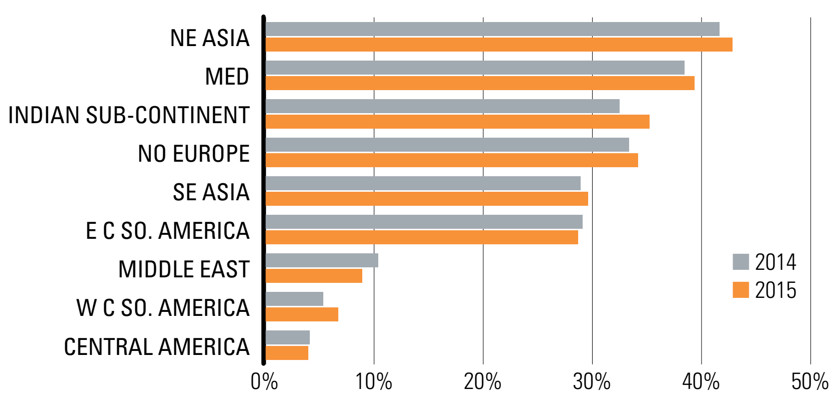



*Study based on House Bill of Lading submissions to the US CBP*

Figure 2

TOP REGIONS WITH NVOCC INVOLVEMENT

■ *Jan.- June by region*




*Study based on House Bill of Lading submissions to the US CBP*

*Source: PIERS, a product of IHS Maritime & Trade*

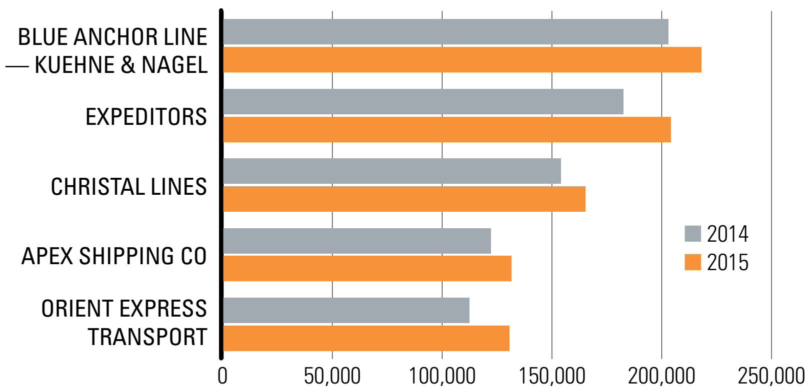
In examining the data contained in this whitepaper and in the analysis around it, one major conclusion can be drawn: NVOCCs are penetrating a larger segment of North American container shipping and, critically, are impacting the direction of the market, more than ever before. Certainly, NVOCCs' share of U.S. containerized ocean cargo has vacillated in recent years, but as market forces become more volatile, more disruptive and less predictable, an increasing number of importers and exporters are turning to NVOCCs for solutions. That was the case during much of 2014 and early this year, as beneficial cargo owners sought solutions to one of the most disruptive supply chain events in recent memory: the gridlock that locked down West Coast ports during a dispute over longshore labor negotiations that stretched for nine months. At its worst, dozens of large container ships sat anchored in Los Angeles-Long Beach, unable to berth for weeks. By the time the crisis ended in the spring, NVOCCs had increased their share of U.S. imports further, growing 6 percent year-over-year in the January-May period.

As market forces become more volatile, more disruptive and less predictable, an increasing number of importers and exporters are turning to NVOCCs for solutions.

Figure 3

TOP 5 IMPORT NVOCCS SEE GAINS IN FIRST HALF OF 2015

■ *First half results of top NVOCC's identified by HBL's submitted to US CBP*



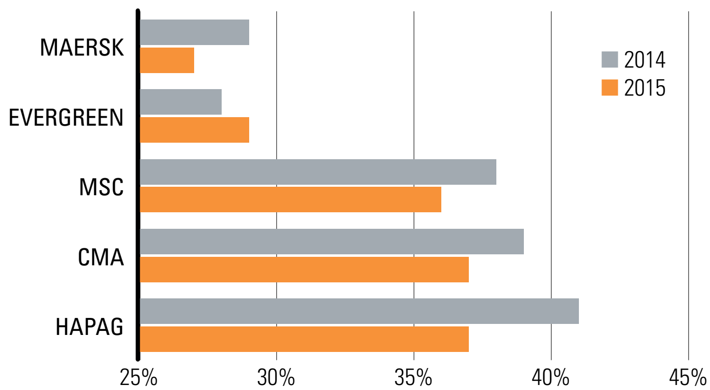

*Source: PIERS, a product of IHS Maritime & Trade*

But as NVOCCs' share of U.S. containerized trade grows, rate volatility is doing the same — in some cases, large BCO (Beneficial Cargo Owner) service contracts have become pricier than smaller shippers have received through NVOCCs on the spot market. And, although spot rate volatility on the trans-Pacific trade is much less severe than on the Asia-Pacific — where NVOCCs traditionally have carried a much higher share of the cargo — that's not necessarily a success story, considering some BCOs received Asia-Europe pricing netting zero dollars early this summer.

Whether NVOCCs will hold onto the gains they made during 2014 and early this year remains to be seen, but through the first six months of the year, the momentum appears to be waning — understandable considering the resolution of the West Coast longshore contract in the spring, the easing of congestion and the massive amount of space carriers have to fill in their mega-vessels. But with the peak shipping season in full swing, and with declining fuel prices igniting consumer sentiment and spending, another bout of congestion is never far off. That and other unforeseen disruptive forces likewise could reignite another NVOCC rally.

Figure 4

OCEAN CARRIER RELATIONSHIPS WITH NVOCCS DIPS IN 2015




*Source: PIERS, a product of IHS Maritime & Trade*

PIERS NVOCC actionable intelligence offers industry analysts and marketing professionals highly targeted insight into NVOCC market performance and must-have intelligence to help determine the underlying factors of its growth as well as its impact on your business.

Our team of NVOCC solution experts will work closely with you to understand your goals and challenges, and develop a solution that provides the insights that allow you to make smarter, data-driven decisions.

## METHODOLOGY

PIERS collects Carrier Manifests from the US CBP. When PIERS receives a NVOCC House Bill of Lading we match the two documents and present it in our data. This report is based on House Bill of Lading submissions only.

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PIERS

# Why NVOs Like Congestion

## Non-vessel-operating common carriers join East Coast ports as the big beneficiaries of the gridlock gripping West Coast ports.

**BY PETER T. LEACH**

The damage inflicted by months of West Coast port congestion and supply-chain delays lingers even now, more than a month after management and labor ratified a new longshore contract on May 22. Trans-Pacific volumes at West Coast ports have returned to normal levels, but the ports and carriers that call them lost market share in the first five months of 2015. The only winners were non-vessel-owning common carriers and East Coast ports.

Trans-Pacific volumes at West Coast ports have returned to normal levels, but the ports and carriers that call them lost market share in the first five months of 2015.

NVOCCS gained market share in 2014 as importers and exporters sought ways to reroute their cargo around congested West Coast ports to the East Coast, Canada and Mexico. The volume of all U.S. import cargo booked in vessel space controlled by NVOCCs increased 6 percent in the first five months of 2015 compared to the same period last year.

Forty-three percent of the 112 shippers responding to a recent Journal of Commerce survey plan to shift varying amounts of cargo away from West Coast ports during the upcoming peak season. Half of those who said they plan to shift cargo away from the West Coast plan to shift only a small portion, less than 5 percent.

"It's very understandable, given the mess in the California ports and on the West Coast, that customers would turn to NVOs to help them through all of those problems and all of those delays," said Richard Armstrong, chairman and CEO of Wisconsin-based logistics consultant Armstrong & Associates. "I suspect that some of that business will stay with the NVOs just because you don't know when you'll have another crisis. The NVOs are building those relationships, and I expect they will hold pretty well."

But if the past is a precedent, it may be too soon to tell whether the NVOs will hold their share. They enjoyed a significant increase in share in 2010 and 2011, when carriers idled 10 percent of their fleet to tighten capacity and boost freight rates. NVOCCs' share of trans-Pacific volume jumped to 39 percent in 2011, but that share fell back to 31 percent by 2013.

"Given the mayhem we saw last year and this year until the ILWU contract was signed, it's no surprise that NVOCCs gained share, because people were looking for space," said William Rooney, vice president of trans-Pacific sea freight for Kuehne + Nagel, which operates Blue Anchor Line, the largest NVOCC in the U.S. trades. "But now we're at an inflection point. Shippers built up inventory in anticipation of a strike. Now the questions are: Do they have too much? Will they start reordering or will they work down their inventory first?"

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Cargo volume shipped in vessel space controlled by NVOCCs in the trans-Pacific increased 7 percent year-over year in the January-May period. In the trans-Atlantic, which includes trade between the U.S. and northern Europe and the Mediterranean, the NVOCC business increased 10 percent year-over-year through May.

As a result, the NVOCC share of trans-Pacific imports in the five months through May increased to 38.5 percent, up half a percentage point year-over-year. The NVOCC share of trans-Atlantic import volume jumped a full percentage point to 35 percent during the same period.

Meanwhile, East Coast ports, which handled more loaded containers than their peers on the West Coast in the first quarter, were nearly at parity with West Coast traffic by April. East Coast ports increased their share of U.S. import volumes to 44 percent in the first four months of the year, up about 5 percent from December, also according to PIERS. West Coast ports' share of U.S. container imports dropped from 54 percent to 49 percent in the first quarter.

The NVOCC share of the total U.S. import cargo business climbed to 35 percent in 2014, from 31 percent in 2013, according to PIERS data, which is based on house bills of lading that the NVOCCs submit to U.S. Customs and Border Protection. The NVOCC share of U.S. exports jumped to 24 percent in 2014 from 14 percent in 2013. In the first five months of 2015, the NVOCC share of exports climbed to 25 percent.

The actual NVOCC share of imports may be much higher than that because not all NVOCCs submit house bills of lading to Customs. "It's probably about 50 percent or 55 percent on the trans-Pacific," said Andreas Krueger, senior vice president and head of ocean freight Americas at DHL Global Forwarding. DHL's NVOCC arm, which operates under the Danmar brand, is the seventh-largest in the U.S. trades by volume.

Krueger thinks the overall NVOCC share will increase but then plateau. "I would give it another 5 percentage points perhaps, but then it will stabilize at the level," he said. "There are too many large BCOs who will not engage necessarily with NVOCCs."

The NVOCC market share could hold at current levels if carriers continue to cascade larger ships onto the trans-Pacific that result in slower turnaround times at West Coast ports. "The one thing that's here to stay is vessel size versus infrastructure on the West Coast, so the new normal on the West Coast is going to be slower than par in how quickly they are turning the boxes around," Krueger said. "So there are elements of cargo diversion that still survive in the current context."

"The one thing that's here to stay is vessel size versus infrastructure on the West Coast."

One reason NVOCCs increased their import market share in 2014 and early this year is that small and medium-sized shippers who had not previously contracted with carriers to import their cargo through East Coast ports found them shut out as space to the East Coast tightened.

"What you want to do is to give the carriers some business to these other ports so that when push comes to shove you have a track record and some credibility so you can increase it," Krueger said. "I would still do the bulk to the West Coast if that's where your hinterland infrastructure is, but you should consider diverting 10, 15 or maybe 20 percent of your cargo to other ports."

NVOCC executives aren't shy about proclaiming the benefits of shippers using their service. "All of this instability where people aren't sure about what's going to happen next makes it easier for the shipper to deal with someone who is a little more nimble than carriers and has a lot of options at their fingertips," said John Abisch, CEO of Econocaribe, a Miami-based NVOCC that specializes in less-than-container load shipments. "Carriers continue to be very cost-conscious, and as they do, the levels of customer services they offer continue to deteriorate, which is complicated for my operators but great for my salespeople."

Although a small player in the trans-Pacific, Econocaribe saw a lot of that cargo diverted to the East Coast during the drawn-out West Coast labor negotiations between the Pacific Maritime Association and the International Longshore and Warehouse Union. Econocaribe's trans-Pacific volume to the West Coast grew 10 percent in the first five months of 2015, while its cargo volume from Asia to the East Coast doubled, albeit from a small base. Although it specializes in the LCL business, Econocaribe has diversified recently into the full-container-load business. Because freight rates have been so low on many of its global trade lanes, some of its LCL customers have found it just as economical to put together a full 20-foot container.

The biggest source of the increase in NVOCC business in the last year came from small and medium-size shippers that didn't have enough volume and hence clout with their carriers to find space on vessels from Asia to the East Coast that became increasingly tight as delays at West Coast ports mounted.

"West Coast port congestion moved the shipping public more toward NVOCC solutions rather than carrier-direct," said Frank Guenzerodt, president and CEO of Atlanta-based Dachser USA. "As an NVOCC, we were able to come up with different solutions and different routings to the East Coast."

Many shippers that used Dachser to reroute their cargo to the East Coast plan to maintain that routing. "Although the East Coast rerouting is substantially more in transit time and cost, we have many clients who will continue to leave a certain percentage of their business on that routing just because who knows what will happen on the West Coast," Guenzerodt said.

About 15 percent of Dachser's total U.S. import volume shifted from the West Coast to the East Coast, mostly to Charleston, Savannah and New York-New Jersey. It could have been more, but growth was limited by East Coast port congestion and available vessel space.

Although NVOCCs don't compete directly with the shipping lines from which they lease space for their customers, relations between the two sectors can be troubled. In an article published in Lloyd's List, Karl Gernandt, chairman of Kuehne + Nagel, called the relationship "fraught with suspicion and almost existential fears," when they should be working together to make ocean transportation more competitive.

Although NVOCCs don't compete directly with the shipping lines from which they lease space for their customers, relations between the two sectors can be troubled.

Some carriers benefit from better relations with NVOCCs than others, depending on their individual strategies. Mediterranean Shipping Co. and CMA CGM have been aggressive in courting NVOCCs, while Maersk Line and Hapag-Lloyd prefer to fill their ships through direct relations with shippers. The difference shows up in the PIERS data for the first five months of 2015. Of the top six carriers that have the heaviest NVOCC partners, only Maersk and Hapag-Lloyd saw their NVOCC volumes decline. Maersk's NVOCC-related freight plummeted 17 percent in the first five months year-over-year, while Hapag-Lloyd's dropped 6 percent.

In the same period, MSC's NVOCC volume increased 8 percent, while CMA CGM's jumped 17 percent. Zim Integrated Shipping Services and Hamburg Sud enjoyed a 62 percent increase in their NVOCC freight in this time period.

## NVOCC Shift Goes Global

**BY GREG KNOWLER**

Port disruption on the U.S. West Coast may have forced non-vessel-operating common carriers to review their Asia-U.S. cargo flows, but it's just part of a larger, global trend in the less-than-container-load business.

The moves to cut out Southern California have been developing during the past few years and will continue, according to Mike Dye, group managing director of global logistics company CL Worldlink in Hong Kong. "This is happening globally across all trade lanes," he said. "The old hub system of consolidation is a last resort these days, and consolidators are attempting wherever possible to build a direct service with no transshipment or rehandling" from container freight station to container freight station.

"The old hub system of consolidation is a last resort these days."

Many NVOCCs have been going after the port diversion business, and all have seen their share of 2014 U.S. import cargo increase. Nine of the top 10 carriers increased the NVOCC share of their import cargo last year.

Some NVOCCs are adjusting their cargo flows to minimize the use of the Los Angeles-Long Beach corridor. Clark, New Jersey-based NVOCC CaroTrans, for example, this month launched a weekly LCL service between the southeastern U.S. and Japan that will cut out West Coast ports.

The service will eliminate the need for transshipment and double handling in Los Angeles and Busan. That, Carotrans says, will translate to lower costs, speedier delivery, less risk and greater reliability and stability for cargo and cargo owner alike. "Recent market challenges revealed the need for transportation alternatives for global supply chains," CEO Greg Howard said.

CaroTrans has added six weekly, direct LCL and full-container-load services in the past six months, including an offering from Montreal to Le Havre, France, that it also is pitching as an effort to cut costs and provide more options and flexibility to customers.

Not all NVOCCs are avoiding the West Coast, however. Dependable Global Express actually is increasing the frequency of its LCL sailings from Los Angeles to the west coast of Central and South America, moving to a weekly sailing schedule. It will ship to Panama City, San Salvador and Guatemala City, adding the destinations to weekly sailings to San Jose, Guayaquil, Callao, and Valparaiso.

"U.S. shippers moving freight into Latin America's west coast, particularly those shippers west of the Mississippi River and in the Midwest, now have a faster, more affordable and easier alternative than trucking freight to Miami," DGX President Brad Dechter said in a statement.

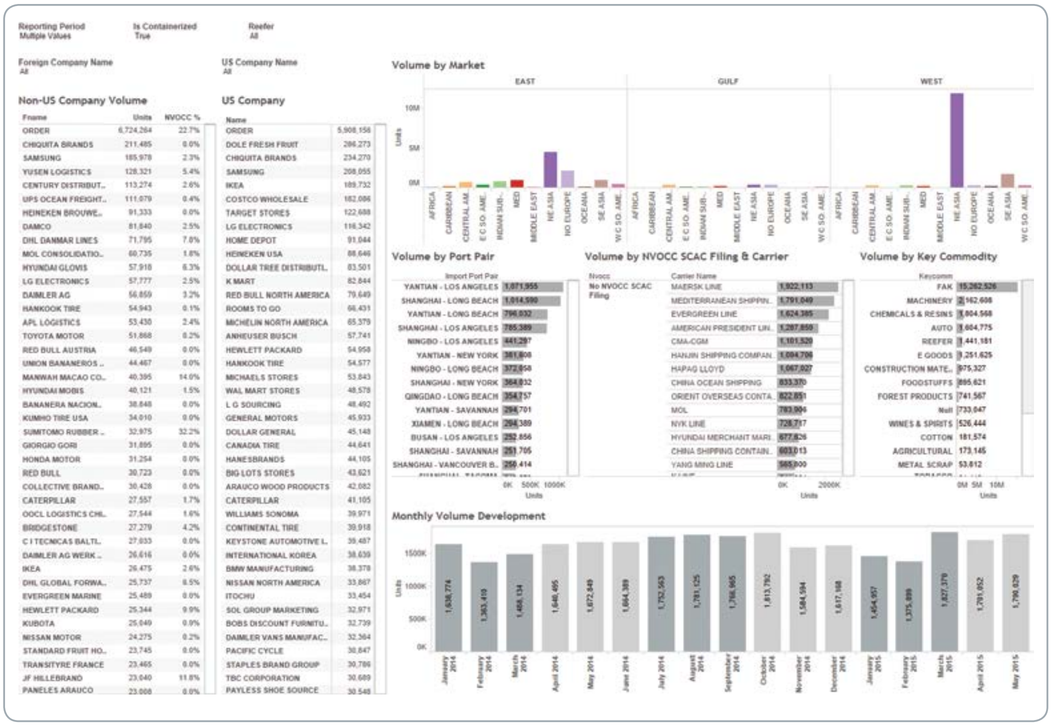
The search for new options for shippers is what drives NVOCCs that are independent or units of third-party logistics providers that also provide a host of other cargo services, including freight forwarding, consolidation and customs brokerage. A lucrative part of the business is the transporting of LCLs, with rates at the lower end of the premium level.

"The name of the game in LCL is to load freight into containers at a consolidation point closest to point of origin and unpack at a point closest to the final destination," Dye told The Journal of Commerce. "This is driven by both cost — trucking is much more expensive than containers on the rail or on the water — and cargo care. Less handling means less chance of pilferage, damage or missed connections, scheduling challenges or delayed arrival.

"The larger players will tend to offer the most number of direct services, but each local market generally has several options, local heroes and the global NVOCCs," said Dye, who until recently was president and CEO of AGS World Transport, an Asia-Pacific NVOCC handling 100,000 20-foot-equivalent container units a year. "In certain markets the local players are stronger than the global NVOCCs."

"Recent market challenges revealed the need for transportation alternatives for global supply chains."

# About PIERS NVOCC Solution




## PIERS: unique and seasoned expertise in the NVOCC market

PIERS has been documenting and tracking NVOCC participation in this market since 2002 and has witnessed firsthand its explosive growth.

PIERS dynamic NVOCC intelligence offers industry analysts and marketing professionals highly targeted insight into NVOCC market performance and must-have intelligence to help determine the underlying factors of its growth as well as its impact on your business.

As the leader and most respected provider of trade intelligence, we understand the valuable insights trade data offers. PIERS has developed an NVOCC Solution using interactive analytics dashboards so you can quickly and easily extract the intelligence you need.

With our keen ability to capture and accurately process/represent both the House & Master Bills of Lading, you now have the ability to find BCOs with a strong preference to moving with NVOCCs, determine who their U.S. based trading companies are and learn more about your competition for imports. All the charts and tables on the interactive dashboards are integrated and respond to selections within a chart or filter and can be tailored to the workflow of executives, analysts, sales, and operations professionals. Instantly analyze performance/ market share/competitive standing by NVOCC/Carrier/ Commodity; measure the impact of commodity supply/demand; maintain, grow or deny Trade Lane presence and so much more.

Our team of NVOCC solution experts will work closely with you to understand your goals and challenges, and develop a solution that provides the insights that allow you to make smarter, data-driven decisions.

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**ITERATIVE IMPROVEMENTS:** Your market continues to evolve and so should your data… Our team will work with you to continually adjust and improve your solution.

**DECISION-READY INTELLIGENCE:** With our intuitive dashboards the answers to your burning questions are no more than a few clicks away.

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# About Us

## About PIERS

PIERS has been at the forefront of delivering business intelligence on international trade activity for more than 40 years. Every year PIERS processes over 17,000,000 bills of lading filed with U.S. Customs and using our proprietary 6-step process converts this raw data into solutions that deliver decision-ready intelligence. Complementing our unrivaled U.S. trade intelligence, our international trade data provides import and export transactions in 19 international markets and statistical trade data for over 80 countries.

www.piers.com

Enterprising NVOCCs growing their market share and expanding their competitive edge turn to PIERS for trade knowledge resources and dynamic intelligence tools to meet their specialized needs. PIERS has a wide variety of solutions geared towards NVOCCs, Ocean Carriers, Manufacturing, Food/Agriculture, Chemical, Energy, Financial Services and others, empowering them to gain insights into import/export trade activity to: generate sales leads, monitor market share, source raw materials, view volume trends of major competitors and much more.

Our customers include many of the world's Fortune 500 companies, which rely on PIERS for customized business intelligence solutions that drive their company's strategic decisions.

## About IHS

IHS Maritime & Trade is the trusted source of maritime and data, research, analytics and consulting services, with a global customer base of over 8,000 commercial and public sector organisations. Our capabilities and expertise enables our customers to manage complex global supply chains profitably, efficiently and safely.

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IHS is the sole originating source for assigning IMO Ship and Company numbers; only IHS has the world's largest and most comprehensive maritime and trade datasets, and an information and research heritage spanning over 250 years.

IHS Maritime & Trade's core capabilities include:

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- The world's largest network of land-based and satellite AIS receivers providing real-time coverage of live vessel positions
- The largest database of bilateral trade statistics covering 85 countries and over 90% of total global trade
- PIERS database of U.S. waterborne imports and exports at highly-granular bill of lading level of detail

The combination of these capabilities, in addition to data modelling, macroeconomic and industry expertise across IHS, enables IHS Maritime & Trade to provide unique analysis and forecasts addressing strategic issues for our customers. These include detailed forecasts of global trade by commodity and transportation mode, shipping fleet capacity and freight rate forecasts, and the creation of bespoke market studies for clients in support of specific industries, regulatory or investment requirements.

The IHS Maritime & Trade portfolio is made complete with the provision of market-leading publications and websites including the Journal of Commerce, IHS Maritime Fairplay, JOC.com, and the Official Register of Railroad Equipment (ORER), as well as industry-leading conferences around the world including TPM, attended by over 2,000 delegates annually.

IHS Maritime & Trade's origins can be traced back to 1764, through the Lloyd's Register of Ships. In 2009, IHS completed the acquisition of Lloyd's Register Fairplay, followed in 2014 with the acquisitions of Global Trade Information Services and the JOC Group, enabling the creation of this unique and integrated perspective on global trade and the maritime industry that empowers it.