

antitrust immunity tenets should not be changed and to provide details about how the FMC exercised its enforcement to prevent industry price-fixing abuse.

"I will bet you a milkshake that there is garden variety price fixing going on under the nose of the FMC, and I like vanilla," said AMC Commissioner Shenefield.

Andrew Heimet, AMC's executive director and general counsel, said the commission expects to issue its recommendations in a report to Congress by April 2007. "Then it's up to Congress," he said. "They will decide what to do with our report."

What's Next? Although no shippers testified on the AMC panel, the National Industrial Transportation League submitted written comments to the commissioners.

"Businesses engaged in the U.S. foreign trade should not be required to pay higher rates or charges that are derived from collectively established benchmarks, unless there is a compelling need to permit the anticompetitive conduct," the NIT League said.

During the negotiations of OSRA, the NIT League supported the continuation of antitrust immunity for ocean carriers and terminal operators, as long as shippers were provided the right to negotiate individual service contracts without interference from carrier conferences. "The league believed that such a measured approach to reforming the Shipping Act was the appropriate course of action at the time," the NIT League said.

The NIT League noted that service contracting decimated the conference system, but discussion agreements persist and serve as "benchmarks" for across-the-board general rate increases and surcharges.

"Many shippers question why steamship lines are not required to establish prices based on their individual costs like almost all other industries operating in the United States, given the current structure and modern workings of the industry. They further question whether the carriers continue to need antitrust protection, and whether even greater public benefits would result from removal of the immunity," the NIT League said.

Within days of the EU Competitive Council's recent decision to abolish antitrust immunity for liner carriers in the European trades, the NIT League and other members of the newly formed Global Shippers' Forum (formerly the Tripartite Shippers' Group) announced that one of their collective goals is to eliminate anticompetitive business practices of liner carriers globally (November *American Shipper*, pages 6-8).

In addition to the United States, shippers in Japan and other Asian countries are starting to pressure their lawmakers to eliminate collusive pricing privileges for liner carriers.

The NIT League is not opposed to liner carrier discussions regarding vessel sharing, slot-chartering and other improvements to carrier asset use. The NIT League said it "strongly supports these kinds of efficiency-enhancing activities that do not involve the collective establishment of shipping rates and charges."

Peter Gatti, executive vice president of the NIT League, told *American Shipper* that the government should use this time to col-

lectively consult with the maritime industry — shippers, NVOs and carriers — to come up with the most sensible recommendations for phasing out aspects of antitrust immunity in OSRA. This review should also include an analysis of the recent changes to European maritime shipping laws, he said.

"Despite the obvious European influences that are out there, the final determinant for changes in the U.S. Shipping Act is going to come from how these changes will prove to the freight transportation community and ultimately to the U.S. consumers," Gatti said. "Antiquated economic regulations that only serve to perpetuate the past can no longer be tolerated." ■

Simplifying the 3PL decision

Industry officials say choice should come down to those who effectively share information, minimize risk.

BY ERIC JOHNSON

The market for third-party logistics providers can seem as vast as an ocean for shippers looking to find their ideal trading partners.

Small, niche 3PLs or large, multinational ones? A 3PL in your area or one that provides the appropriate set of services?

Well, for starters, shippers shouldn't think of limiting themselves to one partner, said panelists at the Organization of Women in International Trade's annual meeting in San Francisco in September.

The panel also said that, when choosing a 3PL, shippers should think in terms of minimizing their supply chain risk.

"Look for unique combinations of 3PLs," said Sean Scarborough, president of Kansas City-based Scarborough International, a 3PL and freight forwarder. "There is no 3PL provider out there that can be everything to everybody. What is best? Best is a subjective measure. I can't tell you what the best solution for you is because I don't know your business."

An important part of choosing the right 3PL includes involving the logistics department.

"The folks at the logistics level aren't involved in the decision-making upfront," Scarborough said, citing issues like the sourcing location of product and the potential supply chain challenges that sourcing location creates. "The company makes a decision and the logistics folks are stuck with the consequences."

Managing risk is just as important — and

not the type of risk one might imagine, like the kind that stems from burning container ships or overturned trucks.

"Think of risk beyond security or shrinkage," said Petere Miner, president of Future-Freight Corp. "Think of it as anything that causes variability in your supply chain ... You also need to know how much risk is costing you. Risk comes with a price tag and someone is absorbing that cost somewhere along the line."

The uneven flow of global trade, for instance, is challenging carriers and, in turn, creates capacity risk for shippers.

"There's a cost to the risk of not having capacity," she said. "Sourcing everything out of Asia is creating a tremendous imbalance for carriers."

Making the justification for the existence of 3PLs, Miner said they are best placed to handle the challenges of supply and demand.

"Manufacturers are best suited to handle demand risk," she said. "Carriers mitigate the risk of supply through asset management. And 3PLs are best suited to handle all of that. And so the ones who can best take on risk should get a premium for that."

Scarborough gave another example of risk.

"If you're a shoe importer in Europe sourcing in China, you might have a political issue because the EU might impose restrictions on Chinese shoes," he said. "Variability is bad in manufacturing. It means your line stops. As variability is reduced, inventory

carrying costs go down.”

The need for information sharing, so often cited, was also stressed.

“Demand management is worth gold to your logistics provider,” Miner said. “You should be asking yourself, ‘how do I forge a deeper relationship with my 3PL?’ The more they understand what you need, the more they can get to that next level of innovation.”

Scarborough said a good 3PL ought to be willing to let the shipper understand how it satisfies its own bottom line.

“A good chunk of our customers don’t understand the margins for forwarders,” Scarborough said. “We’re not a charitable organization so I have no problem showing our customers how much we make. We see our ability to share information in a way that doesn’t jeopardize either party’s business as very important for our business going forward.”

Scarborough said that shippers should keep in mind that “the cheapest solution is not always the best solution.”

He also said that there is a way for shippers to mitigate rising fuel costs — a topic never far from the mind of anyone in the supply chain these days — especially as carriers burden shippers and forwarders with increasing fuel surcharges.

“Everyone hates fuel surcharges, but as importers and exporters, fuel is the easiest thing to hedge,” he said. “It’s just as easy as protecting against currency fluctuation.”

Shippers should calculate their spend on fuel and fuel surcharges, then buy a “straddle” — a high end and low end of fuel futures, creating a band of price security.

“You simply look at how many tons of freight you moved, the average fuel price, what you paid in fuel surcharges and what you project you will move,” Scarborough said. “You can hedge a month at a time, or a quarter at a time. And as fuel prices go up, your contract is worth more.”

An important facet of fuel futures to consider is that your contract has nothing to do with what you’re actually spending on fuel to move your goods. It’s simply a way to earn revenue to offset the rising costs of fuel.

“You’re hedging a dollar spend with someone not related to the person you’re spending money with,” he said. “If you buy at \$65 a barrel and oil goes up to \$80, you’ve made \$15.”

And then beyond fuel, Scarborough said that shippers shouldn’t view their relationships with 3PLs, or even 4PLs (logistics providers who manage the overall supply chain rather than just one or two functions of it) as competitive or adversarial situations.

“Treat your relationship with a 3PL or 4PL as if it were an asset that you owned,” he said.

And Miner said shippers should be cognizant of a shift that’s occurring in the industry in how best to integrate 3PLs. The traditional model of buying and selling will take a back seat to “a more holistic way of arranging global activities.”

“There’s a whole change in thinking about what we’re looking for in a 3PL,” she said. “I’m a firm believer we’re at the precipice of a new way of how supply chains are managed.”

Crucial to that will be supply chain management systems that more efficiently integrate information and disseminate them to employees and trading partners even more efficiently.

In another panel, Rosalie Cmelak, senior product strategy manager for Oracle, said an important beginning point is making sure everyone is working from the same source of information.

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Sean Scarborough
*president,
 Scarborough
 International*

“There’s tremendous business pressure to meet customer expectations along with pressure from carriers,” she said. “What we hear from customers is, ‘If we only had visibility.’ Well, if you don’t have a global logistics network (where carriers and other partners all collaborate on a single platform), that’s the first step. You’re looking for a single source of truth.”

After making sure everyone is reading from the same book, execution must be localized, so that the centralized information is disseminated in a way that different locations, with different cultures and languages and different business functions, can use it with equal effectiveness, Cmelak added.

“The problem with a great system is it’s not useful unless you get data,” said Kim Le, client services manager for CargoSmart, one of three Web portals for ocean carrier bookings. “Or what if you have too much information and no way to filter it? We’re seeing more and more companies looking outside their organization for information.”

CargoSmart, along with the other portals, INTTRA and GT Nexus, are increasingly offering services for shippers and carriers that provide the information links that have been missing in the supply chain.

“Sharing information with partners increases data accuracy,” Le said. “It saves you from logging all the information yourself, and many partners see this as a value-added service.”

Other tidbits from the conference:

- Beth Petersen, president of consulting firm Beth Peterson Enterprises, said the Automated Commercial Environment will surely end up being a major burden on shippers in coming months, and the sooner they come to terms with it and what needs to be done to keep their business compliant, the better.



Petersen

Deborah Spero, deputy commissioner of U.S. Customs and Border Protections, agreed in her keynote speech. “Those who have not signed up for ACE need to be woken up to the benefits,” she said.

- Rick Wen, vice president of business development for ocean carrier OOCL, said that while China may have a significant advantage over the United States in terms of port capacity and marine terminal efficiency, shippers should be aware it lags well behind North America in terms of inland transportation efficiency and risk.



Spero

Wen said that truckers in China have increasingly shifted to using 60-foot-long flatbed trucks — capable of hauling two containers’ worth of goods — in order to maximize their per-haul efficiency. The result, however, is a predominance of overweight, over-height, over-length and over-width shipments. It’s clear to see, though, why truckers are taking on the additional risk of abandoning tractor-trailers in favor of the flatbeds.

“We talk about how hard the fuel costs are on us here, but to put this in perspective, the average trucker (in China) earns less per month than one tank of gas costs,” Wen said.

Rail is not often an option, either, he added. “Two-thirds of rail bookings are declined due to lack of capacity,” Wen said. “The military used to take priority, but now energy and passengers are considered priorities over freight.” ■