WSSA Grapevine

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INSIDE THIS ISSUE:

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ILA Ports will work, at least to year end

Federal mediators intervened in the ILA contract talks with the USMX on September 6, and formally sat down with the two parties on Sept 17. That meeting led to the announcement by the Federal Mediation and Conciliation Service (FMCS) on Sept 20 that both sides agreed to extend the current contract for 90 days, to allow time to fully discuss the remaining issues.

Importers and exporters throughout the country breathed a collective sigh of relief, as the talks became non-productive after August 22, and would surely have resulted in port work stoppages once the ILA contract expired Sept 30. The International Longshoremen's Association controls dock labor in virtually every US container port from Maine to Texas, so a work stoppage would shut down all major Atlantic and Gulf ports. Many importers and exporters had already executed contingency plans, the most workable of which were either finding the few non-ILA ports with container service or shipping via US West Coast ports. Canadian ports, while not affected by these contract discussions, were not a realistic option because of the massive volumes of cargo which would be redirected to them.

WSSA's Geoff Giovanetti was interviewed by several trade publications, including *Wine Spectator* magazine, and described how port closures would affect the beverage industry and shared some of WSSA's contingency plans in the case of a coast-wide dock strike. Geoff also appeared on a webcast sponsored by *American Shipper* magazine, together with representatives of the National Industrial Transportation League, Retail Industry Leaders Association, Procurian, and American Shipper.

Fourth quarter holiday shipments should not be disrupted, and $1,000 "congestion" surcharges announced by ocean carriers have been postponed until December 29. Now that we all have some breathing room, what's next?

A 90-day extension is not a solution to the contract problem, as the peskiest issue is that of "port efficiency". To Management (USMX) this means revising work rules so that ports—particularly NY/NJ—become more productive and thus less expensive. To Labor (ILA) anything which cuts costs means less income for individual dockworkers. Anecdotal evidence suggests ILA dockworkers earn an average of $150,000 per year (some over $300,000), so income issues are key to the ILA negotiators, and will not be conceded easily.

At this moment, things look encouraging, as FMCS Director George H. Cohen issued the following statement on Oct 14, after a week of discussions: "I wish to commend the parties for their hard work and commitment to this process. The parties are making good progress on a number of difficult issues at the full committee and sub-committee levels." Cohen followed on October 24th with another statement congratulating both sides on their efforts.

With focus now on restoring operations at NY/NJ ports, it's likely that talks will be delayed.

WSSA e-mailed members updates of the ILA contract situation as the events transpired. If you did not receive e-mail updates, please contact Heather Randolph (hrandolph@wssa.com) to ensure that you are on WSSA's broadcast list.

Wine and Spirits Shippers Association Inc.

Carrier Collusion in Setting Strike Fees?

"Almost all ocean carriers announced 'Congestion Surcharges' of identical amounts--$1000 per 40' ."

Almost all ocean carriers announced "Congestion Surcharges" of identical amounts--$1000 per 40' container, for example—scheduled to take effect at all open US ports in case of an ILA port shut-down. Under US shipping laws, carriers must provide 30 days' notice of any price increase, but may decrease announced increases at a moment's notice.

With the extension of the ILA contract deadline, these surcharges were postponed until December 29, 2012. APL was one of the few major carriers which did not follow, announcing "only" $400/40'. When APL postponed the surcharge effective date, they took the opportunity to increase the amount to $1000.

Several shipper groups are mounting challenges to the perceived collusion of each carrier establishing identical congestion amounts.

Ports of NY/NJ Closed for Sandy

Hurricane Sandy hit land at central New Jersey, and took a sharp right turn to devastate Port of NY/NJ terminal facilities. Port surveyors completed their assessment on November 4th, after which electricity was restored and debris removal began. As of press time (Nov 5), NY had not yet opened for ships.

Other North Atlantic ports—Philadelphia, Chester, Baltimore, and Norfolk—were operational by October 31st.

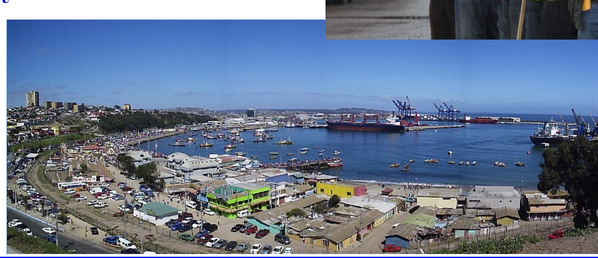
Most common carriers will skip NY until it reopens, discharging NY cargo at the next port in the rotation (many times it will be Norfolk). Members need to be aware that this is a "force majeure" situation (that is, neither the fault of the carrier nor the cargo), so the cargo-owner will need to pay to transport the cargo from whatever port it's discharged at to their destination.

Port Labor Issues Elsewhere in the World

"The cargo-owner will need to pay to transport the cargo from whatever port it's discharged at to their destination."

WSSA has also been closely watching work stoppages at other ports, most recently a 12-day strike at San Antonio, Chile. This strike expanded to a strike at the port of San Vicente, 500 km south of San Antonio. Although Albatrans' Chilean warehouse is at the port of San Antonio, urgent shipments were transferred to Valparaiso, approx. 90 km north, which was still working. An agreement enabled work at San Antonio to resume on October 6.

Shorter strikes and other dock labor issues have affected operations at ports in Spain, Portugal, France, and New Zealand over the last few months.



WSSA Members Avoid Most Freight Rate Increases

Most of WSSA's contract rates were set in the first half of 2012, and were either below or at 2011's levels.

Transatlantic carriers agreed to reductions from 2011's ocean rates when we agreed to 12-month contracts earlier this year, but have subsequently announced rate increases for July 1 and for October 1--in the range of $300-400 per 40' container each time. Because of strong member support, WSSA has been able to successfully avoid these rate increases. We thus can confidently predict that rates from Europe will remain at current levels, at least through March 2013. (Fuel Surcharges, of course, will continue to fluctuate.)

GRI's (General Rate Increases) from other origins have been announced on a quarterly frequency as well, but few as aggressive as from Europe. Thus, we have been able to hold most rates at initially agreed levels-- from South America, South Africa, and from Australia/New Zealand. GRI's from Asia, which do not affect most WSSA members, have increased transpacific rates substantially. For rate specifics from any origin, please contact your Albatrans representative.

"We thus can confidently predict that rates from Europe will remain at current levels, at least through March 2013. "

Ocean Fuel Surcharges ("BAF")

Fuel surcharges have not changed much for Sept-Oct-Nov-Dec, as indicated by the following Bunker Adjustment Factors from North Europe. All figures are for 20' containers, so 40' are double:

Carrier	September	October	November	December
APL to USEC/Gulf	NA	$315	$320	NA
APL to USWC	NA	$475	$480	NA
Hamburg Süd to USEC/Gulf	$450	$450	$450	$450
Hamburg Süd to USWC	$621	$621	$621	$621
Hapag Lloyd to USEC/Gulf	$160	$188	$196	$180
Hapag Lloyd to USWC	$248	$305	$323	$293
ICL to USEC/Gulf	$450	$464	$485	$464
Maersk to USEC/Gulf	$210	$220	$220	$220
MSC to USEC/Gulf	$220	$220	$220	$220
MSC to USWC	$220	$426	$426	$414
OOCL to USEC/Gulf	$291	$307	$307	$332
OOCL to USWC	$437	$462	$462	$500
Zim to USEC/Gulf	NA	NA	NA	NA

NA = Not Available at time of publication

Thus, the above fuel surcharges are for the purpose of post-freight auditing and to reflect trends in bunker fuel prices. Despite major differences among the BAF amounts, the total all-inclusive rates for the above carriers rarely vary by more than $100.

Ocean Carriers in the News:

•Hapag Lloyd will eliminate its direct call at Baltimore on its GMX service, beginning with vessels sailing from Europe on Dec 8. Hapag will continue to offer a direct call at Baltimore on its shared service with Atlantic Container Line.

•Low Sulfur fuel charges have been announced by most major steamship lines sailing between Europe and North America. Amounts vary, but are in the range of $20/teu, and are reportedly for covering the costs of burning more expensive fuel to comply with US federal emissions controls.

•The ice-breaker "Xuelong" ("Snow Dragon") has become the first Chinese ship to sail from China to Europe via the Arctic Ocean along the Russian coastline. Global warming is credited for the low ice presence, enabling the voyage to be over 40% shorter than conventional routes transiting the Suez Canal.

•Cargo aboard the "MSC Flaminia" exploded while she was in transit from Charleston to Antwerp. The July 14 explosion and fire resulted in the tragic loss of three lives and the impairment of the vessel. All remaining cargo aboard this vessel will be charged according to the principle of "General Average", whereby all cargo must sacrifice in order to save the voyage—i.e., pay costs for vessel salvage and repairs, lost/damaged cargo, and all other losses connected with this disaster. Most Marine Insurance Policies (including WSSA's) will provide automatic cargo release for General Average claims, whereas importers without insurance need to post a multi-year bond to cover their share of expenses.

•The MSC Beatrice berthed at Long Beach on Sept 30, which wouldn't be notable except for the fact she is the largest container vessel ever to arrive at any US port. She has the capacity to hold 13,800 teu's. Ships this size and even larger are presently under construction, and several US ports are scrambling to deepen channels and otherwise develop capabilities to handle them.

•ACL ordered five new container/ RO-RO ships, for delivery in 2015. The new ships, at 3800 teu's, will have over twice the container capacity as the vessels they replace, which ACL's CEO says will enable them to double their transatlantic market share to 9%. Unique for ACL's vessels is that their RO-RO (roll-on/roll-off) configuration enables them to also carry mobile construction equipment. Current ACL rotation is Liverpool, Antwerp, Gothenburg, and Hamburg to Halifax, New York, Baltimore, and Hampton Roads. ACL is considering changing its schedule to add a South Atlantic port for the new ships.

•APL's first half revenue increased 1%, to $4 billion, but the carrier sustained 1H losses of $239 million—largely because of non-recurring restructuring charges.

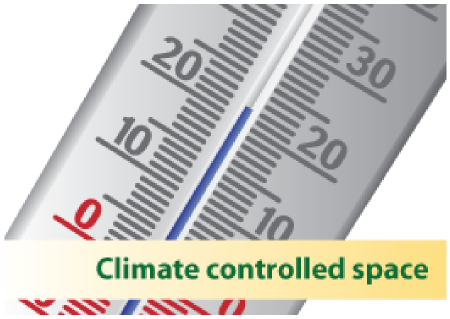
•Hapag Lloyd announced that Hanjin will no longer participate in their service between Mediterranean ports and Montreal, beginning November 1. The 5-vessel weekly rotation is Valencia, Cagliari, Salerno, Leghorn, Genoa, Fos, and Algeciras to Montreal. Beginning October 21, Hapag will call at Lisbon. Average ship size is 2600 teu's.

•MSC has extended its service from Chile to call directly at New York and Philadelphia. Rotation from Chile is now San Antonio, Balboa, Cristobal, Freeport to Philadelphia and New York. MSC serves many other US ports via transshipment at Freeport. The five vessels average 3800 teu capacity.

Temperature Control Will Become More Expensive

Maersk announced in September that it will substantially increase rates for all its temperature-controlled containers (TCC's) by $1,500, beginning 1/1/13. CMA-CGM made a similar announcement shortly afterwards. Maersk's CEO, Soren Skou announced this increase at a refrigerated logistics conference, claiming that Maersk's profits are not sufficient to fund new and replacement equipment. Although Maersk's ocean container business lost $483 million in 2011, its oil division has generated profits of $33 *billion* over the last five years.

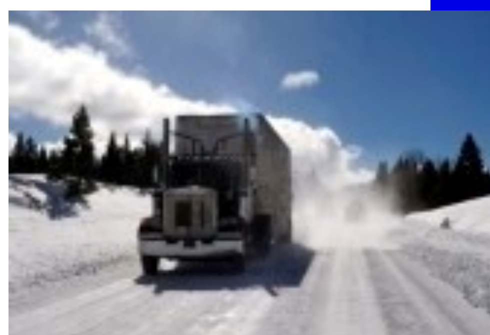
Maersk's aggressive pricing policies in the last decade were instrumental in migrating refrigerated volumes from purpose-built refrigerated bulk carriers to (TCC's). Scrapping the bulk vessels has doubled from 2008-2012, despite the fact that Drewry reports that shipments of refrigerated commodities grew at almost 4% per year since 2001. They see continued growth over 4% p.a. through at least 2016. (Drewry Research)



Today, Maersk has 20% of the TCC market. The cost to produce a 40' TCC is $15-20,000, and TCC rates are normally $1,500-2,000 more expensive than corresponding dry container rates. Adding another $1,500 should theoretically recover cost of the TCC in 5-6 voyages—*not a bad payback!* If Maersk succeeds in this pricing policy, other ocean carriers will surely follow. So far, both MSC and CMA-CGM, the world's 2nd and 3rd largest ship companies, have announced identical increases for TCC rates.

A wine importer is already paying a $1.25-2.00 per case premium for temperature control, and Maersk's proposal will increase this to $3.00 per case. It's unlikely that importers of any but the most exceptional wines will tolerate that premium. We have effective insulation materials available in all wine-exporting countries, costing US$ 400-600 installed. That's only about 50 cents per case additional for maintaining good temperature stability. And WSSA's cargo insurance offers optional coverage for any risks of extreme temperature while in insulated containers.

For temperature extremes in winter or summer, WSSA members have had excellent success with WSSA's "Winter Wine Program", where dry containers are trans-loaded into heated (or cooled) trailers for door-delivery under complete climate control during extreme temperature months. Our WWP is available at the ports of Savannah, Charleston, Norfolk, Houston, Los Angeles, and Oakland. Contact your Albatrans representative or WSSA's Geraldine Zilleruelo (800-368-3167) for further information.



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The Wine and Spirits Shippers Association (WSSA) negotiates shipping contracts on behalf of importers and distributors in the beverage industry. Our dedication to providing efficient and economical transportation by land, sea, or air, enables our members to tap into a marketplace – efficiently and affordably.

WSSA was founded by the Wine and Spirits Wholesalers of America (WSWA) and the National Association of Beverage Importers (NABI) in 1976 as a shipping cooperative. Today, WSSA serves as a not-for-profit shippers' association that is managed by a Board of industry executives. WSSA combines the total volume of its member shipments to achieve preferential rates and service from each of its carriers and vendors. These rates improve the opportunities for our members to compete in the global wine and spirits marketplace.

Together with Albatrans, WSSA provides complete logistics management from door to door. WSSA also provides a comprehensive marine insurance program unmatched by any others in the industry. Our members can quantify the savings with each shipment and our commitment to personal service makes WSSA unique.

For more information on the benefits of a WSSA membership, contact us at info@wssa.com or 800-368-3167

We're on the web!
wssa.com

Spotlight on Alper Ozgulumser

Alper Ozgulumser is the Supervisor of the wine and spirits customer service/coordination team in the Albatrans New York office. The team in NY handles thousands of purchase orders that come through each year, via fax, email, or EDI, and each order is transmitted to the origin country to complete the logistics operation. Alper was born in Istanbul, Turkey in 1980, and attended one of the most prestigious high schools in Turkey and proceeded to Istanbul University School of Transportation and Logistics and graduating in 2004. In 2005, Alper came to the United States to further his education as a student in a Business and Administration program at Baruch College (CUNY) in New York. He graduated from the program in 2006. Alper stayed in the U.S. and started his career in the logistics business with Marathon Line, a freight forwarder specialized in the Turkey-US trade lane. He moved on to Mega Shipping and Forwarding, and in 2008 he started working for Albatrans in the Operations Department. His operations background has been an essential part of his success as Alper was promoted to Supervisor for the Wine and Spirits Department in 2010. He understands every piece of the complex logistics process, from overseas pick-ups and export procedures, to getting the goods on the vessel, to the discharge and delivery. Should you ever have a question on your cargo, you can turn to Alper for advice. Alper currently resides in Queens, NY with his lovely wife, and in his free time, he loves playing and watching soccer.

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We make shipping affordable, efficient, and possible for all members!

WSSA