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Thunderstruck!

After resolving a host of issues in 2016, shippers must confront significant new challenges as 2017 begins

IHS MARITIME & TRADE

for the world shipping industry.

Lifting China's trade restrictions on US beef —a holdover ban from 2003 when the US was delisted by China because of cases of bovine spongiform encephalopathy, or mad cow disease, found in the US — is also a positive step being discussed between the US Department of Agriculture and Chinese health officials. This could open up a significant market for US beef.

Finally, US exporters will be concerned about the new mega-alliances that will emerge as a result of the realignment of ocean carriers because of the overtonnaging situation that has developed in last few years. Hanjin Shipping's failure also created a serious impediment to the stable movement of goods in the world markets.

What the realignments will produce and the services these carriers offer will either stabilize ocean logistics or create more uncertainty. Fewer vessel offerings that are further plagued by slow-steaming could have negative growth implications for time-sensitive cargo such as chilled beef and pork, which have sensitive shelf lives. Longer transit times will limit the growth opportunities for one of the few US meat protein segments that grew in 2016 vs. 2015.

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US MEAT EXPORT FEDERATION

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AFTER A CHALLENGING year in 2015, US beef and pork exports rebounded in 2016 and enter 2017 on a positive trajectory. It's criticall that the US meat industry maintains this momentum at a time when beef and pork production are increasing. While moving these larger supplies presents a challenge, higher production has enhanced the global competitiveness of US meat.

We project 2016 beef exports to reach 1.14 million metric tons, up 7 percent from 2015. Especially noteworthy is the strong rebound in higher-value chilled (never frozen) beef shipments to key Asian markets. Chilled exports increased 40 percent to Japan, 38 percent to South Korea, and 11 percent to Taiwan. In 2017, we project further growth in total beef exports of 5 percent (to 1.2 million metric tons). In September, China announced its intention to end a 13-year ban on imports of US beef, but shipments remain on hold as the US and China negotiate specific export requirements. These terms will determine the level of our 2017 beef exports to China, and we expect the initial impact to be modest.

Pork exports were projected to finish 2016 at 2.25 million metric tons, up 5 percent year-over-year. First-half growth was driven primarily by surging demand in China, but later in the year, exports improved to other key markets such as Mexico, Japan and Korea. Pork shipments to China slowed in the second half, and this trend likely will continue in 2017, as China's domestic pork production rebounds. But even with demand in China moderating, we project further pork export growth of 4 percent (to 2.34 million metric tons) in 2017.

Vv

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IT WOULD BE unfair to give my opinion on what will happen in 2017 without looking back at 2016 — the worst year in ocean shipping I can remember in my 53 years in this industry.

The first sign of trouble came during the 16th Annual TPM Conference in Long Beach last March. I started to hear mutterings about import container rates that seemed so low I wondered how carriers could survive with rates at those levels. Then the month of April rolled around, and sure enough, just from China to the West Coast, the 40-foot container rates started to drop from $900 to $800 to $700. It was a shocking state of events!

I called one of my carrier representatives to complain about something that had nothing to do with rates. But when he picked up the phone, and I said, hello, he replied, "OK, Moff, $500 an FEU, and I can't go any lower!" This was not contract negotiating as I knew it. I was thinking that if I had a Bed, Bath & Beyond coupon, I could have got another 20 percent off.

Within days, all the carriers joined the rate plunge, and for any number of reasons in addition to rates, Hanjin calls it quits. That subject has been bandied about for the past several months, so any comment from me would be redundant, but I will say something on the rates. We will never see the 2016 rates again! If we do, regardless of alliances, another bankruptcy will follow.

The carriers must be compelled to raise the rates and stop giving away the farm. Capacity issues will improve, but even if they didn't, the carriers must take action to maintain sustainability going forward. Also, BCOs including myself, should plan on working with the carriers to arrive at a balanced rate structure that we can all live with, so ocean shipping can remain intact.

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WINE AND SPIRITS SHIPPERS ASSOCIATION

ALISON LEAVITT

Managing Director
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I AM FORTUNATE to be able to travel the world and speak to importers, exporters, 3PLs, steamship lines, and many others associated with the industry of international trade and logistics. Listening to perspectives, discussing industry changes, and sharing intelligence through open minded discourse is an omnipresent element of the logistics arena. We can all agree that changes are obvious and looming. A continuation of the trend toward consolidation in the steamship line sector is the most obvious item, as the number of individual lines operating shrinks.

> *The relative shock of the Hanjin bankruptcy had real dollar impacts on many shippers.*

The overcapacity issues and slower-than-expected trade volumes exacerbated by the China slowdown have plagued the industry, and mounting losses led to necessary shifts. The relative shock of the Hanjin bankruptcy had real dollar impacts on many shippers, and the most common question we have been asked in the last few months relates to mitigation of risk and cargo insurance clauses.

In 2017, we will work through our contract negotiations with fewer players and different alliances. We lived through this in 2014, and I foresee a similar process in the 2017 round. As the lines work through their new mergers and acquisitions as well as formulate their alliance structure, uncertainty and caution will prevail. All of the steamship lines want and need upward movement in the rates, but until the market stabilizes, dramatic shifts are unlikely to occur. For the shippers, the number of services will be squeezed into fewer, but larger, silos, so analyzing partnerships and limiting risk will be key factors.

Despite market upheavals and consolidation, we still honor and count on relationships. We work with the individuals who can respond quickly, and whose companies can carry out our service needs. While the word commoditization haunts the industry, the differentials in service levels drive our decision-making on both global and regional levels. ■