



## Volatile Market Conditions for Container Shipping

Barbara Cookson  
Pricing Manager  
Scarborough International, Ltd.

Drewry Shipping Consultants report that shippers are seeing record increases in container freight rates as part of another swing in an increasingly volatile container shipping spot market (*Logistics Today*).

"The extreme volatility of the spot container shipping market is an industry issue not just for shippers, who cannot forecast their transport costs or their products' total landed costs, but also for container shipping companies and forwarders," states Philip Damas, director of Drewry Supply Chain Advisors.

The removal of capacity by carriers in the Asia-to-Europe trade has led to capacity shortages, roll-overs and a complete shift in the bargaining power of spot shippers and carriers on this route. Carriers are exploiting the potential to negotiate rate increases in return for peak-season capacity guarantees.

In addition to the recent major General Rate Increases (GRI), many steamship lines are vessel sharing, removing service strings from trade lanes or completely dry-docking ships in an effort to reclaim their market share and recoup lost profits. Gaining peak-season capacity and its accompanying surcharge (PSS) is another method to accomplish these feats.

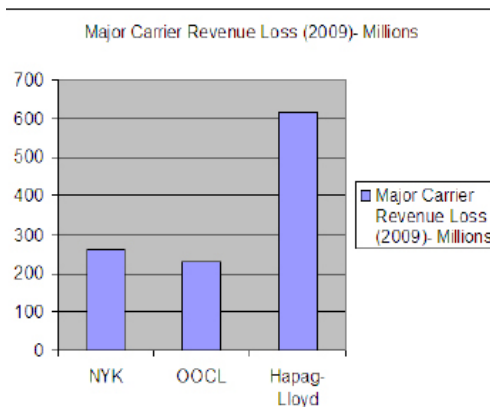
In this frantic race to capture market share, it may take a major carrier bankruptcy to stabilize the trade, says Damas in a recent article by Peter T. Leach in the *Journal of Commerce*. Many carriers have reported substantial losses for the first part of 2009. NYK, Japan's largest ocean carrier, lost \$262.7 million in its fiscal first quarter ending June 30. Orient Overseas International, parent company of OOCL, reported a \$231.8 million loss for the first half of the year and

Top 10 Carriers' capacity, in TEUs, and percentage of idled capacity			
RANK	CARRIER	TOTAL CAPACITY	PERCENT IDLED (CAPACITY)
1	Maersk Line	2,048,340	8%
2	MSC	1,515,567	1%
3	CMA CGM	959,410	2%
4	Evergreen	622,695	0%
5	Cosco	499,232	10%
6	APL	489,343	2%
7	Hapag-Lloyd	488,514	23%
8	China Shipping	466,550	16%
9	NYK Line	413,876	11%
10	Hanjin	382,951	4%

source: AXS-Asphaliner

www.axs-alphaliner.com

the German container line, Hapag-Lloyd, lost \$618 million in the same timeframe.



Aside from the recent supply-demand driven shifts to control the bleeding, some carriers have issued bonds or received monetary boosts from their parent companies in order to stay solvent.

Like the carriers, many importers and exporters have been hit hard by this economic downturn. As reported in the August 10th, 2009 version 10 of the *Journal of Commerce*, "Carriers Pricing To Move," although U.S. retail importers say they understand the plight carriers face, they too, are under pressure to cut costs and are more concerned about their survival. "No pun intended, but we are all in the same boat," says Jeff Siewert, director of international

logistics for Home Depot. He said the rate increases were part of a "fair conversation to have with our partners." But, "my immediate response is that we've been feeling the negative impacts of the downturn longer than other industries, and longer than the shipping lines have."

Scarborough International strives to stay abreast of the current market conditions and assist our clients in managing their supply chain operations. While being sensitive to the predicament of the carriers, we are still pushing for fair increases for our clients. But if the industry does not accept some of these increases, and major carriers go under, the negative ramifications can become substantial. With smaller carriers out of the picture, larger carriers will control most of the market share; paving the way for even more increases.

Sources:

Journal of Commerce, Version 10

June 22, 2009

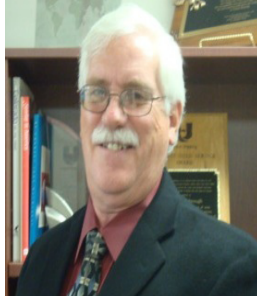
August 10, 2009

August 17, 2009

*American Shipper*

## Letter from the President

Roger Scarbrough  
Founder, CEO  
Scarbrough International, Ltd.



I learned a long time ago to pay attention to my gut feelings. This one is a big belly ache! Let me paint a picture for you that I hope is wrong.

Since 9-11-2001 we have all been concerned about the security of our nation and rightfully so. I have visited "ground zero" in New York City and felt the anger toward the attackers. I am patriotic and believe this is the greatest nation on Earth. I supported the forming of the Department of Homeland Security (DHS) and was encouraged by the actions taken to have government agencies share information, to form a single entity to be responsible for protecting us from terrorist attacks, and to "push out the borders" to get information earlier in the supply chain and before shipments were destined to the United States. We signed up for C-TPAT and started a Consulting Division to help companies do the same. Scarbrough International Ltd. was committed to being part of the security solution and remains so today.

Then a funny thing started happening along the way to security. Many of the steps that were fought by trade as restrictive started to happen in the name of security. Every politician backed the legislation because none wanted to be known as anti-security if another attack happened. The trade accepted these as burdensome but necessary according to the

government. Customs started to remove the local Commodity Specialists and put them in "regional" office because "districts" did not exist any more. Legislation started to appear everywhere demanding more inspections, tighter regulation, and greater fines and penalties for violations. Suddenly there was lead in toys and melamine in food and nothing was safe. More legislation with fees and increased fines became even more prevalent. Importers and exporters were increasingly held to more examinations and restrictions, even those who were C-TPAT certified and long time global businesses. The Importer Security Filing (ISF) which is commonly called 10 + 2 came to be. The government learned that it would be more difficult than congress believed it would be and allowed a phase in period. Many other pieces of legislation were introduced with impractical or impossible targets such as 100% inspection of all cargo and industry finally said enough. Now the funny stuff starts.

Almost every piece of "security" legislation suddenly had fees and fines associated. During the phase in for ISF the tone and rhetoric changed from partnership to a dialog about how much the fines would be. A new Food Safety bill introduced in

Congress contained fees for importers and Customs Brokers with fines as high as \$500,000 for one or both. Only because the National Customs Brokers and Forwarders Association of America (NCBFAA) mounted a letter writing campaign and convinced some congressmen that Brokers could not validate the information provided by the importers did the Bill get amended. Now the importers would be responsible for fees for the privilege of processing shipments through Food and Drug and fines as high as \$250,000 for inaccurate or incomplete information.

Have you caught my drift here? It seems like the government has found a new revenue generating source in the name of security. What happened to the Partnership part of C-TPAT? The downturn in the economy has hurt business and government alike. My gut is telling me the government is bailing out banks and auto makers and are now looking to global traders to pay a big chunk of the bill! I hope I am wrong. I hope Congress simply does not understand that global companies make the world and the United States safer and more harmonious.

We must all remember that government can not give anyone money unless they first take it from someone. I hope international businesses are not designated as the payers. I hope I am wrong but it is time to pay attention and stand up for fair treatment or we may pay dearly. It is time to let congress know we are not an endless source of money.

Roger Scarbrough has been asked to speak at the Council of Supply Chain Management Professionals (CSCMP)

Annual Global Conference this year, which will take place in Chicago, IL Sept 20-23.

[Click here for more information.](#)

# Educating Children & Reducing Poverty in Guatemala

Karen Pickett / Kim Dalzell  
Education & More / Scarbrough



Education And More, a Christian non-profit organization, has a simple mission – to help the impoverished lift themselves out of poverty and to further the education of the children and young adults in the rural areas of Guatemala.

The people in the rural highlands, mostly of Mayan descent, suffered greatly during the 36 year civil war which ended in 1996 with the signing of the peace accords. Today nearly 70% of the indigenous Mayans live in poverty and nearly half of the children suffer malnutrition.

Education And More works with artisan groups using international Fair Trade principals, which gives the artisan a fair daily wage for the work done. This not only gives them a fair income but gives them dignity and hope for the future. Their artisan handcrafts are sold by



This little girl is excited she has received some new school supplies!

Education and More on the internet and in Fair Trade sales in universities, churches and by volunteers throughout the U.S.A. Each and every sale makes a huge impact on the life of the artisan!

Scarbrough International, Ltd. has been able to help Education And More by working as their US Customs broker and by coordinating the movement of their freight from Guatemala. Scarbrough International, Ltd. is very proud to help organizations out such as this one and encourages you to help others, as well. If you are interested in shopping for artisan handcrafts, donating, sponsoring a child, or simply to learn more, please visit:

[www.educationandmore.org](http://www.educationandmore.org)

Many families can only afford to send their children to school for 2-3 years so help is vital in the area of education. To further the educational opportunities in the Guatemalan rural highlands, Education And More partners with Christian schools and churches. Through the student sponsorship program, children and young adults receive school supplies, school shoes, school fees, a Bible, Christian Education classes, plus much more. Sponsorships not only help primary school and high school age students, but also young adults that want to return to finish their education that may have been interrupted due to poverty. Education And More believes education is vital to help reduce poverty for future generations!



## How to get an EIN Number

Arijana Hoormann  
St. Louis Branch Manager

**Effective Sept. 4,** AES will no longer provide the option for using Social Security Numbers as your identification number. All USPPIs and U.S. authorized agents who currently report an SSN when filing in AES because they currently don't have or use an EIN or DUNS number, must provide an EIN or DUNS number for identification purposes. EINs are available to both businesses and individuals and can be obtained by registering with the

Internal Revenue Service.

You can find all relevant information on EIN numbers and all relevant forms on the IRS Web site at [www.irs.gov](http://www.irs.gov).

1. Go to Business tab of the website.
2. Click on "Employer ID Numbers" on the left hand side under "Business Topics." All instructions on applications can be found here. Please refer to the following to answer some questions:

*How long is it going to take to get an EIN number?* This depends on the way you apply:

- Via mail – 4 Weeks
- Via fax - 4 Days
- Via phone call - Immediately
- On line - Immediately

*What information is required to apply?*  
The form that is required for the application is called an "SS4". It is recommended that you take a look at the form and fill it out before you call or go online, because the form will answer all questions that an operator will ask. This will make it much easier for a smooth and quick outcome.

# Brazil: The Latin American Business Adventure

*Juliana Modesto  
Exports, Kansas City & Native of Brazil  
Alex Montgomery  
Native of Brazil*

Brazil is simply too big of a market to be ignored, being the 5th largest country in the world and having an economically alive population of 185 million people makes Brazil one of the fastest growing GDP in the world, larger than India and even China. "Brazil is one of the four countries which, together with Russia, India and China make up the so-called BRIC economies. The term was first used in 2001 by the investment bank Goldman Sachs which highlighted the huge potential of Brazil and recognizes that, together with other BRIC countries, it has the potential to be one of the most dominant economies in the world by 2050." (*UK Trade & Investments, pg 9*) It's no wonder most industrialized countries want to have some kind of business venture in Brazil.

The Brazilian culture is unique and far distant from a Hispanic way of handling a business transaction. Perhaps because Brazilians do not speak Spanish and therefore they are not Hispanic. Based on American executives experience in Latin America, it is evident that Hispanic cultures spend longer on small talk than on the transaction itself, while Brazilians take less time with small talk, but not as little as Americans. Brazilians communicate with a candid cultural style, however this is determined by the degree of closeness established during the early stages of the business transaction. Seen with American eyes, Brazilians would seem to put a lot of emphasis in gestures to enhance and get their point across. Communication is generally

very polite however it can include some physical contact and vary in speed and animation depending on the comfort level of both parties involved.



Brazilian business culture denotes differences from the professionalism known in America. Beginning with their dress code, Brazilians have a tendency to expect formal or somewhat formal dress for their meetings. It is a common practice to wear a business suit or a minimum of a shirt and tie combination that borders on the conservative side more than on the colorful and exotic. Another common tradition and expected business behavior for Brazilians is the practice to do business outside of the office environment. It is common for example for meetings to occur in restaurants or bars. Major decisions are made in those environments.

In Brazil, time is not of an essence, it is more like a commodity with no value. Monochronic cultures that pay workers by the hour have a linear approach to time and the associated value paid to the work produced. This comes from the relationship of time and personal values. As industrialization dominated capitalistic societies, values changed. Polichronic cultures like Brazil do not pay their workers by the hour, therefore

time is not of an essence for them, values dictate how much they should work. Brazilians, being polichrons, love to work on more than one thing at a time. Switching from one activity to another is both stimulating and productive, hence, the most desirable way to work. Polichronic societies have a more elastic definition of time and its use in a business transaction. So, if you are thinking you will get a quick business transaction with a Brazilian business, you are in for a major disappointment. There is no such a thing as a quick business transaction in Brazil, it simply does not exist.

With time spent on business not being valued the same way, this can be seen as a barrier to overcome. Brazil is known for being one of the countries with the largest number of national holidays in the world. If the country stops, business stops and that is part of their culture. Combined with their world known bureaucratic rules of international business, Brazil can be seen as a challenge, however with amount of business that a country like Brazil can bring, it is definitely worth the investment. Most companies still have not realized the size, potential and level of opportunities that exist in Brazil. The Latin American Business Adventure begins in Brazil. Jump on board and land in Copacabana, listening to the "Girl From Ipanema" and drinking the worldly known Caipirinha drink. Have fun, respect and enjoy the business relationship with Brazilians, because they truly are happy people.

Please email Juliana at [jmodesto@scarbrough-intl.com](mailto:jmodesto@scarbrough-intl.com) if you have questions or comments.