

# TSA

Transpacific Stabilization Agreement

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## **FOR IMMEDIATE RELEASE**

### **TSA REVENUE PROGRAM SEEKS TO REVERSE HUGE CARRIER LOSSES**

*Carriers to focus on reversal of severe rate reductions in 2009, and cost recovery.*

**Oakland, CA / October 6, 2009** - As transpacific container lines continue to report serious financial losses and major service consolidations, member carriers in the Transpacific Stabilization Agreement (TSA) have adopted voluntary guidelines for the upcoming service contracting season aimed at substantially restoring rates closer to 2008 levels. The guidelines represent an effort not only to reverse a sharp decline in rates during early 2009, but also to fully recover volatile equipment and fuel-related costs.

At the same time, carriers are taking their case for rate restoration to the shippers and regulators well in advance of the 2010 contracting season. Carriers understand they need a different approach, and need to work with shippers more closely to help them understand the challenges facing the industry and the implications for global trade.

Independent analysts at AXS-Alphaliner estimate that the top 17 global container lines lost a cumulative \$6 billion in the first half of 2009 alone, with many forced to seek fresh capital in financial markets or in some cases government aid in order to stay afloat. Drewry Shipping Consultants estimates carriers will lose at least \$20 billion for the full year in 2009, due to reduced demand and severely depressed rates.

“Clearly, the industry entered Transpacific contracting in 2009 facing truly unprecedented trade conditions, in which cargo demand was deteriorating at an alarming pace,” said TSA executive administrator Brian M. Conrad. “These dynamics produced a panic to maximize ship utilization and maintain market share, leading to a precipitous collapse of rates. Most, if not all, transpacific carriers find themselves operating in the red; it’s a situation that is certainly not sustainable over the 2010-11 contract year.

"The dire situation the industry finds itself in as a result of the unprecedented events that have played out in 2009 must be reversed, said Ronald D. Widdows, TSA Chairman and Group CEO of NOL, the parent of APL. "Carriers must deliver on the contractual commitments they have undertaken, however a dialogue between carriers and shippers reliant on container shipping in the Pacific needs to begin straight away so all can plan well ahead for the changes that are needed in 2010-11 contracting.

Specific elements of the TSA revenue program, to take effect with renewal of current contracts – most of those over May and June 2010 – include:

- A general rate increase (GRI) of US\$800 per 40-foot container (FEU) for local West Coast and Group 4 Western coastal states cargo, and US\$1,000 per FEU for intermodal and U.S. East and Gulf Coast all-water cargo, with per formula increases for other equipment sizes.
- A \$400 peak season surcharge (PSS), effective from August 1, 2010, to address higher cargo handling, equipment positioning and contingency planning costs during periods of peak cargo volume.
- Full collection of fuel and other accessorial charges.

“No question, the scheduled increases are significant, and we recognize that our customers too, have suffered from the global financial crisis,” explained OOCL Chief Executive Officer Philip Chow. “However, these increases must be viewed in the context of the equally sudden and significant volume and rate declines seen in early 2009. In many cases these recommended increases will only return carriers to where they were in late 2008 in terms of revenue per box. The 2010-11 program reflects a determination, finally, that the race to the bottom on pricing in the transpacific must stop.”

Kenji Mizushima, Director & Managing Corporate Officer for Liner Trade at NYK, a member of the TSA Executive Committee, stressed that lines are now in a position where further cost cutting will have potential long-term service impacts going forward. "Individual

lines and vessel-sharing alliances have cut and consolidated services, and have laid up hundreds of owned and leased ships worldwide during the downturn,” he pointed out. “Carriers have also moved to reduce their overhead as far as possible, however those actions were unable to keep pace with the collapse of rates and dramatic reduction in demand. At the same time the basic market characteristics are unchanged - a two-to-one cargo and equipment imbalance will increase as demand resumes, fuel price volatility will continue, infrastructure and environmental costs will rise. The revenue to address those challenges simply isn’t in the current rate structure.”

In announcing the new revenue program, TSA has already held informational meetings with the largest U.S. trade group representing shippers, and with members and staff at the Federal Maritime Commission. Individual member lines have also begun contacting their accounts, to provide an update on the state of the trade and the rationale behind the planned actions.

Additionally, TSA will shortly announce a schedule of customer forums across the U.S. where a greater cross-section of senior carrier and shipper representatives can engage to share ideas and better understand the impacts of the current downturn on their respective businesses. The meetings are part of an ongoing initiative launched in 2007 by TSA to improve industrywide relations among container lines and their customers. “We realize that we as carriers have to be more transparent, more inclusive, and be much more effective than we have been in engaging and communicating more broadly with the shipping community,” Widdows said. Based on customer suggestions, he added, TSA is also looking at alternative ways to engage with customers, such as through conference calls and webinars, to make the communication and feedback process with shippers more timely and accessible.

TSA lines voiced cautious optimism about the hopes for an improving Asia-U.S. freight market in 2010-11, but stressed that it will remain a year of significant uncertainty, in which carriers must concentrate their efforts on conserving cash, building a stronger balance sheet, and establishing a sustainable rate environment. “Our immediate need is to find a path forward that will allow our industry to achieve improved economic results and, in turn, deploy sufficient assets that will support customers’ supply chain needs today, and as the market begins to rebound,” Widdows said.

TSA is a research and discussion forum of major container shipping lines serving the trade from Asia to ports and inland points in the U.S. More information on TSA can be found at [www.tsacarriers.org](http://www.tsacarriers.org).

TSA members include:

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