

OWL DUBAI NEWSLETTER – JULY 2009

Economic outlook (OECD report)

The world's major economies will continue to contract throughout 2009, said Angel Gurría, head of the Organization for Economic Cooperation and Development, on Monday. "We see a very difficult 2009, with negative growth in the OECD area. Unemployment problems are going to continue to linger," Gurría told Reuters television. "When the economy starts to grow again, employment will still be shrinking. When you have a very, deep, sharp drop in employment, it takes many years to get back." Gurría said that the world's major economies are taking different 'exit strategies' in unwinding the various fiscal and monetary stimulus plans put in place earlier to combat recession.

The economic slowdown in the 30 member nations in the Organization for Economic Co-operation and Development is bottoming out, but the recovery is likely to be weak and fragile.

The report also says that the steepest economic decline in more than 60 years will create long-lasting economic and social damage. The Outlook sees continued downward pressure on inflation over the next two years but little risk of sustained deflation outside Japan. Because of the weakness of the expected recovery, the OECD argues that governments must implement the stimulus measures they have announced promptly and fully. Stimulatory tax breaks and spending measures should not be withdrawn too quickly, or they will jeopardize the recovery.

The latest Economic Outlook is the first in two years to offer upward projections in its earlier forecasts for economic growth in the U.S. and the large emerging nations, rather than downward projections. However, its new forecasts for the Euro area are worse than the OECD's previous projections published in March. "Thanks to firm action to stimulate our economies it appears that we have escaped the worst during this crisis," said Angel Gurría, secretary general of the OECD. "But the next few months will be equally testing. There needs to be a clear and credible plan and timeline for phasing out

the emergency measures as the recovery takes hold. It is critical to consider these exit strategies now in order to prevent new risks in the years ahead."

According to the OECD forecasts, the U.S. GDP is expected to fall 2.8 percent this year, compared with the OECD's March forecast of a 4 percent decline. U.S. Growth in 2010 is now forecast at 0.9 percent compared with a previous forecast of zero percent. The report warns that as the impact of the Obama administration's stimulus measures fades, growth will be restrained by corporations' efforts to increase their savings, and by consumers' efforts to reduce their indebtedness. Unemployment will rise to around 10 percent over the next two years, despite the mild rebound.

Outside the United States, China will be the strongest performer. China's GDP growth is forecast at 7.7 percent in 2009 and at 9.3 percent in 2010. Brazil's GDP is forecast to fall by 0.8 percent in 2009 but to rebound to 4 percent growth in 2010. Russia's is forecast to drop by 6.8 percent in 2009 and to climb by 3.7 percent in 2010. In India, growth is predicted at 5.9 percent in 2009 before accelerating to 7.2 percent in 2010. Japan's GDP is forecast to fall 6.8 percent in 2009 and to rise 0.7 percent in 2010. In the Euro zone, GDP is expected to contract 4.8 percent this year and to show zero percent growth in 2010.

Industry Outlook - Shipping

Global container volumes will experience a decrease of 27 million TEU this year compared to 2007 figures, according to Drewry Shipping Consultants.

As a result, the company has predicted a continued period of casualties and continued unsustainable freight rates around the world. However, growth will return in 2010, although the rate has only been forecast at 1%.

"While our numbers are estimates, for example, the price of oil for the rest of 2009 is not easy to forecast, our analysis shows that the container sector is looking at a \$20 billion black hole. So we can expect more casualties," said Neil Dekker, Editor of Drewry's Container Forecaster "We believe that consequently, the basic make-up of the industry will change as companies either go bust, amalgamate or shrink, shedding assets and personnel in the process... hardly a positive if it means experienced personnel will be leaving the industry," he added.

One of the interesting facets of the current container situation is that business leaders seems to have conflicting views with one or two predicting recovery soon whilst others are not so sure.

“As independent advisers, Drewry is in the enviable position of being able to talk to carriers, shipowners and shippers alike. The reality is few, if any, of the actions carried out by the carriers to move away from the current abyss make sense. Some business leaders privately agree that strategies to protect market share and volume as opposed to revenue are suicidal. Yet they question what options they have,” stated Dekker.

“For Drewry, that acid test will be whether, in ten years time, the industry will have learned the lessons from the downturn and follow business models that protect profits rather than risk-taking expansion and market share.”

The ocean carrier “mind-set” reliant on capturing market share is outdated and subject to collapse unless it is changed dramatically in future months.

“The bad news for the container shippers is that there is no good news,” said the authors of Container Forecaster, the quarterly review published by the analysts.

“The green shoots some industry leaders have talked about are wishful thinking.” Drewry’s analysts said there will be a 10.3 percent contraction for containers by the end of 2009 and this should be followed by a mere 1 percent growth next year. For one of the most competitive trade routes – Asia-Europe, three years of demand growth have been wiped out.

Indeed, in an interview with LM, Philip Damas, division director of [Drewry Supply Chain Advisors](#) in London, noted that U.S. east coast ports were faring only slightly better than West Coast gateways in this regard.

Neil Dekker, editor of the report, said the Drewry global/supply demand index -- one of the industry’s key measures -- is set at 83.4 for this year, falling to 79.6 in 2010.

Container Shippers – new strategies to choose Carriers

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THE downturn and its impact on shipping freight prices may have proved to be a windfall for shippers but the fragile financial condition of many carriers has left some shippers worried.

According to an industry insider, the slim operating margins of many carriers has left shippers anxious especially about the future of medium to smaller carriers. Selecting “proper partners” in the current time is a big concern for corporates like the French tyre manufacturer and shipper, Michelin. Speaking to *The Container Shipping Manager* on the issue of carrier selection, Michelin' Ocean Management Committee Head, Jean-Louis Cambon said, "we are now looking for information that we might not have been looking for so much in the past. "In these circumstances one of the considerations for shippers like us is to try and anticipate what is going to happen and be sure we select the proper partners. We of course take more interest in the financial situation of the companies for whatever information we can obtain to avoid exposure."

Financial viability especially has become such a big concern according to the Michelin executive that when shippers and carriers meet to negotiate freight rates and other transportation terms, shipping line representatives themselves volunteer to highlight their financial strength and ability to sustain through the trying times. "When we meet with carriers on a face to face basis without asking them first, their priority is to describe what makes them able to survive the crisis as opposed to their competitors. "We hear arguments that their activities are very diversified and that containers are only part of it. So after hearing all of this it's up to shippers to make a judgement . Moreover Shippers fretting over the financial strength of carriers and its collateral impact on their own business may however draw consolation from the recent move by many national governments to bail out companies on the verge of bankruptcy.

Recent financial bailouts of shipping companies can be attributed to their corporate or government linkages and affiliations. For example, the Korean shipping industry has benefited from its government's bailout package. Likewise state-backed carriers in China like COSCO and CSCL and Singapore like the APL have received automatic financial assistance. In Hong Kong, OOCL reportedly gained US\$2 billion by selling off some of its terminal operations just before the crisis began.

Container Shipping Lines – new strategies to counter downturn

AS carrier margins shrink, the search is on for innovative ways to increase profit. One method involves helping customers reduce costs by providing value-added services that reduce delays in the supply chain.

The salient point facing carriers is that only 10 per cent of revenue generated from getting cargo from door to door goes to ocean transport. Warehousing takes 15 per cent while rail and road haulage accounts 35 per cent. Stevedoring and a myriad of other costs consume the rest.

It is only natural then that carriers have cast covetous eyes of the 15 and 35 per cent transport revenue shares in the hope of boosting sagging profitability by becoming involved in non-traditional areas of the supply chain.

Carriers want to avoid rate cutting, so some now turn to helping customers iron out delays and create new efficiencies to sustain shipper contentment with a reasonable level of freight rates. One major container shipping line in the east-west trades is already doing this. In an interview with CSM a senior manager from this carrier company said his company had already introduced products to shippers that cut costs - not just ocean freight related costs

His company's vision, he said, was now to "extend its link" in the overall supply chain beyond the mere 10 per cent of D2D revenue ocean carriers garner today. "What we want to do is to build the links, so when you approach our salesmen they can offer a one-stop all-in

service,” he said. To this end, the company recently decentralised its decision-making, giving regional general managers (RGM) greater autonomy. Essentially giving the man on the spot authority provides shippers confidence that they can get answers they need when they need them. This line has been long been involved in looking for value-added ventures beyond the ocean business, but the recent moves to decentralise control has helped to hone their system. The company now deploys people on the ground who have a greater understanding of the region where they are based. They have the right contacts and, generally speaking, know what will and will not work better.

Cargo Insurance & Liability: A Cautionary Tale – Special Feature

Two of the most critical areas of the law relating to transportation and logistics are insurance and a shipper’s, carrier’s, or intermediary’s exposure to liability. With respect to insurance, we will focus on cargo insurance.

Chapter One: Once upon a time there was a traffic manager named Joe who worked for Acme Widget Corporation. The corporate office was located in Chicago.

One day Joe received a telephone call from the corporate office letting him know that the company had decided to move its headquarters to Atlanta, Ga. As part of this move, Joe was to make arrangements for the transportation of the company’s mainframe computer. Joe was also told that the computer was worth \$800,000, so he had better be careful.

Joe got right on the project and called Trusty Trucking who he had dealt with for years shipping widgets. He gave the dispatcher the origin of Chicago, the destination of Atlanta, and the weight

of the computer—1,000 pounds—to get a rate. After quoting a rate that Joe approved, he remembered to tell the dispatcher that the computer was worth \$800,000, to which the dispatcher responded: “Don’t worry! We have \$1,000,000 in cargo insurance.”

On the appointed day the truck arrived, loaded the computer, and headed off down the highway to Atlanta. While driving through southern Illinois, the driver entered a turn at too high a speed. The truck and trailer left the road and rolled down an embankment. Fortunately, the driver was not hurt, but the computer was totally destroyed.

As soon as he heard of the loss, Joe filed a claim with the trucking company for \$800,000 for the total loss of the computer and anxiously awaited a reply. A few weeks later, Joe received a letter from the trucking company stating, “Please find attached our check in full payment of your claim.” When Joe looked at the check he was dismayed to see that the check was only in the amount of \$100.

Joe immediately called the claims department and demanded to know why the check was for \$100 rather than \$800,000. To this the claims person replied: “That’s because we have a limitation in our tariff of 10 cents a pound for used machinery.” Joe replied, “But the dispatcher told me you had \$1,000,000 in cargo insurance.” The claims person then said, “Well, that’s true, we do have a \$1,000,000 cargo liability insurance policy, but that only applies if we are liable; and, since we have a valid limit of liability in our tariff, we are only liable to you for \$100. Sorry.”

Chapter Two: A year later, Joe is sitting in his new office in Atlanta (yes, he did manage to keep his job) when he received a telephone call from the corporate office: “Joe, we’ve had some focus group meetings and we have decided to move our headquarters to sunny California. As part of this, we would like you to make arrangements to move our new mainframe computer and, by the way, this time, don’t screw up!”

Joe again called Trusty Trucking to make arrangements for the movement. This time Joe said, “We need \$1,000,000 in insurance and I don’t want any of that tariff limitation garbage either.”

The dispatcher replied, “Don’t worry, we will write you a special tariff provision so that you have full Carmack liability.”

Joe said fine, and on the appointed day the truck arrived to haul the computer to California. Moving day was beautiful, with a clear blue sky and not a cloud to be seen as the truck was making its way along I-40. Suddenly, out of nowhere, and totally unforeseeable, a bolt of lightning struck the trailer. Every circuit in the computer was “fried,” resulting in a total loss.

When Joe heard about this he first had a very strong cup of coffee. He then proceeded to file a claim with the trucking company. Sometime later he received another letter from the trucking company, but when he opened the envelope there was only the letter, no check. The letter read: “We are denying your claim as this loss was occasioned by an act of God.”

Again, Joe called the claims department and demanded an explanation: “I thought you told me I was getting full Carmack liability.”

To this the claims person replied: “Yes, we do have full Carmack liability, however, the law is very clear that there are five exceptions to a carrier’s liability under Carmack (the federal statute codifying the common law of a carrier’s liability—49 USC 14706 for motor carriers and 49 USC 11706 for rail carriers). These are (i) act of the public authority, (ii) act of the public enemy, (iii) act of the shipper, (iv) inherent vice or nature of the goods, and (v) an act of God, which certainly includes a bolt of lightning. The carrier also has to be free of negligence, which we are because this was totally unforeseeable. And yes, we still have a \$1,000,000 cargo liability insurance policy, but, again, we are not liable. Sorry.”

Analysis: So what can a transportation professional learn from this story? First, it’s critical to know and understand the difference between a shipper’s interest cargo insurance policy purchased by a shipper and a cargo liability insurance policy held by a carrier.

The cargo liability insurance will only pay out to the shipper if the carrier is liable for the loss or damage to the cargo. This means that if the carrier is not liable due to a common law defense such as an “act of God” or a valid limit of liability in a carrier’s tariff, there is no coverage that will

pay the shipper. Conversely, a shipper's interest cargo insurance policy, while subject to the exclusions and deductibles of the policy itself, will pay regardless of the carrier's liability.

What this means on a day-to-day basis is that when negotiating rates with a motor carrier, a shipper must also negotiate a limit of liability that will cover all or most of the products regularly shipped. Since a carrier will charge a higher rate for a higher limit of liability, an analysis needs to be done to see if it may be more economical to purchase a shipper's interest cargo insurance policy than to pay a carrier a higher rate for a higher limit of liability.

It must also be kept in mind that while "acts of God" may not occur every day, they certainly do occur. Accordingly, for high value products it may not be prudent to rely upon a carrier's liability. Further, carriers do go out of business from time to time or, even if still in business, may be financially unable to pay a loss in excess of the carrier's cargo liability insurance coverage.

The above discussion applies to motor carriers and, to a certain extent, rail carriers. However, in the world of ocean shipping it has long been the practice of knowledgeable commercial shippers to obtain their own cargo insurance. This is because the Carriage of Goods by Sea Act (COGSA) provides for 17 exceptions to an ocean carrier's liability including, "errors of navigation." Further, COGSA has a liability limit of \$500 per package or "customary freight unit."

UAE news

The UAE economy may have reached the "bottom of this downturn" and should see a "mild recovery" in 2010, Morgan Stanley said on Monday.

The recent improvement in global economic momentum, the rise in oil prices, and the stabilisation in domestic markets are helping the country's economy to recover from a slump led by the collapse in real-estate and energy prices, Morgan Stanley's Dubai-based analyst Mohamed Jaber wrote in a note.

"The strength of the recovery will depend on the momentum for global growth and the timely resolution of imbalances in its domestic real-estate and credit markets," Jaber said in comments published by newswire Bloomberg.

Real-estate prices in Dubai tumbled about 50 percent from their peak and may drop another 20 percent this year, Deutsche Bank AG said earlier this month. Banks in the UAE faced a shortage of funds as the financial crisis blocked their access to foreign borrowings and local liquidity dried up as investors speculating on a currency revaluation withdrew money.

The UAE economy will likely contract two percent this year as oil production declines and the real-estate industry faces "continued" difficulties amid the restricted availability of credit, Jaber said. The economy grew 7.4 percent last year. The UAE plans to guarantee bank bond sales, intensifying efforts to shore up the financial system after pledging 120 billion dirhams (\$33 billion) to boost liquidity, Central Bank Governor Sultan Bin Nasser al-Suwaidi said on Sunday. Total bank lending grew by 1.5 percent in the first five months of this year, compared with an increase of about 20 percent a year earlier, according to Morgan Stanley.

Dubai Customs Initiatives

Importers will be able to declare goods online, without having to submit paper forms. Dubai Customs is set to implement a number of modifications and enhancements to Mirsal2, its electronic customs clearance system. The changes, set to be implemented by the end of July, will allow importers to declare their goods via the web, without having to submit any paper forms.

"This translates into cargo being cleared by customs even before the goods arrive in Dubai, allowing importers to collect their goods from the air and sea ports as soon as they arrive, meaning a faster time to market for goods," said Ahmed Mahboob Musabih, executive director of the customer management division at Dubai Customs.

Jafza showcases green warehousing in Dubai

Jebel Ali Free Zone Authority (Jafza) showcased its latest energy saving warehouses and sustainable logistics developments at the recent Warehouse Management Excellence Forum 2009. "Businesses in the UAE need to start adopting more green building initiatives in their

logistics infrastructure and developments. The industry buzzword is sustainability," said Shehab Mesmar, Jafza's senior vice president of commercial sales in the UAE region. "This is not just a trend but a genuine movement that is now being recognised as the way forward and is particularly relevant today in these financial times. Companies have to explore ways to optimise savings and logistics operations by building smarter, more eco-friendly, energy saving developments. Efficient and well planned distribution results in improved margins," he added.

Jafza's parent company Economic Zones World (EZW) has begun to adopt energy saving fittings and renewable sources of energy, in addition to using less building materials in many of its new warehouses and logistics developments. Design elements include maximising the use of roof lights in warehouses, water saving devices and initiatives, solar photovoltaic panels, solar thermal hot water panels, wind turbines and other eco-friendly devices.

"EZW has built and delivered 1.3 million square metres of eco-efficient warehousing to date," said Mesmar. "We are pushing ahead with the construction of new eco-friendly projects that conserve energy, help our clients save and help the environment at the same time. It is a win-win situation all the way through."

Dubai logistics zones to align operations

Jebel Ali Free Zone and Dubai Logistics City have entered a four-phase partnership to increase the efficiency of warehousing and transportation activities in Dubai.

The alliance was finalised with a contract-signing between Economic Zones World (EZW) – the parent company of Jebel Ali Free Zone Authority (Jafza) – and Dubai Aviation City Corporation, which is responsible for the upcoming Dubai Logistics City and Al Maktoum International Airport projects.

Under the first stage, both parties will align their business processes to improve the supply chain process for cargo that is transported between Jebel Ali Free Zone and Dubai Logistics City.

The second area will focus on administrative, such as registration and licensing, while the third and fourth areas will involve the development of a common operational platform and alignments in marketing and promotion.

“This is a landmark step, which will have a positive impact on Dubai’s status as a leading global commercial and trading hub,” said Salma Hareb, chief executive officer of EZW.

“Our alliance is a commitment to create the “The Dubai Logistic Corridor” and EZW is delighted to be a part of an initiative that will contribute significantly to the long-term progress of Dubai and the nation,” she added.

New York's Pet Airways provides first-class pampering

THE world's first all-pet airline for pampered pooches has taken to the skies from Republic Airport in Farmingdale, Long Island, New York. The commercial airline set up by husband and wife team Dan Wiesel and Alysa Binder permits 50 pets to fly in the cabin, seated in specially-made carriers. Others must travel as checked bags or in the cargo hold, where temperatures can vary dramatically. Pet Airways was started in 2005 and the past four years have been spent designing their fleet of five planes according to new four-legged requirements, dealing with FAA regulations and setting up airport schedules, reports The Associated Press. The all-pet carrier is said to be overwhelmed with the response. Flights on Pet Airways are already booked up for the next two months. Pet Airways flies to the five US cities of New York, Washington, Chicago, Denver, and Los Angeles for US\$250 one-way. At each of the five airports it serves, the company has created a "Pet Lounge" for future fliers to wait before flights. A trip from New York to Los Angeles, for example, will take about 24 hours. On that route, pets will stop in Chicago, have a bathroom break, playtime, dinner, and bunk for the night before finishing the trip the next day!

See you next month.....any feedback,

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