

OWL DUBAI NEWSLETTER – MAY 2009

Economic Outlook

Dubai has revised down its economic growth expectation for 2009 to between 1.5 and two percent, a newspaper reported on Tuesday, citing comments of the head of Dubai's Department of Economic Development (DED). "He said the department expects Dubai annual growth at between 1.5 and two percent if there are no unforeseen events," daily Al Bayan reported, citing DED Director General Sami Al Qamzi. At the start of the financial crisis growth expectations for Dubai stood at four percent, but this was lowered to two percent after a review in light of the current economic situation, Qamzi told Al Bayan.

Also as an addition, the UAE government is to prioritise investment in creativity and innovation-based sectors as part of a new crisis recovery strategy, the minister of the economy Sultan Al Mansouri announced on Monday. The government was in the process of evaluating the impact of the [economic crisis](#) and saw a shift in direction towards a creativity- based economy as an important plank of its recovery measures, he said. Last week UAE government officials visited the US to see first-hand how joint initiatives were working to develop such an economy, Mansouri told reporters, according to WAM news agency. "The government has chalked out a joint plan in coordination with federal ministries and departments to evaluate the magnitude of impact of the international financial crunch in order to take required measures to overcome the crisis with the least possible losses," he said.

Another measure taken by Government is a fee freeze on all business costs and charges in Dubai, the Department of Economic Development (DED) has announced. The move is part of a three pronged initiative to assist businesses in the emirates this year to weather the global crisis. As well as no rise in fees, costs will be reduced, more support will be available for small to medium sized enterprises, DED said, adding that it also planned to review its policies and procedures. Details of the plans were unveiled by director general Sami Al Qamzi on the sidelines of an event organised by the Italian Business Council in Dubai, to UAE daily Gulf News. He also revealed that economic indicators from the first quarter of 2009 are "good, especially in retail, so we are in a position just to monitor the situation." "We are trying to revise procedures and policy for business. If we see business ideas that are good for Dubai, we are

ready to change the law and regulations for that. We have to be very flexible," added Khalid Al Kassim, deputy director general for economic and sector development at the DED.

A new online system for registering business names in Dubai is in the final stages of testing, according to Mohammad Shael, chief executive officer for business registration and licensing at the DED. The new online facility was rolled out 10 days ago and had recorded 14 name registrations on the first day, he added. Once an application to register a business name is made, applicants will be notified within an hour on whether the registration has been successful or whether it needs to be changed. Other moves to improve DED's online services include speeding up the time it takes to register a business and obtain a business licence, including online applications with the relevant documents that could potentially lead to licence approval within 24 hours. It is estimated that the registration takes up approximately 60 percent of business processing time.

Tourism Outlook

Burj Al Arab maintains room rates despite global crisis



RATES REMAIN: It still costs the same to stay at the the Burj Al Arab, even though hotel prices have been cut across the emirate. Dubai's Burj Al Arab Hotel - billed as the first seven-star hotel in the world - has escaped a room-discounting move by owner Jumeirah Group, to shore up demand during the global downturn. But, other hotels in the group's portfolio have had to make steep price cuts of up to 30 percent, admitted CEO, Gerald Lawless, on the sidelines of a world tourism conference in Brazil on Saturday. The Burj Al Arab was still enjoying good occupancy rates, which were "less than last year but within our expectations," he said, but declined to give specific figures. Yet, discounts and promotions had been implemented at its other hotels since

November, to ensure demand was maintained during the global crisis, he added. "At the end of November, bookings were slowing down, so we started offering healthy discounts up to 30 percent for our source markets in the UK, Germany and Russia to stimulate demand," he said. The group was maintaining client numbers from those three key markets, Lawless said, though he noted that reservations were increasingly coming later in a bid to secure cheaper prices. "The luxury sector is certainly resilient to the crisis but this is also motivated by promotions and prices."

Two of the group's properties in Dubai, the Jumeirah Beach Hotel and the Madinat Jumeirah, are keeping occupancy high, with 90 to 95 percent of the rooms filled between February and April at an average price of \$570 dollars per night, Lawless said. The group, which owns 11 hotels, in Dubai, Britain and the United States, plans to forge on with ambitious expansion plans that will see it running 60 properties by 2012. "Despite the global economic downturn we maintain our objectives," Lawless said. The group, part of Dubai Holdings owned by the ruling family of the Gulf emirate, intends to open its first Asian hotel in Shanghai this year, and has just signed a contract to open a hotel in Frankfurt, Germany. Lawless would not give company forecasts for 2009, but said there was "close to double digit growth in 2008." Several other international hotel groups have suspended their projects in Dubai after seeing its economy stall over recent months. The real estate market has slowed but tourists - for now - appear to still be going, with hotels recording a five percent increase in check-ins in the first three months of this year.

Ocean Freight market

Ocean rates are continuing to drop especially on the Eastbound Transpacific trade lane. According to an article on the [JOC](#), the latest data from Drewry Shipping consultants shows that the average spot rate from Hong Kong to Los Angeles is now at \$986 for an FEU. This represents a decrease of 51.6 percent compared to one year ago. With volumes down substantially and thousands of empty containers sitting on idle vessels all over the globe, many carriers are scrambling to fill vessels. From an NVOCC

perspective, many importers are testing the waters in terms of what rate levels the current market will bear. Unfortunately (for many [3PL](#) providers), with the economic downturn, many customers are using pricing as the main deciding factor when choosing new freight forwarding service offerings.

Air Cargo Industry

Cathay Pacific chief executive Tony Tyler today offered a chilling glimpse into the realities of running an airline during a global economic meltdown. "The most worrying thing about it is the lack of visibility," he told reporters in Hong Kong. "We really don't know when things will begin to turn around." With most economic indicators of the past no longer valid, airlines are finding it almost impossible to make accurate forecasts. "Airlines, manufacturers and others connected to the industry are reeling from the impact of the financial crisis," Tyler said.

"From Cathay Pacific's point of view, it is one of the worst situations we have had to face in our long history. But while times are certainly tough right now, we do remain confident about the future for Cathay Pacific, for Hong Kong and for the aviation industry in this region."

Tyler said that for airlines the focus was on making money, saving costs and continuing to innovate. Cargo carried by Cathay and Dragonair continued to fall, dropping 17.3 percent in the first four months of this year, with continued weakness in the global airfreight business overall and soft demand out of Hong Kong and the main manufacturing areas in China. The volume of aircargo through Hong Kong International Airport dropped 22 percent in the first four months to 933,000 tonnes.

"Cargo throughput remains the hardest hit in comparison to passenger volume and aircraft movements, reflecting the continued weakening of global trade and consumption," Airport Authority chief executive Stanley Hui said in a statement.

3PL Industry Outlook

Dick Armstrong, chairman and CEO of [Armstrong & Associates, Inc.](#)--a supply chain market research and consulting firm specializing in 3PL market research--said his most recent survey paints a complex picture.

“After 11 modest months in 2008, third-party logistics revenues dove in December and have remained depressed in 2009,” he said in a statement. “While a few third-party logistics providers (3PLs) could drown, most are treading water and some are swimming strongly.” Armstrong’s analysis shows gross revenue (turnover) for 3PLs down by 8.8 percent for 2009. Net revenues (gross margins) were less impacted for many non-asset transportation managers and leading value-added warehousing 3PLs.

Expeditors, C.H. Robinson, Kuehne + Nagel and other major transportation managers report net revenues decreased 3 percent to 10 percent. Earnings before interest, tax, depreciation and amortization (EBITDAs) and earnings before interest and tax (EBITs) fell proportionately. Additionally, net revenues are expected to be down another 5 percent this year for the transportation management group.

In an interview with *LM*, Armstrong said that quite a few 3PL leaders will nonetheless be investing for the future. “And this points to one of the key new trends we see in the global marketplace,” he said. “Third parties that are already entrenched in overseas operations are building upon their base there, while smaller 3PLs are scrambling to get into that end of the business.”

The key differentiator, said Armstrong, is information technology. The companies that continue to sink portions of their profits into IT, are going to prevail over those “*who ain’t got em*,” he says. But the recent survey for 3PLs as a group 60 percent shows they are reporting lower gross and net revenues for this year. Among value-added warehousing 3PLs, 57 percent are reporting increased net revenues. Automotive and retail vertical industries were the main drags on 3PL market growth for 2009 with projected revenues down 32 percent and 23 percent respectively. The food and grocery vertical and 3PL returns management sub-segment are up for the year. GENCO, Kenco and New Breed expect revenues to increase in 2009.

Companies should be more vigilant as security threats have been made more immediate by the economic downturn and the global nature of trade, according to industry experts, BusinessWorld reported. The downturn may provoke attacks from retrenched workers and make counterfeiting more attractive, while globalization has made supply chains and data banks more vulnerable.

There had been cases in the United States where retrenched workers stole confidential information such as client lists or sabotaged information technology infrastructure before they left. Counterfeiting is another risk that may be made prevalent by the downturn, said Asia Risk Hongkong Vice-President John Enoch.

"I think it's the logical outcome that people will want to maintain their level of comfort and turn to pirated goods which are cheaper," Enoch said. The branding impact, he said, should be a cause for concern. "Think about what could be lost when it all goes wrong. You can only lose your reputation once ... Treat them (counterfeiters) as competitors. Look at how price, quality and distribution compares," he said. On top of these, firms will have to look out for their supply chains and corporate data which have become significant but also more threatened due to globalization.

Industry Data

Top 25 Global Logistics Companies

Traffic World February 9, 2009

#	Company	2008 Global Gross Revenue (\$ Million)*	Base Country
1	DHL Logistics (1)	\$39,900	Germany
2	Kuehne + Nagel (2)	\$20,220	Switzerland
3	DB Schenker Logistics	\$12,503	Germany
4	Geodis (3)	\$9,700	France
5	CEVA Logistics (3)	\$9,523	Netherlands
6	Panalpina (2)	\$8,394	Switzerland
7	Logista (3)	\$8,190	United Kingdom
8	CH Robinson Worldwide	\$7,130	USA
9	Agility Logistics (2)	\$6,316	Kuwait
10	UPS Supply Chain Solutions	\$6,293	USA
11	Expeditors Int'l of Washington	\$5,650	USA
12	DASCHER & Co.	\$5,377	Germany
13	DSV (3)	\$5,531	Denmark
14	UTi Worldwide	\$4,896	USA
15	Sinotrans (2)	\$4,757	China
16	NYK Logistics (2)	\$4,723	Japan
17	Wincanton	\$4,331	United Kingdom

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***P.O. BOX 26254, Dubai -U.A.E. Tel: 3989059 Fax: 3982939
E-mail: dxbgenl@owl.ae***

18	Bolloré (3)	\$4,330	France
19	Hellmann Worldwide Logistics	\$4,209	Germany
20	Rhenus & Co.	\$3,940	Germany
21	Toll Holding	\$3,125	Australia
22	JB Hunt Transport Services	\$3,088	USA
23	Logwin (formerly Thiel Logistik) (1)	\$3,081	Luxembourg
24	Kintetsu World Express (2)	\$2,991	Japan
25	Penske Logistics	\$2,910	USA
Total of Top 25 Firms		\$191,108	

DP World voted best box terminal operator in Asia

GLOBAL marine terminal operator Dubai Port World has been honoured with the title of Best Global Container Terminal Operating Company award at the 23rd Asian Freight and Supply Chain Awards (AFSCA). DP World won against established Asia-based, global operators in the competition.

The award comes after DP World's Asia Container Terminal Ltd (ACT) in Hong Kong last year won Best Container Terminal - Asia Under Four Million TEU Per Annum award, for the first time. The honour was bestowed on DP World's Container Terminal 3 (CT3) in Hong Kong in 2007. DP World operates 17 marine terminals in the Asia-Pacific and South Asia regions.

Said DP World CEO Mohammed: "We are thrilled that our customers have voted us the best port operator in Asia. Our focus has always been on going the extra mile for our customers. This award is a testament to the success of that approach. I would like to thank everyone for their support. "

Special Column: negotiation is the key to quality steamship service contracts

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SHIPPERs, forwarders and carriers all need to enter into contract negotiations willing to offer incentives to one another in order to achieve what they want out of their shipping contracts.

It is important when one side wants something the other side must be prepared to return the favour. If the shipper failed to meet their quantity commitment with their carrier, they should be made to pay a penalty for that, as the carrier had reserved the space for that customer trusting that the space was filled. But how can carriers make shippers agree to such a condition?

Well, in order to receive, one must be prepared to give first. One way the carrier can do this is by assuring their customer that they will also be entitled to similar reparation measures if the carrier fails to reserve the space or provide the service they promised. One example is highlighted by APL's guaranteed time-definite delivery service it began running in 2007. APL promised its customers that if it did not deliver the goods within the specified time frame then they would be liable to pay a form of liquidated damage to the customer. However, this kind of service-oriented negotiation is far more beneficial to the price-oriented way most contracts are negotiated. It allows the discussion to rise above the divisive issue of freight rates and focus on what's really important: service. Of course certain exemptions must be included in a contract absolving the carrier of blame for factors beyond its control such as typhoons and other natural phenomena, as well as port strikes, congestion and the like.

Carriers and shippers can negotiate these points and actively engage the other side in finding out their needs and wants, how those needs can be met and what they can expect in return. This kind of trade-off helps ensure that service levels remain high for shippers, while carriers can operate with the confidence of knowing that once they have allocated space to the shipper they are still going to get paid whether their customer ships or not. It's a win-win scenario

How to combat surplus in Container Shipping Industry – An insight

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IT is estimated that the container shipping industry will incur losses surpassing US\$60 billion in 2009 as the global financial crisis continues to dampen shipping demand and literally millions of TEU in shipping capacity awaits delivery over the course of the next two years. Over the course of the past few weeks and months we have spoken with a number of senior shipping executives, both from the container sector and from the tanker industry, which has seen this situation before...

The solution devised at the height of the tanker crisis of the 1970s and 80s was a coordinated one. Ship operators, ship owners, banks and the shipyards all came together to help reduce the number of incoming vessels. A similar approach is needed today. But given the legal minefield shipping lines face in working together, particularly in a bid to reduce incoming capacity, there is certainly some doubt as to how the tanker industry response can be replicated today in the container industry.

A partner at Lovells LLP, Matthew Levitt, who has extensive experience working with shipping lines on issues pertaining to European competition law says "There are some past precedents in European case law, and the European Commission and the European courts do recognise that in certain exceptional circumstances, subject to a few provisos, such an arrangement like this can be entertained," he said. But the lawyer did advise that the industry would need to tread very carefully and ensure that they were in dialogue with the relevant competition authorities around the world, particularly in Europe and the US to ensure legal compliance.

Emerging trend in shipping to save importers big money

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A GROWING number of end buyers in the US are now foregoing traditional FOB shipments in favour of what some shippers now call, replenishment orders, enabling end buyers to "pay as they need".

One shipper that is now increasingly using this method says it provides the end buyer with both financial and operational benefits. Rather than paying for the entire order either upon arrival at the origin port, as is the case for FOB shipments, or even DDP shipments where the importer must pay the full amount upon receipt at the warehouse, the importer will only need to pay once they have requested the goods. "From the buyer's point of view they still will have the money in hand for another two to three months," the shipper said. Let's take an example of how this will work...



An importer in the US orders one million pieces of clothing, but instead of taking delivery of the entire order and paying for it in one hit, the items will be delivered in varying quantities and on a more flexible timetable, while payment will only be required when those orders are called for. So we now have an order placed for one million clothing items from China to be shipped to the US. Once the clothes are made, they are then transported to a warehouse in the manufacturing country and are ready to be shipped. The shipment can remain in the warehouse without payment for up to six months, which provides even more flexibility than if they were shipped under FOB or DDP terms.

Billion-dollar losses should come as no surprise in 2009

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AP MOLLER Maersk's first quarter loss of US\$390 million has sent shockwaves through the financial community, but the loss should not come as a surprise as *The Container Shipping Manager*, among others, had forecast huge losses this year, easily stretching into the billions of dollars per carrier. In a recent "conservative" forecast of NYK Line's estimated losses in its container business for the year it was revealed a potential loss in excess of US\$700 million, in which they only factored in the troubled Asia-Europe trade, plus the company's ongoing profit loss going forward based on the group's forecast losses for the quarter just passed. As fate would have it, NYK's actual liner business losses for the quarter well and truly exceeded the group's forecast and that of the full year of JPY19 billion (US\$197.3 million), reaching JPY25.8 billion (US\$267.9 million) for FY2008.

It stands to reason that AP Moller Maersk's container business, Maersk Line, the world's largest shipping line would be in for an even tougher year with even greater losses incurred. Financial analysts are now re-drawing their forecasts for the company's container shipping

	Q109	Q108
Sales (USD mil)	5,581	7,501
EDITDA (USD mil)	112	518
EDITDA Margin (%)	2	7
Net Profit (USD mil)	-523	7

Source: SEB Enskilda

SEB Enskilda, who had earlier forecast a \$2 billion loss for the Danish shipping giant's container business, is now predicting a full year loss of \$2.6 billion following a reported 24 per cent rate drop in Q1, exceeding Neptune Orient's container shipping subsidiary APL, whose rates plummeted an estimated 17 per cent for the quarter. But it's not just Maersk that appears set for record profit loss in 2009, as all of the major players have reported large-scale losses in the first quarter. China Cosco Holdings reported a first quarter loss in excess of \$490 million. This comes despite a doubling of freight rates through agreements with its freight forwarders.

Lighter column

Answers to last edition puzzle

uyfin verb. make several things into one - UNIFY

asloic adjective. pertaining to life in a society or community - SOCIAL

pelex verb. send or throw out - EXPEL

hurtt noun. quality of being real or genuine - TRUTH

ueeuq noun. line of people or vehicles waiting their turn for something - QUEUE

Pick the first letter from each of the five words identified and form a WORD

(again hint as provided below)

[It's a long search!](#)

[QUEST](#)

This week, we cover calculation of the sum of odd numbers within a defined range....

The sum of first 5 odd numbers is 25 (1+3+5+7+9)

What is the sum of first 75 odd numbers ...answer in 20 seconds

Solver in next edition....

See you next month same week

...cheers

...Prabhu Williams

Any feedback or comment , pls reply to dxbgene@owl.ae