CILT World
ON-LINE
NOVEMBER 2008

The worldwide newsletter of
The Chartered Institute of Logistics and Transport

## Global Economic Crisis:

# SUPPLY CHAIN INDUSTRY STILL EXPECTS GROWTH IN 2009

**DESPITE a clear consensus that the world economic crisis is having an effect on the supply chain industry, 64% of shippers and transport and logistics providers expect to see growth in their business next year.**

This is the surprising finding of a major survey published on 22 October by *eyefortransport.com*, which also reports that companies are looking to create "streamlined, efficient, and most importantly, cost-effective supply chains."

The survey was focused on the role of supply chain technology in tough economic times, and heard from over 200 executives about where they plan to invest, and which technologies they hope to see improved.

### Cutting costs

The survey report says cutting costs "is at the forefront of every executive's mind. Sometimes, however, the best way to save money is to spend money and invest in new technology."

Shippers unanimously agreed that the economic crisis is affecting business, with 54% stating it was having a 'bad' or 'severe' effect, while 97% of Transport & Logistics providers agreed the economic crisis is having a negative effect on their business.

However, despite this clear consensus of the effect the economic crisis is having on the supply chain industry, "a remarkable 64% of Shippers and Transport & Logistics Providers expect to see growth in their business next year," the survey reported.

*Eyefortransport.com* asked executives whether they plan to increase or decrease their investment in technology in the near future and found: "Among all respondents, a remarkable 88% expect to increase or maintain their technology investment in the next year."

Regardless of whether or not companies expect growth next year, the survey indicates that the majority of executives plan to increase or maintain their investment in IT and technology solutions. This suggests that technology solutions are perceived as key money-saving tools – positive news for technology solution providers.

The survey concludes: "Supply chain executives are always focused on cutting costs and streamlining operations, regardless of economic situations. This puts the supply chain industry in a good position to negotiate the ups and downs of a difficult economic climate."

*More about global supply chains – pages 6 - 8*

# A Programme of Change and more International Development

## By Richard Hunt CBE - International President

IN In the last edition I reflected on our International Council Meeting in Hong Kong which agreed on changes to the way we have traditionally run our international administration. There has been a great deal of activity over the last few months with Ireland, Hong Kong and the UK implementing arrangements for the new international 'secretariat.' As a result we now have more of the Institute involved in international activity than ever before and this can only help create a more international 'feel' in terms of our culture and focus in the years ahead.

This is only part of the programme to be implemented over coming months. Following the announcement by our Director General, Cyril Bleasdale, of his intention to retire at the end of the year we will soon complete the recruitment of his replacement. Also, from 2009, we will introduce the first steps in a new way of funding our international activity— which, over the next couple of years, will lead to more funds being made available to support the mission of the Institute, and invest in its development and expansion.

### External focus

It is always easy to become dominated by the internal agenda. This is not where our focus should be. I admit I have wanted to see us modernise and update the way we do things and this has created such an internal agenda. However we are now well advanced with this.

Now we must also increasingly focus externally.
We need to expand and have a higher international profile together with a relevance and appeal to younger professionals. Expansion can come from either widening the network through new locations, such as Taiwan and Dubai, or rejuvenating and growing existing councils, such as India's. I have recently visited India on a couple of occasions to discuss this and we held our International Management Committee there in September, and also took the opportunity of holding an event in India for potential new members.

I am now delighted to report that we have agreed with our colleagues from CILT India a programme of activity to build on our established position and develop a much larger membership in this dynamic economy. The rate of change in India as in China (together these countries account for a third of the world's population) is quite amazing and it is easy to understand how the centre of economic activity is shifting further east as a result of their progress. India's economic growth is around 7 - 9% per year, which will lead in a few years time to them becoming one of the world's top five economies by GDP. This exciting progress is demonstrated by the obvious major investment taking place in the transport infrastructure, such as the expansion to a world class Metro rail system in Delhi, the new construction at major airports and a logistics sector challenged, it has to be said, by a growth rate of 15% year on year.

To date our membership in India has been based on the public transport sector but CILT now has a wider relevance, including professionals in the burgeoning logistics and supply chain sector.

The Chairman of CILT India is very clear on the potential opportunity in this sector and has suggested how, with appropriate support, this can be tackled. In response, I am delighted to advise that we have now agreed collaboration between CILT India and CILT UK to provide support to our colleagues in India. This also puts in place one other aspect of our new international business model agreed in Hong Kong, which is to enable developed Councils to support developing Councils on an agreed basis and thereby leverage strengths within the network for the benefit of our international development. Once again this will enable a widening of international involvement and is another step to becoming a more international organisation in feel and activity.

I also intend to announce shortly a further major development with our colleagues in India involving formal collaboration with one of India's 'premier league' business schools. When finalised, this will involve a programme of joint activity.

### Fastest growing region

With a significant presence in both China (through the education programme) and India — together with Hong Kong, Singapore and Malaysia — the Chartered Institute is well represented in the fastest growing economic region of the world.

However there are many significant places where we are not yet involved and some of these should be on our development agenda over the next few years. More on this in the future but let me identify, as examples, South America (in particular Brazil), Japan and Indonesia as interesting opportunities. However, finding the right way to get started and gaining an initial toehold is the next challenge — together with who can do it in terms of our own resources.

Finally CILT is not just about these emerging, large economies. Our mission remains the promotion of professionalism in transport and logistics management — and through this to make a difference to people's lives. This will not change. However, a larger and stronger Institute will provide greater means for us to support those that need it. A more international institute will be good for all our members wherever they are based and enable us to deliver on being their 'Career Partner' over the long term.

# The Director General who came for 9 months . . .

# . . . and stayed for 9 years

***In January 2009 Cyril Bleasdale OBE** (above) **will step down as Director General of CILT International after nine years. At the recent meeting of the International Management Committee in Mumbai he shared some memories with** Colm Holmes*

CYRIL Bleasdale was born in Toxteth in Liverpool where he attended Evered High School. Cyril joined The Chartered Institute of Transport in 1954. He took his examinations in Liverpool and won a prize as best student. He became Chairman of the Graduate Club and in the1960's became the youngest person ever on Council.

He was impressed by the Director General F.W. Crews who built consensus with discussions behind the scenes. In the Golden Jubilee, the Institute opened up Chartered Membership to experience CEO's and Transport Executives without examinations, which was a major new departure.

Cyril was Chairman of the East Midlands section. Leicester College of Technology is where he lectured in Transport Economics for one year.

He started work in 1951 aged 16 in British Rail's London Midland Region. He was a station master at 21 and a management trainee at 22 and built his career in the railways. He remembers travelling first class on B&I Line to Dublin in the 1950's and seeing all the horse carts along the North Wall. He also went to a Gaelic football match in the Phoenix Park.

Cyril left British Rail to become Managing Director of Freightliner (which had a fleet of 450 heavy trucks) in 1975. In 1982 Cyril was headhunted to take over Intercity. He remembers meeting Mr Higgins of Irish Rail who gave him the idea to change the designation "2nd Class" to "Standard Class." From 1986 to 1990 he was General Manager of London Midland Region and from 1990 to 1994 he was Director of Scotrail.

He was awarded an OBE in 1986 for his contribution to the railway industry.

## Transaid

In 1994 Cyril retired after 44 years in railways. He became Chairman of Transaid, which he represented on the CIT Council.

He was involved in the CIT-Logistics merger and proposed the CILT International structure.

As a temporary measure for 9 months Cyril agreed to act as Director General of CILT International, but ended up staying 9 years!

## Stimulating

He says he found it very stimulating working with many different Presidents — Tony Ridley (UK) 1999-2001; Jack So (Hong Kong) 2001-03; Peter O'Keefe (UK) 2003-05; Joe Walsh (Ireland) 2005-07; Ricgard Hunt (UK) 2007-09; Len Harper (Australia), President Elect 2009-11.

He remembers Joe Walsh who had a vision for the CILT family – always much wider than Ireland.

Cyril remembers two trips through the Khyber Pass and one to the Gold mines in Ghana in steam locomotives (with Cyril in the driver's seat in Ghana!).

He recalls three main areas of achievement: The name change to CILT and the international brand; the development of the international education program; and the establishment of 15 new sections.

Still to be achieved are growth in membership and particularly to get more young people to join. The main scope for future growth has to be in China, India and Africa.

Cyril and his wife Katy live in Cheltenham where Katy sings in the Bach Choir. They have two daughters and two grandsons. Cyril has run many half marathons and played squash well into his 60's.

He led a team that acquired Railnews magazine in 1996, which has a strong circulation of around 70,000.
So what are the main changes he has witnessed?

1. The chip revolution in PC's and electronics

2. Container revolution in shipping

3. Jet engine revolution in travel

Cyril won't cut himself off from his many friends in CILT and hopes to do some project work for CILT in the future.

Cyril will always be Cyril: full of energy, full of enthusiasm, full of the joys of life — and railways in particular

# HRH The Princess Royal

# launches Aspire Careers Foundation

**HRH The Princess Royal, Princess Anne, Patron of the Chartered Institute, has launched Aspire, CILT(UK)'s new Careers Foundation.**

Addressing many of the UK's leading logistics and passenger transport professionals at London's Café Royal, she highlighted the need for more training, particularly for overseas aspiring professionals. The Princess Royal explained she has seen the need for local expertise in times of crisis at first hand, especially during emergency relief operations.

It is intended that Aspire will be funded by CILT individual members and corporate donors. It will provide financial help to professionals who might not otherwise have access to exceptional training and development opportunities.

Richard Brown CBE FCILT, President, CILT(UK) and Chief Eexecutive Officer of Eurostar, told the audience that no other profession has such a blend of people, assets and processes; and that it is essential to invest now in the professionals of tomorrow.

Immediate Past President, Alan G Waller OBE FCILT, who was instrumental in the creation of the foundation, said: "This investment is our collective future. The vision is to bring together all players in this community of professionals. We have had successful careers and want to give something back."

## Education seldom free

He explained that education is seldom free today, but that this should not be a block to people wanting to enter the profession. Aspire will help fund scholarships, bursaries and financial assistance for recognised professional education programmes. It will also connect students, young managers and novice operators with the best practitioners in academic, governmental and commercial organisations worldwide.

The Princess Royal has worked closely with Alan Waller for nearly 10 years, from his days as CILT(UK) Chairman. In a tribute to him, she commented on the large amount of his own time he had invested in the Institute and his hard work not only with the Careers Foundation, but also with the Young Professionals' Forum, which he was instrumental in setting up.

- **Further information or to donate to Aspire, contact Steve Agg FCIT, Chief Executive, CILT(UK). Tel: +44 (0)1536 740109. Or, email: aspire@ciltglobal.org.**

# Irish 'giant' awarded CILT's highest honour

**TWICE Taoiseach (Prime Minister) of the Republic of Ireland, Dr Garret FitzGerald has been presented with the Chartered Institute's highest honour, an Honorary Fellowship, for his outstanding contributions to the logistics and transport industry.**

Dr FitzGerald, now 82, spent the first 12 years of his working life with Aer Lingus, Ireland's national airline, where by the age of 26 he was responsible for its economic and route planning, scheduling and fares.

In 1953 he passed the exams to become an Associate Member of the Institute of Transport. He went on to become Secretary and later Chairman of the Irish section. Dr FitzGerald enjoyed several careers in other areas crowned with two periods as Taoiseach. Throughout his long career Dr FitzGerald has analysed in great detail the major transport issues up to the present day.

After an earlier stint as Minister for Foreign Affairs, Garret FitzGerald was the seventh Taoiseach of the Republic of Ireland, heading two coalition governments, from July 1981 to February 1982, and from December 1982 to June 1987. He was one of the Republic of Ireland's most popular politicians, known to all sides simply as 'Garret.'

Dr FitzGerald was educated at the Jesuit Belvedere College and University College Dublin (UCD), from which he graduated with a B.A. degree in 1946, later returning to complete a Ph.D., which he obtained in 1968.

Following his university education he found employment with Aer Lingus, the state airline of Ireland, in 1947 and became an authority on the strategic economic planning of transport.

During this time he wrote many newspaper articles and was encouraged to write on National Accounts and economics by the Features Editor in The Irish Times. He remained with Aer Lingus until 1959, when after undertaking a study of the economics of Irish Industry in Trinity College Dublin, he became a lecturer in economics at UCD.

## Special ceremony

At a special ceremony in the Shelbourne Hotel, Dublin, on 21 October, the current President of CILT Ireland, Bill Lilley, described Dr FitzGerald as a "giant" who had made a huge contribution to Ireland. Dr FitzGerald — who was accompanied by his grandson Garret FitzGerald Jnr — confirmed that transport is still one of his favourite subjects . . . having started reading timetables at the age of nine.

CILT International President Richard Hunt CBE presented the Honorary Fellowship to Dr FitzGerald.

Dr Garret FitzGerald (front row with yellow tie) seated between International President Richard Hunt (right) and Bill Lilley (wearing chain of office), surrounded by past presidents of CIT and CILT Ireland.

# Global Supply Chains and the Outsourcing Risks

By **Stephen Rinsler** *

**GLOBAL Supply Chains, somehow, have brought the promise of better margins to European and US companies and both retailers and manufacturers have rushed to move the source of manufacture and some services to Eastern Europe, India and the Pacific Rim including China.**

Whilst manufacturing costs have undoubtedly fallen, not all commodities have fallen as well: shipping costs, for example, have risen as the laws of supply and demand have remained true. In the recent past, fuel costs have risen sharply and shipping and airfreight rates have followed. Furthermore in order to maintain low wage costs companies are now moving to Viet Nam, Cambodia, etc

It should be noted that the new extended supply chain hides a number of potential risks that if not properly accounted for could have a severe effect on profits. Boards need to have identified and evaluated the costs of these risks in order to judge the real business case for overseas sourcing. The fact that some companies are now considering sourcing from countries that are geographically closer to the UK means that the balance may be shifting away from these overly-extended supply chains.

What is important for Supply Chain Managers is to understand the risks and having contingencies in place to mitigate the risks.

## Supply Chain Risks

These arise through the new geography that is a backdrop to the outsourcing arrangements. The factory is no longer close or in Europe. Many of the problems one had in the original supply chain still exist but not resolving the issues increases the risks and distance, the language and culture divide amplify the risks. Problems: of quality, of specifying exactly what you want after the first proofing runs, of not tying the supplier into your business, are good examples.

Did you agree a single long run production slot with your supplier to get lower costs? The slot is usually not very flexible is it? Changes to quantity and timing are much harder to arrange? Under-order product, ask for that smaller, more expensive additional production run and you may have to have the quantity sent by air-freight in order for it to be on the shop-floor in time for the sales period. Realising these additional high costs you may feel forced to deliberately over-order stock at the start. Many retailers now have higher stocks than they used to have; that requires larger warehouses and results in lower warehouse productivity. Then the sales forecasts, the merchandising forecasts are not met resulting in high end of season stocks, longer lead times make forecasting that much more difficult. Clearing unnecessary stock through the sales channel generally requires heavy discounting, which means a reduction in profits.

Then there is the quality of goods on arrival, having been packaged, badly often, in the container, you now have an extensive new operation of finishing, steaming, and sometimes pricing, etc that has to be done in the UK to make the merchandise look shop-ready. Did you allow for all these extra costs in your margin forecast?

Your extended supply chain is forcing you to make decisions on fabrics, design and colours earlier and earlier in the process. There is the real risk that the product range needs to be specified before you have sold in this year's same period merchandise raising the risk of getting it wrong.

Then there are the physical, environmental risks in the Supply Chain: hurricanes, earthquakes and typhoons that must be quantified and sourcing strategies and contingencies should take the risk analysis into account.

## Management risks

The longer the supply chain, the greater the number of nodes, and the greater management time that is required to achieve a smooth result. This resource may well be more than the company currently has and even if functions are outsourced there will be the need to co-ordinate the outsourcing partnerships.

The greatest concern in this area for most retailers is quality. It can be difficult to oversee the accreditation and auditing of suppliers and manage proofing runs over a long distance. Once product is agreed, production schedules have to be monitored, which requires time, personnel and particular skill sets.

Outsourcing requires regular contact between the various parties to make it work. The question to bear in mind is, has the cost of the additional merchandising and quality management been taken into account?

Outsourcing is not about abdication; you still need to control the strategy, you need to spend time integrating the outsourced service into your company. The more central the activity is to the heart of the company, the more time that is required to really ensure the outsourced operation is integrated. How the organizations are linked is one of the keys to the success of outsourcing.

The other management risks are that you did not define the strategic changes that you are looking for when you did outsource and you may not have shared the thoughts with the prospective partner? You may not have decided how success and failure will be judged and therefore not decided whether any form of gain share is appropriate to the contract.

## Financial risks

Your suppliers like hard currency, quite often US dollars, and thus a significant proportion of your costs will be exposed to the fluctuations of that currency. If the dollar strengthens


*Shipping costs can result in a reduction in margins*

and your margins decrease as you are connected to UK price competition, you are forced to try to reduce the purchase price, which may result in reduced product quality and greater finishing costs.

It is possible to hedge the dollars by buying in advance of course, but there is a cost to these transactions. You might buy stock in pound sterling, but if there is currency movement against the supplier, they must in the long run recover lost margin or refuse to do business with you, resulting in time and expenditure accrediting a new supplier.

Shipping costs increase markedly as routes become more popular, resulting in a reduction of your margins. If the price of oil increases, so will your shipping surcharges. Were these potential costs taken into account in the budget?

Your extended supply chain requires you to offset the supply risk by receiving the stock earlier, and because the stock is produced in one run shipping costs can be minimised by shipping the whole quantity together. But this will result in extra warehousing and financing costs and possibly the cost of the additional write down of unsold stock. Financial information systems will be required that allow all the various costs to be posted against each product in the range so the real margin can be reviewed.

## Political Risks

These are very hard to assess but there have been some examples recently: EU trade quotas, instability in some countries, suppliers having very different working conditions to European plants. These risks can directly affect your ability to trade or can become consumer relations' issues that affect your brand.

## Risk Analysis

The risk analysis required is a detailed review of each step in the extended supply chain starting with ranging and supplier selection and following the course of the product and information flows through the supply chain. At each stage the possible failures (the risks) to the process need to be understood and assessed. The classic quadrant:

| | |
|---|---|
| **Low Value: High Impact Events** | **High Value: High Impact Events** |
| **Low Value: Low Impact Events** | **High Value: Low Impact Events** |

needs to be populated. Once done, contingency plans need to be detailed and agreed. These could include sourcing alternative suppliers and additional stocks, start selling the next season early, putting in place better systems and management controls, etc.

Risk analysis should also cover the contingency requirements should it be decided, or it be necessary, to take the outsourcing back in house or move the management of the processes to a new company.

## Summary

The benefits from overseas, global sourcing need careful analysis both before starting the transfer and at regular intervals thereafter.

The analysis requires the whole cost of acquisition of each product to be determined to allow comparison with other countries, including the UK. What is most important is that the analysis must be conducted dispassionately and that the interests of the customers and the shareholders remain the most important consideration.

'Getting it wrong' is not hard, losing control of the strategy is all too easy; outsourcing requires continual effort to harness the outsourcer but such management resource is at a very different level than running the whole operation one's self.

A company that harnesses the skills and resources of an outsourcing company and provides products and services at a lower cost and higher added value than its competitors as a result of letting experts run some of its operations will be more profitable than its competitors and quite possibly more flexible.

• **Acknowledgement**
*A more detailed version of this analysis can be found in* Global Logistics: New Directions in Supply Chain Management *edited by David Walter and published by Kogen Page.*

* **Professor Stephen Rinsler,** BSc, FCILT, FRSA, FIBC, MCIPS, MInstRE**, is Director, Bisham Consulting** (www.bishamconsulting.com) **and a Vice President, Chartered Institute of Logistics and Transport.**

# Era of global supply chains is not dead!

***CILT(UK)'s Logistics Lecture pulled no punches in defending the global supply chain model.***

**David Jinks** reports

**JOHN PATTULLO, Chief Executive Officer of CEVA (formerly known as TNT Logistics), delivered a robust defence of global supply chains in his CILT(UK) Logistics Lecture 2008 at London's Cavendish Conference Centre. He said that despite high fuel costs and environmental pressures, if logistics suppliers continue to improve their operations then the global approach to manufacturing will continue.**

He told his large audience of leading industry experts: "I don't believe the fuel price spike is more than a blip on the road to globalisation. I don't think there will be a reversal. Some industry experts are saying that oil will have to reach $800 before the turning point is reached."

He used the example of soap manufacturers – he worked for some time at Proctor & Gamble, developing manufacturing in the Far East – to explain how companies had moved from a local model, in which a company might have had two sites producing bars in the UK in the 1970s, to regional, where a single European site would produce for the entire European market in the 1990s, to today's global solution, where one plant in the Far East or South America produces all the company's soap products for the world.

"In five years, ocean and air freight have grown by around 70% as companies have introduced integrated global supply chains. What are the key supply chain drivers and what are the real costs of a designed supply chain?" he asked.

## Struggle to succeed

He admitted that logistics companies had sometimes struggled to succeed in this environment, with challenging local employment and customs processes meaning customers had been unhappy and unconfident in the robustness of their supply chain.

He argued, however, that logistics companies that introduced macro supply chain designs would prosper – and international logistics services (ILS) specialists can manage the hot spots in the chain. ILS enables clients to make dynamic decisions about what product they would purchase and move when, where and how in their global supply chain. By introducing macro supply chain designs and ILS specialists on the ground, industry benefits from maximum container utilisation, early visibility to production issues, and reduced trucking and shipping charges.

John Pattullo said that logisticians need to be able to share knowledge better within the industry. At CEVA it is called 'smart solutions' and is a way of collating knowledge and making it portable. Customers benefit from learning from other customers. A 'smart solution' contains simulations of material flow, supply solutions best approaches and a commercial modelling tool. He also suggested that a key way of ensuring success in a global supply chain is through zero defect start-ups. This is ensured, he said, through six key stages: propose; plan; provide; prepare; practise, and pack up.

"Our industry still needs to catch up with manufacturing developments," he admitted; but: "We have moved from a Basil Fawlty skill set to a much more sophisticated model of information management, multiculturalism and excellent supply chain design. The industrialisation of global supply chains is needed to control and reduce cost. Globalisation is dramatically changing supply chain management. It demands more sophisticated IT, tightened operational control and stronger management."

He concluded his well-received lecture with the belief: "Ultimately, this will enhance our industry's professionalism."

## Supply chain innovation

In response to questions, John Pattullo also discussed supply chain innovation and revealed that while manufacturing leads the way, retail is not an environment rich in innovation: "Retailers protect their supply chains like their virginity," he said, quoting industry guru Sir John Harvey Jones. "As an industry, we should encourage manufacturers to combine their production supply chain with other companies. I think this will happen particularly with mid-tier companies, such as Colgate, that need to compete with giants such as Unilever."

UK Institute President Richard Brown FCILT, thanking John Pattullo, said: "It was sobering to me working in the rail industry, which is still largely nationally focused, hearing of the remarkable international focus of modern global logistics suppliers."

# California votes on high-speed rail network

**IN a country not known for its enthusiasm for passenger railways, Americans in the state of California are about to get the opportunity to vote on a proposed high-speed rail system that could rival developments in Europe and Asia.**

On 4 November, Californians will be able to vote on the proposal to develop an 800-mile (1,290-km) rail system on which trains would speed between San Francisco and Sacramento and Southern California at up to 220 mph (350 km/h).

If the proposition is agreed in the state-wide ballot, $9.95 billion (£6.1bn, €7.76bn) of bonds will be authorised to begin construction of a network of bullet trains, zipping passengers up and down the state of California in 2-1/2 hours.

The measure includes $9 billion for high-speed rail and $950 million for commuter and conventional intercity rail. The bonds would be paid off over a period of years, with interest boosting the total cost to about $19 billion (£11.7bn, €14.8bn).

Supporters of the project say it will help the environment and modernise California's transportation needs, but opponents say it is too expensive — particularly during the current economic downturn.

According to Quentin Kopp, a former state senator who is now chairman of the California High Speed Rail Authority, high-speed rail would reduce congestion and pollution, create jobs during lean economic times and bring a modern transportation system to accommodate the state's growing population — 35.5 million in 2006, up from 33 million in 2000, and projected to approach 60 million over the next 40 years.

The rail system is expected to save 12.7 million barrels of oil and 900,000 million tonnes of carbon dioxide per year — equivalent to taking one million cars off the road — by 2030, even with future improvements in fuel efficiency, according to the Authority.

The high-speed rail project has been in the planning stages since 1996 when the State Legislature established the High Speed Rail Authority. The agency has spent $58 million (£35m, €45m) since then holding public hearings, completing environmental studies and funding engineering work.

The authority's plans call for taxpayers to raise roughly a third of the estimated $32 billion to $35 billion (£19.6bn, €35bn - £21.5bn, €27bn) cost of building the initial 465-mile (748-km) high-speed rail line linking Anaheim, Los Angeles, Fresno and San Francisco. Another third would come from the federal government, with the final third coming from private investors. Some cities and counties would also contribute.

The High Speed Rail Authority predicts the final cost of the total network at $45 billion (£28bn, €35bn).

The authority predicts the high-speed trains, unlike commuter rail, wouldn't need operating subsidies from the state because fares would be competitive with the cost of an airline ticket.

Recent polls suggested the plan gaining support of 56% of Californians, with 30% against — but the latest Wall Street meltdown and California's housing slump will almost certainly affect voters, political experts have predicted.

*California State Governor, former Hollywood idol Arnold Schwarzenegger (above), has spoken favourably of high-speed rail — but has not yet taken a position on the proposal.*

If the vote on 4 November supports the plan, that money will go to construction of the first phase from San Francisco to Los Angeles by 2018, Quentin Kopp explained. Eventually, the high-speed system would also embrace Sacramento, San Diego and, potentially, Oakland.

• In the neighbouring northern-western state of Washington, voters in three counties will also vote in November on a major rail project — a 15-year, $17.9 billion (£11bn, €14bn) light rail scheme to link surrounding counties to Seattle's central business district to the Seattle-Tacoma International Airport.

High-speed trans in California would be similar to those already running in Europe and Asia, and would have a top speed of 200 mph (350 km/h)

## The end of a beautiful friendship?

# Abolition of the Far East Freight Conference


**By Mark Rowbotham ***

**IN OCTOBER 2008, the European Union (EU) abolished the Far East Freight Conference (FEFC), the pooling of sea freight resources by many shipping lines to move containerised goods from the Far East to Europe.**

The EU authorities state the reason to be a failure on the part of the FEFC to promote competitive freight rates on these services, and hence a breach of EU Competition law. The abolition of the FEFC is designed to make freight rates in the maritime container freight sector more competitive.

However, global recession is beginning to bite, and the encouragement of such competition may not have the rewards it is supposed to bring. Indeed, the net result could be a reduction in the Far East–Europe services, and — on a more pessimistic level — the end of some of the shipping line services seen hitherto as a major part of the global shipping sector.

On a more positive note, however, there may also be the beginning of several strategic alliances between some of the shipping lines concerned in order to guarantee business in this sector, especially given the present scenario where certain shipping lines, such as Hapag-Lloyd, are already being sold off to other major shipping companies.

Before analysing the conference system, its advantages and its failings, it is worthwhile considering the background to the EU decision in the light of international initiatives.

The FEFC was originally established in 1879 and was based on the UK–Calcutta Conference of 1875. The need for such an arrangement resulted from an excess in shipping tonnage on the Far East trades as a result of the opening of the Suez Canal in 1869, with freight rates covering only voyage costs.

It may be fair to state that the recent decision by the EU partly stemmed from the initiative by the General Agreement on Trade

Emma Mærsk *is the world's largest container ship — and, at 397 metres, is currently the longest ship — But its role may be less significant now.*

in Services (GATS) to render the global shipping industry more competitive. For many years, many developing countries had sought to protect their shipping services by insisting goods exported from or imported into their countries were carried by their own shipping lines, regardless of the freight costs of doing so.

## Protectionist

In many cases, the major global carriers were able to offer lower freight rates; but national politics prevented them from gaining a foothold in several maritime markets because of the protectionist stance on the part of several nations — seen by the United Nations (UN) as having 'developing' status. In time, it was felt that such protectionism was inappropriate to the competitive nature of the maritime sector, and steps were required to deregulate the system.

In 1980, Maersk Line started an independent Europe–Far East container service, following the Taiwanese Evergreen Line in 1979, which had started a round-the-world service, and these two companies began to dominate the shipping scene independently of the other pools of liner services. The power of the FEFC began to wane, with Evergreen and Maersk taking 25% of the Europe–Far East trade.

The GATS negotiations, as part of the overall Doha Round of the World Trade Organisation (WTO) of the year 2000, included the whole issue of liberalisation of global maritime services, and the 'liner conference' system was made part of this set of negotiations. By their nature, 'liner conferences' seek to pool resources by the members of the conference, and thus provide a standard fixed global system of the maritime movement of containers by sea freight. Thus, a shipper has access to several shipping lines on the same route, using a variety of vessels from all of the shipping lines concerned, and can guarantee a shipment to its destination at the time required.

However, the drawback is that freight rates are fixed within the conference, and this is seen by many, including the EU's Competition Authority, as a form of cartel or oligopoly, thus stifling what could be seen as global commercial competition.

The original UN Convention on a Code of Conduct for Liner Conferences was adopted in April 1974 and came into force a decade later in October 1983, with 78 Contracting Parties. Its primary purpose is to provide the international legal framework for the 'liner conference' system, thereby legitimising a system that is characterised by a series of anticompetitive practices.

To be fair to the conference system, however, the code also enabled the liner conferences to guarantee that the ever-increasing volumes of maritime container business between the Far East and Europe — and, to a large extent, North America — was shared out between its members, thus ensuring that each shipping line that was a member of the conference concerned – FEFC for traffic between Europe and the Far East – would maintain a viable service by being guaranteed some of this trade.

This meant that not only did the European carriers such as Maersk, CMA CGM, MSC and Hapag-Lloyd maintain a sizeable chunk of the business, but carriers such as OOCL, COSCO, China Shipping, K Line, NYK and MOL also did.

Indeed, the growing level of maritime trade between the Far East and Europe meant that, for each of these carriers, trade also increased. This was a win-win situation for all the carriers concerned, as it applied as much to transpacific trade as it did to trade from the Far East into European ports.

However, the EU submitted a series of offers concerning the liberalisation of maritime services, and in particular to liner conferences. In 1996, it submitted a draft offer containing a limitation on national treatment concerning the cross-border supply of international maritime transport services, specifying that between EU and non-EU members of the liner conferences, national shipping lines as defined by Chapter I of the UN Code had a preferential right of membership in the conferences, according to Article 1 of the Convention. In 2003, the EU draft offer on maritime transport services removed this limitation on national treatment.

However, in the same year, the EU decided to review the issue of the block exemption of the liner conferences from EC Regulation

4056/86, which deals with the infringement of EU Competition Rules, applying Articles 81 and 82 of the EC Treaty of Rome to international maritime transport services. Articles 81 and 82 cover the issue of the application of anti-trade practices, especially the implementation and promotion of a free competitive trading system throughout the EU, effectively banning the existence of cartels within the EU framework.

Nevertheless, Regulation 4056/86 went against the conditions of Articles 81 and 82 of the EC Treaty, and allowed the existence of international liner conferences and their right to maintain a system of international oligopoly, in order to fix freight rates to maintain stability of international freight rates and thus maintain a regime of fixed regular shipping services – that is, a liner trade.

In effect, the review of Regulation 4056/86 questioned the right of the international liner conferences to fix freight rates for all shipments into and out of EU waters by using their block exemption from Regulation 4056/86. The EU Commission did not doubt that rate fixing guarantees the stability of freight rates and maintains regular and reliable scheduled shipping services.

It did, however, question whether such rate fixing as undertaken by the liner conference system allowed for free and fair competition between carriers and acted in favour of the shipper. It concluded that this was not the case, and ultimately decided to act against the conference system, decreeing in 2006 that the liner conference system with regard to the FEFC should be abolished by October.

However, in an era of a major global recession, there is a significant risk that the abolition of the liner conference system will result in the failure of several major shipping container lines, especially given the heavy investment on the part of many of these lines in recent times in larger container vessels in excess of 8,000 TEU — and, in many cases, vessels capable of carrying well in excess of 10,000 TEU, such as the *Emma Maersk*. With the downturn in global markets, the need for these vessels has become less significant.

Indeed, with the abolition of the FEFC, the risk of market collapse in the liner trade sector becomes ever more probable, as without a pooling of resources, the shrinking in the global maritime market allows for less room for and may leave many shipping companies with little option but to reduce resources owing to increasing operating costs — mainly increasing bunker fuel prices. Such a reduction in resources may lead to the lay-up of increasing numbers of vessels, and ultimately to the increasing risk of outright business failure of major shipping companies.

Although the abolition of the FEFC may have been intended as a shot in the arm for the container-shipping sector, it may yet prove to be a stab in the back.

*** Mark Rowbotham FCILT is Co-Chairman of CILT(UK)'s Freight Forwarding, Ports and Maritime Forum.**

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**CILTWorld** is published by the Chartered Institute of Logistics & Transport International, 22 Greencoat Place, London, SW1P 1PR, United Kingdom.
**Telephone:** 44 (0) 207 630 7221 **Fax:** +44 (0) 207 931 8787 **Email:** info@ciltinternational.org **Web site**: http://www.cilt-international.com