



The American Companies

"News Flash"

March 11, 2010

Trans-Pacific Market Overview and Future Outlook

As has been experienced in the Trans-Pacific trade lane the past few months, a pattern of volatility continues to exist as the carriers continue to focus on rate recovery and the issues of capacity and space become a concern to shippers. This comes after rates drastically declined for several months straight as the market went into a free fall after container volumes decreased and the carriers aggressively fought to maintain market share.

During the traditional peak season of 2009 and leading into the 2010 Chinese New Year this past February, major carriers began to publicly announce the impact of the global economic crisis with regards to the shortfalls in revenue and the major losses they have begun to accumulate as a result. Most major carriers in this trade lane have recently posted what are close to or over one billion dollars in annual losses for 2009. It has been reported that as a group, the carriers servicing the Trans Pacific market will have lost an estimated twenty billion dollars and even put some close to considering bankruptcy.

As a result, carriers have focused on strategies that will further reduce capacity, which will include pulling vessels out of the trade; postponing the delivery and deployment of new and larger vessels; and artificially shrinking the space in efforts to create a supply and demand scenario. All of the above combined will help justify increasing prices through various forms of surcharges and the general rate increases to the base rate itself. We are looking at a market moving forward where higher priced ocean freight will become priority to the carriers and low revenue cargo will be at risk to rolling and delays. This has already been seen post Chinese New Year and over the past few weeks as thousands of backlogged containers have been cleared out.

The carriers are sending a strong message to the shipping community and advising that they have all intentions to maintain a tight market and not only for inbound containers into the USA, but also outbound containers as well. As contract season soon approaches, traditionally in May and June, it has been made clear that carriers will continue to keep their capacity limited until this time, where they plan to exercise rate increases to a level where they can once again achieve profitability.

Suggestions we recommend during this time:

- Prepare for continued volatility and definite increases in rates throughout the 2010 shipping season. Some of the areas to focus on are BAF (Bunker Adjustment Factor), ERC (Emergency Recovery Charge), GRI (General Rate Increases), and PSS (Peak Season Surcharge), all of which are common during the year and driven by market conditions at anytime.

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250 Moonachie Road (HQ Office - Full Service)
Moonachie, NJ 07074 (201-478-4600)

400 Oceangate, Suite 1106 (Full Service)
Long Beach, CA 90802 (562-435-2327)

881 Route 83 (Full Service)
Bensenville, IL 60106 (630-860-0782)

Domestic USA Ground Operations
Domestic USA Air Operations
Asheville NC 828-271-2061

3PL Locations
Fairview, NJ
Carson, CA
Bensenville, IL

<http://www.shipamerican.com>

- Book your shipments (both inbound and outbound) as soon as possible, perhaps increasing your lead time. American International Cargo maintains multiple service contracts which will also provide for some flexibility and choices at anytime that space availability, equipment, service and pricing becomes an obstacle in the course of handling your shipments.
- The concept of “Slow Steaming” is being implemented by several carriers in an effort to save on (bunker) fuel, can slow down the speed of the vessel which in turn will increase transit times as a result. This again will require reaction to accommodate for longer transits and increase lead times.

While it is reported that 11% of the global container space has been taken out of the trade and rates must return to profitable levels or the longevity for many carriers becomes a critical concern, the shipping public will unfortunately have no choice but to pay these increases and work within a strained market environment that we now face. Until the economy rebounds and container volumes begin to progressively increase, it is very likely that the months ahead will be very challenging.

We at The American Companies would like assure you that we are taking all efforts possible and maintaining our strong relationships with the carriers in efforts to protect your best interest and keep your shipments flowing smoothly within the logistics pipeline. This, together with the focus on many compliance initiatives that have also been implemented over the past year within the industry, put us in a position of working closely with our clients in efforts to guide them through these times and enforcing our responsibility of handling your business with “reasonable care.”

We will keep you advised on all further developments as they arise. In the meantime, if you have any questions, please feel free to contact your sales representative or local handling office for assistance.

Sincerely,

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