OUTSOURCE

VOLUME 4, ISSUE 8 NOVEMBER 2016

THE SOURCE

Midsize liners likely to lead next consolidation wave

Bruce Barnard, Special Correspondent | Nov 07, 2016 9:54AM EST

Inside this issue

Medium-sized container lines likely will trigger the next round of consolidation in a bid to keep pace with market leaders that are pulling ahead following a wave of mergers, according to Drewry Shipping Consultants.

The forthcoming merger of the container operations of Japan's Big Three shipowners — MOL, NYK, and "K" Line — will further contribute to rapid consolidation of the industry and create "a very clear" dividing line between the biggest and medium-sized container lines that could be the spark for even more mergers and acquisitions, the London-based consultancy predicts.

Being a Top 20 ocean carrier used to be the benchmark for a major player, but that definition is now obsolete as consolidation has lowered the entry criteria to less than 100,000 twenty-foot-equivalent units — or 0.5 percent market share — paving the way for regional carriers such as X-Press Feeders and KMTC to join the rankings.

"In this new era of beefed up carriers, when scale is everything, the new minimum share required to be considered a big carrier looks like being at least 3 percent, which at present only 10 carriers (including the Japanese lines) meet," Drewry said. The top seven now control approximately 77 percent of global ship capacity, with the leading five more than half.

Continued on page 2

Midsize liners likely to lead next consolidation wave

Continued from page 1

In the year 2000, the top five ocean liners controlled 35 percent of the world's container capacity. By 2008, that had increased to 46 percent and by October 2016, 55 percent of the world's capacity measured in TEUs was in the hands of the top five container lines, according to Goldman Sachs Research.

In recent years container lines have climbed up the rankings of the largest ocean carriers by ordering big vessels, "but now that most carriers recognize there are too many ships, the only way to achieve scale is via M&A."

Shipping lines do not want to order more ships for fear of making overcapacity worse, but ordering bigger, more efficient vessels is also the most assured way to gaining the greater economies of scales and lower per-unit carrying costs needed to be competitive.

Following recent consolidation, a very clear market gap is emerging between the top seven liners and others like Orient Overseas Container Line, Yang Ming Line, Hamburg-Sud, Hyundai Merchant Marine, and Zim Integrated Shipping Services.

OOCL, Yang Ming, HMM, and Zim have the biggest cost advantage, making them the most likely candidates for some form of M&A, according to Drewry. While such M&A could unfold in any number of ways, Yang Ming Chairman Bronson Hsieh has said a merger between Yang Ming and its compatriot Evergreen Line was out of the question.

Hamburg-Sud, Pacific International Lines, and Wan Hai Lines are less disadvantaged by their size due to their lower exposure to the east-west trades.

However, scale is becoming more of an issue on north-south routes as more mega-carriers add bigger ships to these trades, which will be more of a consideration for Hamburg-Sud, while PIL and Wan Hai appear less vulnerable, as scale is not so critical in the intra-Asia trades.

PIL, however, has a dozen 11,800-TEU ships on order, suggesting it will move into east-west trades and become less of a niche ocean carrier in time, with the trans-Pacific being the most likely market in which the liner will first branch out.

Maersk Line has signaled its appetite for M&A and also placed a moratorium on new ship orders "so while it does seem that the big wave of consolidation has now been concluded with the Japanese lines, there is clearly still some space for more."

"What we do not know is if the medium-sized carriers will be acquired, merge or simply withdraw from the larger trade routes due to their insufficient scale."

Zim has denied a report that it is weighing plans to dispose of its global container network and downsize to a regional Mediterranean line. The Israeli carrier wants to sell its ships and shipper base on its Asia-US, Asia-east Mediterranean, and Mediterranean-US routes, the Wall Street Journal said, citing unnamed sources.

As speculation about how the industry will shape up in the coming years continues, so does the debate over what impact all of this activity will have on container shipping pricing.

Some believe that fewer container lines means fewer salespeople empowered to cut rates, as well as more responsible ordering, deployment, and idling of ships. Others counter that weak industry fundamentals of slack demand and structural overcapacity will remain intact. They say this will push ocean carriers, no matter how few of them there are, to always compete on price and seek to fill ships to maintain cash flow, a primary a day-to-day objective of container lines.

Exciting News at Outsource Inc

THE FREIGHT MANAGEMENT COMPANY

We were chosen as the shipping company to make arrangements for a shipment moving from MIT in Boston to Space X for the HYPER-LOOP project. It is exciting that we were chosen to play a role in this state of the art, cutting edge technology that may revolutionize transportation throughout the world. We are pleased to report that the shipment moved on-time and without incident.

A Hyperloop One propulsion test vehicle is on display for visitors to view during a Hyperloop One sled test at their facility in North Las Vegas.

Be anywhere **Move anything**
Connect everyone

What Is Hyperloop?

Hyperloop is a new way to move people or things anywhere in the world quickly, safely, efficiently, on-demand and with minimal impact to the environment. The system uses electric propulsion to accelerate a passenger or cargo vehicle through a tube in a low pressure environment. The autonomous vehicle levitates slightly above the track and glides at faster-than-airline speeds over long distances. We eliminate direct emissions, noise, delay, weather concerns and pilot error. It's the next mode of transportation.

The Future Is Happening

TRANSPORTATION TRIVIA QUESTIONS

1) Most people know that the RMS Titanic hit an iceberg and sank on the April 14, 1912; how many know what the initials RMS stand for?

   A) Regal Merchant Ship B) Royal Merchant Ship C) Regal Mail Sailor D) Royal Mail Steamer

2) Airplanes had been around for some time before this gentleman came along and revolutionized flying. Credited with the invention of the jet engine and now regarded as the father of jet propulsion. Who was he?

   A) Willy Messerschmitt B) Frank Whittle C) Kelly Johnson D) Henry Royce

3) Many countries call their national airline after the name of the country; some don't. IBERIA is the national airline of which country?

   A) Austria B) Portugal C) Spain D) Libya

4) It is July 3, 1938 and you are aboard a steam train which is about to become the world speed record holder. What is the name of the railway locomotive that broke the world speed record on this date?

   A) The Princess Royal B) The Flying Scotsman C) The Mallard D) The Silver Bullet

5) A Lumper is?

   A) A packer of goods for shipping B) A scheduler of truck arrivals at a plant C) Someone who unloads trucks for a fee

6) An Over-The-Road driver (long haul) is normally paid by the…?

   A) By the hour B) By the load C) By promptness of delivery D) By the mile

Diesel Prices See A Slight Increase

By Logistics Management Staff, November 1, 2016

The average price per gallon saw a slight 0.1 cent increase to $2.479 per gallon, which brings the cumulative gain over the last four weeks to 9.8 cents based on EIA data.

Coming off of its first decline in five weeks last week, the average pprice per gallon of diesel gasoline was back up this week, according to data issued by the Department of Energy.

The average price per gallon saw a slight 0.1 cent increase to $2.479 per gallon, which brings the cumulative gain over the last four weeks to 9.8 cents based on EIA data. Compared to the same week a year ago, the average price per gallon is down 0.6

OUTSOURCE
THE FREIGHT MANAGEMENT COMPANY

72 SHARP STREET
SUITE C-11
HINGHAM, MA 02043
Phone: 781-340-5656
Toll Free: 800-286-5306
Fax: 781-340-0080
OUTSOURCEOPERATIONS@OUTSOURCEFREIGHT.COM

XPO sells US truckload division to TransForce for $558 million
William B. Cassidy, Senior Editor, JOC (condensed version)

XPO Logistics is selling its truckload operation, the former Con-way Truckload to TransForce, Canada's largest trucking holding company. The $558 million deal expands TransForce's already substantial US presence and makes the Canadian company a bigger player in US-Mexico cross-border truckload trade as well.

For XPO Logistics, the transaction gives it cash to draw down debt and improve its long-term growth profile, Chairman and CEO Bradley S. Jacobs said in an interview Thursday. The decision to sell was "bittersweet," but made sense for the $15 billion global company, Jacobs said. "In every other area, we're close to being number one or two in the field," he said. "Even though the truckload operation is a good business, it's only the 19th largest truckload company in the US," Jacobs said. Furthermore the 3,000 tractors operated by the division didn't "move the needle" when it came to providing capacity. "We have over a million trucks in our brokerage network," Jacobs said.

XPO acquired the truckload operation, along with Con-way Freight, the second largest US less-than-truckload carrier and Menlo Logistics, almost a year ago for $3 billion. Initially XPO said it planned to keep the truckload division and use it to expand its cross-border business with Mexico but Jacobs maintained he would sell if the opportunity was right.

TransForce saw an opportunity to increase its US truckload revenue to nearly $850 million. The Montreal based company also owns Transport America and other US based companies.

Jacobs stressed his company remains committed to the other businesses it purchased from Con-way, including LTL.

Comment Period on Proposed Speed-Limiter Rule Extended to Dec. 7 (condensed version)

11/1/2016 2:50:00 AM John Sommers II for Transport Topics

The Federal Motor Carrier Safety Administration and the National Highway Traffic Safety Administration have extended the deadline for public comments on their proposed speed-limiter rule by 30 days to Dec. 7, the agencies announced Nov. 1. The proposed rule would require all newly manufactured U.S. trucks, buses, and multipurpose passenger vehicles with a gross vehicle weight rating more than 26,000 pounds to be equipped with speed-limiting devices. According to FMCSA, requiring speed limiters on large commercial vehicles could save lives, as well as an estimated $1 billion in fuel costs annually. American Trucking Associations, along with 50 state trucking associations, had asked for a 30-day extension in a Sept. 9 letter to Transportation Secretary Anthony Foxx.

Strong Container Volumes Continue Steady Pace at Port of Houston

By: AJOT | Oct 26 2016 at 10:45 AM

HOUSTON - "We fully expect to top last year's container volume with another record year in 2016," reported Port of Houston Authority Executive Director Roger Guenther to the Port Commission during its meeting today. The Port Authority has handled more than 1.6 million TEU through its container terminals to date this year, and it expects to maintain "strong growth" through the remainder of the year. All told, the Port Authority's general cargo and container terminals handled more than 26 million tons of cargo through September.

The Port Commission also acted on agenda items that support the Port Authority's continued growth, increased cargo volumes, and diverse business base. Of special note is the award of a $4 million gate operating and optical character recognition project at Bayport and Barbours Cut Container Terminals, to optimize and modernize the truck gate interchange process and enhance the exceptional customer service levels at each terminal.

Europe-Canada Deal Reveals Free Trade's Bleak Outlook

By: The Editors, AJOT | Nov 01 2016 at 02:00 AM

After years of talks and a week or two of comic opera, Canada and the European Union stifled resistance from Wallonia—the French-speaking part of Belgium—and signed their Comprehensive Economic and Trade Agreement. It was a good result, though with disturbing implications.

CETA is a new kind of free-trade agreement. Going far beyond the elimination of most tariffs on goods, it also breaks down non-tariff barriers, and aims to foster trade in services and increase flows of foreign investment. Think of it as a scaled-down version of the Transatlantic Trade and Investment Partnership the U.S. hopes to reach with the EU. Even though the Walloons' objections to CETA were dealt with, after a fashion, the episode inspires little confidence in TTIP's prospects.

CETA will now go ahead in two stages. Tariff reductions and other conventional trade measures will happen "provisionally" starting next year, but some of the reforms will have to await ratification, which could yet take years. It's not impossible the deal could still unravel.

A regional parliament in one EU country was able to nearly kill CETA because Europe had deemed the pact to be a so-called mixed agreement, as opposed to an ordinary trade deal. EU trade deals don't require parliamentary ratification; mixed agreements do. If the EU wants to reach more CETA-like deals, this precedent was an error. Securing agreement in all the EU's national (and some of its regional) parliaments will never be easy.

Burma Sanctions Program Ended

The United States is terminating the national emergency with respect to Burma and has revoked the Burma sanctions. Financial sanctions and statutory blocking on Burma has also been waived. As a result, the economic and financial sanctions that were administered by OFAC (Office of Foreign Assets Control) are no longer in effect.

Answers to Trivia

ABOUT US

Established in 1990, OUTSOURCE, Inc. offers a complete range of freight management services and supply chain solutions to help you improve control and increase profitability.

OUTSOURCE specializes in worldwide logistics and transport, offering your organization an optimized transportation management solution. Our customer-driven approach to doing business allows us the flexibility to select services and solutions that best serve our clients' individual needs, and our extensive collective experience in distribution, warehousing, retailing and transportation logistics provides us with the expertise to make it happen.

Air, sea, rail and truck—we can handle all of your domestic and international shipping logistics and transport needs, freeing you to do what you do best…….grow your business.