



# DISPATCH

For customers and employees of Western Overseas Corporation

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*With air freight struggling and cargo rolling, 2011 closes on an uncertain note for the shipping industry. There's even fear of container explosions after tragedy in Vietnam.*

*In this edition of our newsletter, we break it all down and share some advice for staying out of trouble so that you can enjoy worry-free holidays.*

*We are honored to have worked with you throughout this year and look forward to seeing you in the next!*


## American Airlines: "Business As Usual" Through Bankruptcy

ON NOVEMBER 29, American Airlines filed for Chapter 11 bankruptcy. Gerard Arpey, CEO of the world's fourth largest airline, will step down and be replaced by Thomas Horton, currently company's president. David R. Brooks, president of American Airlines cargo division, addressed customers in a letter, promising "business as usual at American during the Chapter 11 process."

Brooks cited "cost structure" as well as "global economic uncertainty, volatile and rising fuel prices, and intensifying competitive challenges" as reasons for the filing. He stressed that the Fort Worth-based airline will re-emerge stronger following Chapter 11 restructuring, and noted that several of the airline's competitors currently have cost advantages after such restructuring. Delta, United and US Airways have all filed for bankruptcy in the past decade.

Despite the announcement, Brooks assured customers that sales agreements remain in effect. He said the company will continue to operate its normal flight schedule, including American Eagle and AmericanConnection carriers, and specified, "AA Cargo will continue to provide its current portfolio of services and products, and will honor all allocations


commitments." Brooks said American will also "maintain worldwide reach through our interline cargo relationships."

Brooks concluded by reiterating that in the long run, this move will help the company, saying, "Through this process, we will enhance our reputation as a global leader." 

## Industry Loses Icon Cecilia Castellanos

As this issue of our Dispatch goes to press, it is with deep sorrow and regret that we bring you the difficult news that one of our most senior officers, Cecilia Castellanos, has passed away.

Many of our customers have had the privilege of working with Cecilia over the years and will never forget the knowledge, dedication, sense of humor and integrity of this exemplary lady.

We will dedicate much of our next Dispatch to Cecilia and the many contributions she made, not only to our company, but to our entire industry. 

*—Western Overseas Corporation President Michael Dugan*



## Air Freight Unlikely To Get Peak It Needs

The fastest way of moving goods—air freight—is creeping toward the end of the year in slow motion.

While capacity has increased, North American customers have looked to ocean carriers to save money. The peak season is liable to be short this year, if it registers at all.


The International Air Transport Association (IATA) reports that air freight demand dropped 0.4 percent in July (the most recent month with available numbers). Asia-Pacific carriers saw demand fall the furthest, 3.6 percent. Clearly, growing inbound demand in China has not been able to compensate for outbound demand being pushed down



by struggling Western economies.

An IATA report shows that as of July, air freight capacity has been increasing steadily for 18 months. So it's no surprise that load factors have declined. Asia-Pacific carriers saw load factors drop to 58.1 percent from 60.2 percent in July of 2010.

With a 20 percent decline in container rates, customers are willing to sacrifice speed to get a deal. But there are exceptions. "Manufactur-

ing, particularly industries such as electronics and capital goods, are key shippers by air," says the IATA. These industries could still create a peak, though it's likely to be on the smaller and side. IATA CEO Tony Tyler told American Shipper, "With business and consumer confidence now tanking, sluggishness in international trade and high fuel prices, the expectation is for a weaker end to the year." 

## Transpacific Rates To Increase Jan 1

Throughout 2011, rates have fallen for major east-west trade lines. Since the market remains volatile, the Transpacific Stabilization Agreement (TSA) has delayed releasing its guidelines for 2012. But on January 1, 2012, an interim rate hike will be introduced for all ocean freight shipments from Asia to North America.

The Transpacific Stabilization Agreement and Canada Transpacific Stabilization Agreement recommends that member lines individually raise freight rates by the following amounts (in USD).

\$8 per CBM or 500kg  
\$320 per 20' container  
\$400 per 40' container  
\$450 per 40'HC container  
\$506 per 45' container

At a conference in Shenzhen, TSA Executive Administrator Brian Conrad stressed that temporary action was necessary and asked, "How much more pain can carriers handle?" Transpacific rates have declined through 2011, but costs, such as inland transport and cargo handling, have risen. "Now, carriers are seeing stronger US holiday season cargo volumes on the heels of positive economic GDP and retail sales data, as well as robust forward bookings leading into the early Lunar New Year

factory holidays in Asia," said Conrad in a statement. "As carriers look toward building a platform for the 2012-13 contract cycle, the feeling is that a correction is both imperative and overdue."

The increases will be too late for US holiday-season imports. But they will catch the annual cargo spike in January when Asian factories make a push to close for the Chinese New Year. The TSA plans to announce its annual guidelines in connection with the 2012-13 service contracts, most of which will take effect on May 1, 2012. Western Overseas will continue to monitor the situation and advise our valued customers should there be any further developments. 

## Vietnamese Container Explosions Worry West Coast Ports


Ports on the west coast are increasing safety procedures after multiple Vietnamese refrigerated containers exploded and killed three dockworkers in Vietnam and Brazil.

Contaminated gas in the containers' cooling units likely caused the explosions. The Pacific Maritime Association (PMA) noted that these containers were processed in the port of Cat Lai in Vietnam. MSNBC reports that about 8,000 of these containers could be in circulation.

Any refrigerated container transported through or originating in any Vietnamese port will now be identified upon arrival in the United States. Any container from Kat Lai will be isolated for special handling.

The PMA is working with the International Longshore and Warehouse Union (ILWU) to protect workers while keeping the ports in operation. The ILWU refused to work certain vessels until a complete history was provided. ILWU Coast Committeeman Leal Sundet said the union insists that "any dangerous containers be identified and removed from circulation before another person is killed."

As a precaution, several carriers removed hundreds of containers from circulation that underwent refrigeration repairs in Vietnam earlier this year. The US Coast Guard is also working with shippers and port officials to identify any faulty containers and ensure they are safe.

In the event of delays or deviations to your shipments because of this issue, Western Overseas' Cargo insurance policy would respond. Coverage is also provided in the event of loss or damage caused by explosion. Please contact Western Overseas Corporation for any exclusions, terms and conditions. 

*Article appears courtesy of Avalon Risk Management..*



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## Rolling on the Rise

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Shrinking capacity has forced a growing number of shippers to roll cargo this fall. Nearly one third of transpacific shippers have missed at least one intended voyage recently according to a poll by American Shipper.

Of 120 shippers surveyed, 28 percent said they have rolled cargo. Intermediaries, or non vessel owning carriers, have experienced the most delays, with over 50 percent reporting they have rolled cargo recently.

Rolling appears to be taking place with shippers of all sizes. Among small shippers moving less than 2,000 TEUs annually, 30 percent reported rolling cargo, as did 40 percent of large shippers moving more than 10,000 TEUs per year. Of those in the middle, 27 percent say they have had to roll cargo.

The data suggests that the problem may have plateaued for the time being. Only 3 percent of shippers said that rolls are happening at an increasing rate and only 21 percent described current capacity as "tight" or "very tight." But that could change if carriers continue to hold back vessels and skip port calls in order to limit overcapacity. 

# Flowserve Case Shows Need for Compliance Controls

If exporters and importers needed a reminder to make sure their compliance houses are in order, they need look no further than Flowserve. The Texas-based manufacturer of pumps, valves and components for the oil, gas and chemical industries agreed to pay \$2.5 million to settle 288 charges of illegally exporting and re-exporting to Iran, Syria and other countries regulated by the US Department of Commerce.

Flowserve also paid a civil penalty of \$502,408 for 58 violations of the Foreign Assets Control Regulations of the Department of Treasury. Finally, Flowserve will be required to have an external audit of its compliance program to be reviewed by the Bureau of Industry & Security.

Take this opportunity to check in with your own company. Flowserve apparently failed to ensure that articles were correctly classified and licensed. The specific charges against the company included:

- Exports of chemical manufacturing equipment regulated by the Commerce Control List to China, Singapore, Malaysia, Venezuela and other countries without obtaining export licenses.
- Re-export of articles classified under EAR99 to Iran and Syria through subsidiaries in Europe.
- Violations of OFAC Iranian, Cuban and Sudanese sanctions programs.

It seems that if Flowserve had implemented internal controls based on the Committee of Sponsoring Organiza-

tions of the Treadway Commission (COSO) example, they could have avoided these violations. Applying the COSO model, here are some measures that could have helped Flowserve:

**Control environment:** A management policy requiring compliance with export-import laws and regulations; Sufficient tools and training for compliance personnel

**Risk assessment:** Awareness of the risks for illegally exporting controlled articles or making shipments to embargoed or sanctioned destinations

**Control activities:** Policies and procedures specifically aimed at mitigating or eliminating compliance risks

**Information and communication:** Knowledge by compliance personnel of what was being exported and where the company and its affiliates were conducting sales activity; Communication of export control requirements and US embargo and sanction information to business units and affiliates

**Monitoring:** Review of export transactions by compliance personnel  
Review of sales activities and the countries to which sales have been proposed or carried out

The Flowserve case demonstrates that compliance needs to be taken seriously, and that good internal controls are essential. The controls don't need to be complicated, but they do

need to be effective. A meltdown like Flowserve's is certainly avoidable. 

*Original article by Bruce H. Leeds, [bruce@braumillerschulz.com](mailto:bruce@braumillerschulz.com)*

## Birthday Wishes!

Please join us in celebrating the birthdays of our hard-working team members from around the country.

Joseph Dugan	November 2
Aileen Colon	November 3
Dustin Konruff	November 6
Ernie Esparza	November 7
Carol Sederstrom	November 7
Maurine Cecil	November 8
Alison King	November 12
Barbara Chopin	November 14
Regina Janes	November 16
Michael Bouchard	November 23
Henry Huang	November 24
Maribel Flores	November 25
Vincent Conte Jr.	November 27
Susan Park	December 2
Angelica Rosales	December 5
Brett Moeser	December 7
Karen Fidkowski	December 9
Joseph Giannini	December 9
Josefina Straughn	December 9
Araceli Castillo	December 21
Andrew Werner	December 22
Donna Armel	December 23
Linda Da	December 23
Patricia Messenger	December 26

### If You Need Our Assistance...

Please don't hesitate to reach out to your Western Overseas representative for any assistance or questions regarding your next shipment.

**To request a quote from our Ocean Export Team please email:**  
[usoutboundoceanquote@westernoverseas.com](mailto:usoutboundoceanquote@westernoverseas.com)

**To request a quote from our Air Team please email:**  
[wocairquote@westernoverseas.com](mailto:wocairquote@westernoverseas.com)