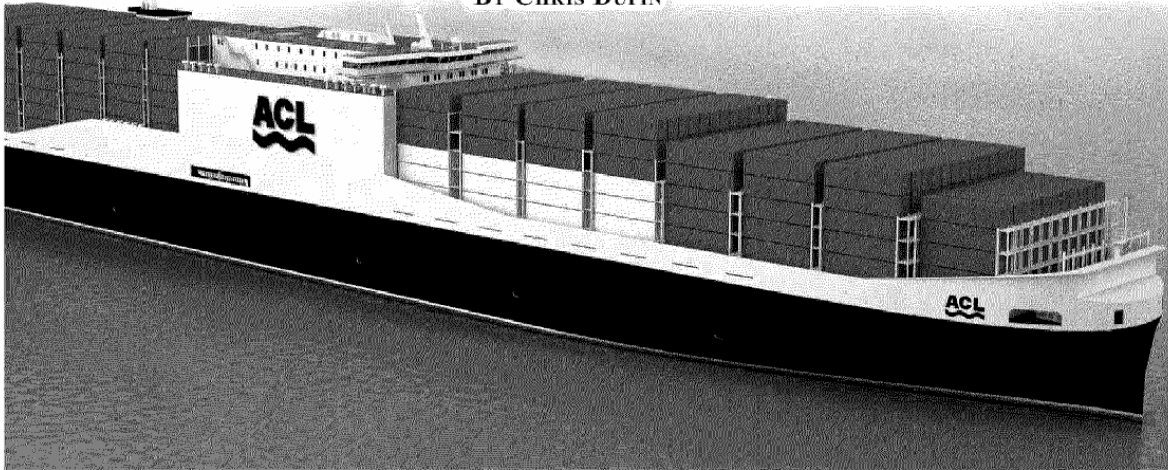


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Saying 'yes'

ACL's added capacity will allow it to increase shipper cargo allocations.

BY CHRIS DUPIN



Andy Abbott, president and chief executive officer of Atlantic Container Line, said he's looking forward to being able to say "yes" to shippers who want to book more cargo.

The transatlantic carrier's capacity will grow markedly when it takes delivery of five new container/roll-on, roll-off (con/ro) ships in 2015.

Abbott explained that today, even though his current ships

are the largest con/ros in the business, ACL sometimes has to tell even good customers that it can only take a thin slice of their business.

ACL's new ships will replace a fleet that was built in 1984, and will be the fourth generation of vessels the company has operated on the transatlantic.

The modern ships will only be four meters longer, 5.5 meters beamier, and have about the same draft. But they will have capacity to carry far more cargo — 3,800 TEUs, a 105 percent increase; 1,307 cars, a 31 percent increase; and 28,900 square meters for large ro/ro cargo or containers, a 45 percent increase.

This substantial carrying capacity increase is made possible through a clever design by Denmark's International Mari-

time Advisors and adapted by the Danish naval architect Knud E. Hansen. Hudong-Zhonghua Shipbuilding in Shanghai is building the vessels.

By changing around the way cargo is distributed on board the ship, ACL will essentially be able to use the container freight it carries to stabilize the ship instead of non-paying ballast water.

The new ships will have about the same amount of steel in their structure as ACL's current vessels, but employ a smaller crew, burn less fuel and double container capacity.

"My cargo per ton of fuel burned more than doubles. My environmental impact is cut to less than half. To be able to be fuel-efficient like this is enormous in today's world. We couldn't turn this opportunity down," Abbott said.

ACL signed a contract with Hudong-Zhonghua last summer, and a year was spent completing the design before steel-cutting began in September. The yard will start assembling modules for the first ship in March 2014, and complete it during the second half of January 2015.

"No ship like this has ever been built before. This is going to be the first of its kind," Abbott said.

He said ACL selected Hudong-Zhonghua because of its experience building complex vessels such as naval ships, ro/ros and gas carriers, and also because the shipyard recognized its limitations and was eager to hire a designer from Hansen to assist it with the project. Abbott said they also quoted a very attractive price.

"Engineering-wise, we've been very impressed by the questions they've asked, the modifications they've suggested. Everything that we've done with them so far has been positive," Abbott said. "With everybody else, we came to them with this novel ship design and most of the shipyards said, 'that's great but we want to give you one that we've built already.' In other words, we want to give you something that's off our shelf."

The new ships are even more flexible than ACL's existing con/ros. If demand for ro/ro cargo is light, containers can be stowed two high on the ro/ro decks, and wheeled on and off with special trailers. And the car decks will all be high enough

to accommodate SUVs, and be hoistable so that if there is no demand for automobiles, a tractor, for example, could be carried.

Like the company's existing ships, ACL will have cell guides above deck. Abbott noted these have become less popular in recent years with many container carriers, but he attributed them to the fact that ACL has not lost containers overboard since 1984. And he said it speeds up cargo handling by reducing the need for lashing.

He also said there's enough space in the ship that it could be converted to run on LNG or take on scrubbers.

Recipe For Success. Abbott said in addition to being able to carry a mix of container and ro/ro cargo, one of ACL's keys to success is its choice of ports and rotation — Halifax, New York, Baltimore, Norfolk, New York, Halifax, Liverpool, Antwerp, Hamburg, Gothenburg, Antwerp, Liverpool, Halifax, and New York.

The company's decision to call lesser-served ports, such as Liverpool and Gothenburg, Halifax, and Baltimore, as well as common ports such as New York and Hamburg, makes it attractive to some shippers. So does fast transit times because of the double port calls.

Of course, the container shipping issue *du jour* is the P3 alliance planned by Maersk, Mediterranean Shipping Co., and CMA CGM.

Abbott believes if regulators allow the P3 to go forward, the three carriers will have such a big economy of scale advantage in the transpacific and Asia-Europe trade lanes that other carriers will react by forming their own, larger alliances, meaning that "at the end of the day you're probably only going to be giving the customer two or three choices."

That begs the question, he said, of "how do you compete on other than price within your consortium? Or do you do the next stage and start merging?"

"Now on the Atlantic side, I've yet to see exactly what it's going to mean," he added. "But the Atlantic's kind of a much smaller trade to start with. And today, on a pure-container basis, I don't think it's profitable."

He said when the Far East trade slowed down, carriers started cascading ships into the Atlantic and adding new strings, and "it went from being very profitable to being killed."

Abbott hopes the new ships and other changes ACL has planned will allow the company to increase its share of the non-military transatlantic container market from 4 percent to 9 percent over a period.

One way ACL expects to do that is by

expanding in the South Atlantic and Gulf, where it has only a 1 percent market share. The company is looking to add port calls in Charleston, Savannah or Jacksonville.

Because ACL is a small carrier, relatively small additions of cargo can make a big difference. If ACL goes from having a 1 percent share to a 5 percent share of the South Atlantic and Gulf container market, Abbott said "it is probably not even going to be noticed in the trade... but for us, it's going to mean a lot."

ACL's small size means the company can pay a lot more attention to its customers.

"We are too small to go after the high-volume traffic, so we focus on the real small-volume traffic," he said.

"If you're a shipper and you've only got 25 containers a year and you go to somebody who's shipping 20,000 containers a week, that guy can't babysit you," he said. For ACL, it's a big customer that gets treated accordingly.

With the new ships Abbott says he is excited about "finally being able to say 'yes' to the customers who try to book with us. We have been tapped out on space for the last four years. We had to pick and choose and allocate space to customers because we don't have capacity.

"We have certain customers who want to give us a couple of hundred TEUs a week and I say 'I can take 40.' The big megaliners... they may laugh at those numbers, but for us it is a lot.

"When you only have 1,850 (box spaces), you are sort of limited. If a customer comes along, and says 'I have 250 or 300 TEUs of cargo I want to give you,' there is no way I can take that now," he said.

Too much of the ship would be dedicated to a single shipper, he explained. If the shipper ran into problems and was unable to move cargo, ACL would have a major problem.

"By being larger, I'm going to be able to say 'yes' to those guys who want to give me a larger market share," Abbott said.

He said ACL has about 175 employees in the United States and about the same number in Europe, and the company has seen very little turnover in staff — the average ACL sales person has been with the company 17 years.

Grimaldi. ACL carried out a major downsizing about 20 years ago, but in recent years it has added staff following the company's acquisition by the Italian shipping firm Grimaldi in 2001.

Grimaldi started service between North America and West Africa in 2001, first transshipping through Europe but offering direct service since 2006. Today,

the company offers con/ro sailings every nine to 10 days between North America and Africa, and ACL does work for the Grimaldi services.

More recently, Grimaldi added a service to the Mediterranean, which is primarily a ro/ro, car/truck service. A major westbound customer is Fiat, which has experienced commercial success with the introduction of its Fiat 500, resurrecting the brand in the United States and Canada after an absence of nearly 25 years.

"My own view is that Grimaldi eventually will be a major Mediterranean-U.S. carrier," Abbott said.

In addition to the string of ships that ACL operates with its con/ro vessels, ACL also has a space-swapping agreement with Hapag-Lloyd. The German container line takes about 550 TEUs on ACL's con/ros, while ACL takes that many slots on Hapag-Lloyd's vessels, splitting them between four different services.

The two companies control their own schedules.

"I treat Hapag-Lloyd like my best customer and they treat me like their best customer," Abbott said. When ACL's new ships arrive, Abbott expects the allocation of slots the two carriers swap will probably expand.

ACL also sells its car-deck space to Wallenius Wilhelmsen.

"As we get closer to the new ships becoming a reality we will start talking through what the prices are going to be and how long we are going to extend our deal for," he said. The company has had a long-term relationship with Wallenius, the Swedish partner in Wallenius Wilhelmsen, as it was one of the companies that formed ACL in the mid-1960s during the early days of containerization. (Others included Swedish America Line, Transatlantic Steamship, Holland America, Cunard, and Compagnie Generale Transatlantique.)

Transatlantic Outlook. Abbott is frustrated with carrier behavior on the transatlantic, stating that because it's a small trade, some carriers pay little attention to its economics and operate on it "just to say that they are global — which is a stupid reason to be throwing money down the drain.

"The Asian carriers look at the Atlantic as if it's the transpacific or the Europe-Far East, where there's a strong leg and there's a weak leg. The Atlantic doesn't have a strong leg and a weak leg. The legs are almost the same, yet, they're being priced like the transpacific is being priced, which makes no sense," he said.



Even though the east and westbound transpacific have fairly similar volumes, Abbott said "exports out of the U.S. to Europe are being priced like the wastepaper from the U.S. to Asia. And it shouldn't be like that."

He said exports from the United States are being priced as much as 35-40 percent less than imports even though the trade is not skewed hugely.

"Right now we are running 100 percent inbound and 90-92 percent outbound," he said. "Under normal circumstances, that should be considered full capacity, both directions. Historically, once you got 85 percent, you were happy. Well, now nobody's happy with 95 percent. It has to be shutting out cargo before they are happy, before they will attempt to start raising the price.

"The focus of the carriers is not on this trade so I don't understand the rationale for carrying the container below cost," he said.

Abbott said ACL is still making money, in part because it carries ro/ro cargo as well as containers, and its ships have been paid off for seven years.

He said freight rates for exports are "all over the place," but he has seen prices in the \$700 range when they were close to \$2,000 two years ago.

"You do the stevedoring on both ends, and what's left? Not a heck of a lot," he said. Westbound some prices have fallen to \$1,400 or \$1,500 where they were "easily" \$1,000 higher two years ago.

Abbott said the outlook for U.S. exports to Europe is not very bright, because much of the European economy is in a "holding pattern. The economy everywhere, except Germany, is on the floor.

"There's no infrastructure investment at all right now. I'm seeing that in the construction equipment that we historically move across the Atlantic. That's way, way down compared to where it used to be because the governments don't have the money to build roads or bridges," he said. "I don't see a turnaround in Europe, at least not in the next six to nine months. The U.S. is stable, but we're not growing dramatically."

Looking East. A bright spot has been agricultural equipment exports, because farm prices are strong. While most of ACL's containerized cargo goes to Western Europe — which Abbott said is good for the company because containers turn more quickly — most ro/ro cargo goes further inland to destinations such as Eastern Europe and even as far away as the "-stan" countries of the former Soviet Union.

Russia is also a big market for ACL. Abbott noted Grimaldi owns Finnlines and

ro/ro cargo discharged by ACL in Antwerp can be loaded the next day onto a Finnlines ship bound for St. Petersburg.

Similarly, ACL relays substantial ro/ro cargo volumes onto Grimaldi ships to countries along the Mediterranean, such as Greece, Italy, Turkey, Israel, and Egypt.

The ability to reach these other countries and thereby keeping its ro/ro decks filled on the export side has been one of the benefits of having Grimaldi as a parent company, Abbott said. "This is a huge dimension Grimaldi has added to us.

"Once we started carrying cargo to Turkey and carrying cargo to Iraq and carrying cargo to Lebanon then those same customers would say, 'you guys are global now, can you give me something to Australia? Or Vietnam, or Singapore? And we've always been able to find somebody,'" he said.

Abbott pointed out the company arranges the shipment of ro/ro cargo from the United States to countries such as Brazil and Argentina, because in some cases, it can offer faster transit times by transshipping freight through Hamburg and Antwerp where Grimaldi ships bound for South America call.

"Goofy, but it works," he said.

Abbott said Grimaldi "has got the most unique company I have ever run across," summing up its operating philosophy as "buy things as an investment; look for economies of scale and synergies wherever possible; and don't fix things that ain't broken.

"They listen to our ideas, and the ones that make sense to them they jump on," he said. For example, Grimaldi liked the ACL computer system so much that it decided to use it throughout the organization. Likewise, Abbott said, ACL has benefited from Grimaldi's expertise in areas such as negotiating shipyard contracts, bunker purchases and insurance.

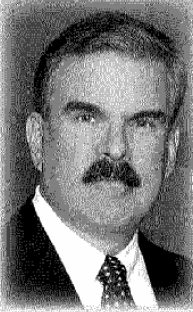
"There are a lot of things that they've really got expertise on. They've always got something interesting to say. They are very numbers-oriented — and by numbers I don't just mean the financials, but operational, fuel consumption, steaming times — you name it," he said.

When his chief financial officer retired about a decade ago, Abbott said Grimaldi let him suggest a replacement from within the ACL ranks rather than appoint someone from headquarters.

Similarly, when the new ships were ordered, Abbott said Grimaldi allowed him to negotiate the final contract — accompanied by the company's lawyer to make sure all the documents were in order. The ship purchase was the first Abbott had

negotiated, and "I had their guys giving me guidance. When you have people who trust you like that, then how can you not want to go 110 percent to do a good job for them?"

Even the process that ACL is going to use to name the new ships is unusual. The company is holding a contest where ACL employees suggest possible names, and there have been about 1,000 suggestions to date. ACL employees will vote on the entries and winnow it down to a list of 25 proposed names, with the final five selected by the Grimaldi brothers. The winners will get to go to Shanghai for the christening with their spouses. ■



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Andy Abbott, president and CEO, Atlantic Container Line

ACL's Atlantic Compass arrives in the Virginia port of Norfolk.



The Atlantic Companion calls New York as part of its transatlantic service.

