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Significant gains for shippers in the past 12 months

It is a pleasure to introduce the Annual Report for 2017 outlining the activities of the GSF over the past 12 months. Following from the GSF’s important role in the Verified Gross Mass (VGM) rules, the GSF has continued to be approached by various UN agencies such as the World Bank and the International Organisation for Economic Cooperation and Development (OECD) to assist with implementation and to assess the impact of the new VGM rules. Similarly, other international agencies, including the European Commission, International Civil Aviation Organization (ICAO), the World Customs Organization (WCO) and OECD have engaged with GSF to ensure that the views of shippers are given proper consideration in developing policies and regulations that will have broad impacts on global supply chains. National governments too have reached out to the GSF to partner on key policy initiatives in the main UN agencies.

That outreach has been mirrored by similar overtures from our international freight and logistics counterparts, such as Cargo iQ, the International Air Cargo Association (IATA), International Federation of Freight Forwarders Association (FIATA), International Cargo Handling Co-ordination Association (ICHCA), the Bureau of International Containers, Feport, the Baltic and International Maritime Council (BIMCO), and the World Shipping Council (WSC) on various policy approaches and in developing industry best practices. The development of a joint maritime safety campaign with ICHCA, TT Club and the World Shipping Council is a major collaboration worthy of special mention.

During our 2016 – 2017 fiscal year, the GSF made considerable progress in its relationship with the main UN agencies, such as IMO, ICAO, United Nations Conference on Trade and Development (UNCTAD) and the World Customs Organization (WCO). We are encouraged with the progress GSF is making in obtaining full recognition by these important bodies, and towards receiving full accredited NGO (non-governmental organisation) status in due course.

A major part of GSF’s advocacy programme relates to the future of ocean container shipping, on mega ships and strategic alliances in container trades. The objective is to
promote an effective viable and cost-effective global container shipping service that meets the needs of shippers throughout the world. An important part of this programme is focusing on unwarranted surcharges and other unreasonable ancillary charges faced by shippers in many parts of the world.

The effective work of the GSF Secretary General, Chris Welsh, MBE, was further recognised in late 2016 with his election to the Board of Directors of the International Cargo Handling Coordination Association (ICHCA), representing the GSF.

The following pages of the 2017 Annual Report provide details on the many achievements of the GSF in the past year and outline the challenges ahead. I recommend that you review it carefully and, should you have any feedback, please send any comments to Mr Welsh at cwelsh@globalshippersforum.com

On behalf of the GSF members, I would like to thank my colleagues on the Board of Directors, Bruce Carlton of the US National Industrial Transportation League, James Hookham of the UK Freight Transportation Association, and Sean Van Dort of the Sri Lankan Shippers’ Council for their expert input and strong support for the GSF. I would also like to acknowledge the outstanding work of Chris Welsh, MBE, Secretary General, and his support team on behalf of shippers around the globe.

While the GSF has made considerable progress, I still believe we can be more influential. Often international regulators do not fully appreciate that it is shippers that create the demand for international transport services. The GSF can take much satisfaction for its past successes, but it must continue to focus on the future in the fast-changing global economy.

R H Ballantyne, PEng
GSF Chairman
and President, Freight Management Association of Canada (FMA)
GSF Board and Secretariat 2016-17

Chairman of the Board and GSF Chairman
Mr Robert H Ballantyne
President, Freight Management Association of Canada

Other Board Members
Mr Bruce Carlton
Senior Policy Advisor, National Industrial Transportation League, United States of America

Mr James Hookham
Deputy Chief Executive, Freight Transport Association, UK

Sean van Dort
Chaiman, Sri Lankan Shippers’ Council
appointed in July 2016

Also served during the year:
Adamou Saley Abdourahamane
Secretary General, Union of African Shippers’ Councils

Secretariat
Mr Chris Welsh MBE
Secretary General

Mr Alex Veitch
Head of Policy

Ms Becki Kite
Climate Change Policy Advisor

Ms Pauline Bastidon
Senior Policy Advisor – International Rail Policy and Head of Brussels office
Secretary General’s overview

Enhancing shippers’ influence

A key objective throughout 2016 and 2017 has been to provide a more influential representative voice for shippers at an international level, especially with the main UN transport agencies such as the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO). This is a challenge, particularly as the role of both organisations has, largely, revolved around providing an international regulatory framework for the maritime and aviation industries. Their regulatory remits have mainly covered maritime and aviation safety and the highly technical aspects of ship and aircraft operations and setting industry compliance standards. This historical remit, and the inevitable close links forged between regulators and the industries they regulate, has made it hard for cargo interests and their issues to be raised and heard. For example, even in the aftermath of the Erika disaster in 1999 when serious consideration was being given to extending liability to charterers for oil spills, shippers’ attempts to establish a voice and request for formal representation in IMO proved difficult because of the IMO’s accreditation rules which made it virtually impossible to obtain formal recognition and direct involvement in IMO at that time.

Today, I am pleased to report that due to the wider challenges presented in the regulatory environment and a keener focus on the role other stakeholders can play in the regulation and performance of global maritime and aviation logistics supply chains, attitudes in the IMO and ICAO and other international agencies have changed significantly. Both IMO and ICAO are considerably more inclusive organisations and have welcomed GSF input into their work. During the course of this year the GSF has met the new IMO Secretary-General Mr Kitack Lim on several occasions. With a background in the ports industry, Mr Lim has a greater appreciation of the contribution GSF can play in shaping future IMO strategies and policies to improve the quality of IMO regulations. He has taken a keen interest in our work regarding implementation of the new container weighing rules and the steps taken by GSF in promoting the IMO/ILO/UNECE CTU packing code of practice along with other stakeholders. This work has opened the opportunity for formal observer status within IMO, which is now being actively encouraged and supported by IMO officials.

Similarly, ICAO has approached GSF to become actively involved in the development of its air cargo strategy and wider security, customs and trade facilitation policies. GSF met Madam Fang Liu, the new ICAO Secretary-General, on two occasions this year. She has impressed GSF, and other air cargo stakeholders, with her willingness to listen to the needs of the air cargo sector and create an air cargo agenda to address these issues. High on that agenda is trade facilitation, the promotion of e-commerce, accelerating the development of effective border security measures and advance cargo information, and overturning the ban on lithium ion batteries on passenger aircraft. I am therefore delighted that the GSF will sign a Memorandum of Understanding with ICAO in 2018. The MOU will formalise GSF’s relationship with ICAO and enable the GSF to participate in ICAO policy meetings, thus ensuring that shippers will have a clear opportunity to influence ICAO’s emerging air cargo strategy and policies.

Dr Liu with GSF Secretary General

In addition to our enhanced influence within IMO and ICAO, the GSF is continuing to strengthen its links with other important international organisations, most notably with the United Nations Conference on Trade and Development (UNCTAD), the World Trade Organisation (WTO), the World Customs Organization (WCO), the World Bank, International Transport Forum/OECD, the European Union and governments who share GSF policy goals and objectives. Ratification of
the Trade Facilitation Agreement (TFA) by WTO in February 2017 has opened new opportunities for collaboration with the WTO, WCO and World Bank. The WCO and World Bank will play a pivotal role in implementing WTO TFA agreements and in trade facilitation investments which will assist GSF members in emerging economies to boost their trade and, importantly, assist in the removal of key non-trade barriers, such as surcharges, which increase the costs of goods and commodities on global markets.

Earlier this year, the World Bank approached GSF to partner on a study on the implementation impacts and costs of the new IMO Verified Gross Mass (VGM) rules in West and Sub-Saharan Africa. GSF has been instrumental in bringing the World Bank and IMO together to undertake a wider study on implementation of the VGM rules across Africa. As explained in more detail in this Annual Report, the GSF hopes that the World Bank project can be expanded to include a wider assessment on the impact of surcharges.

The GSF is making real progress in providing an effective and influential voice for shippers with the key global transport and trade bodies which regulate the transport markets in which shippers consign their freight. This, in part, is due to growing recognition that customers of transport services are the main drivers behind the global economy, and decisions made by regulators can have a huge impact on world trade and the performance of global supply chains and transport services which are critical to the international trading system. That is why it is important for shippers’ views to be considered on major issues such as shipping emissions, maritime safety and other regulatory matters that will impact the global supply chain.

Global influence – regional impacts
As noted elsewhere in this report, the GSF has been at the centre of steps to eliminate anti-competitive practices and immunity from anti-trust and competition laws in international transport markets since the establishment of GSF’s predecessor organisation, the Shippers’ Tripartite Group in the early 1990s. Cartels are inefficient and can be highly damaging to trade as evidenced by the series of liner shipping cartel cases investigated by the European Commission in the 1990s. That was confirmed by a major report by the OECD in 2002, and reconfirmed by the OECD Competition Committee in 2016. While the world’s major trades are now free from these inappropriate behaviours due, most notably, to the EU repeal of the liner conference block exemption regulation in 2008 and the US Ocean Shipping Reform Act of 1998, liner carrier groups and their representative organisations are still devoting considerable efforts to maintaining exemptions from competition rules which are at the expense of their customers or other stakeholders.

The GSF has therefore continued to play a key role in supporting its member associations in Australia, New Zealand and Hong Kong in much-needed liner shipping antitrust reforms which have been strongly resisted by the liner shipping industry. We shortly expect these reforms to be enacted in Australia and New Zealand. In Hong Kong, the Competition Commission has recently rejected an exemption application by shipping lines to permit Vessel Discussion Agreements (VDAs). The Hong Kong decision is particularly important, as it will have a wider impact on competitive conditions in the liner market in Asia, where competition restrictions are still widely prevalent.

Advancing supply chain co-operation
One of the more pernicious effects of the liner shipping anti-trust disputes is the way that it has affected shipper-carrier disputes. The simple fact is that customers do not like cartels and pricing and cost sharing discussion agreements because they are harmful to their interests. Not only do they distort markets, they poison the atmosphere in the industry and pit customer against supplier. These conflicting interests are regularly played out in the media and industry conference events to the point where meaningful carrier-shipper dialogue has become virtually impossible. At a time of unprecedented change
and challenge in the shipping industry, especially in the liner shipping sector, GSF believes that the lack of meaningful dialogue represents a lost opportunity in finding solutions to the challenges confronting the liner industry and its customers.

In November 2016 GSF published a major report on the implications of mega ships and shipping alliances and their impact on shippers’ supply chains. The report examined the findings of the ITF/OECD report on mega ships and made a series of recommendations for all parties in the maritime supply chain, including carriers and shippers. The main recommendation in the report called for the establishment of an international forum to explore how the various stakeholders in the maritime and logistics supply chain could align their objectives, with the aim of jointly identifying actions to enhance the performance of the overall supply chain. Throughout 2017 GSF has championed the idea of a forum. This has received considerable support from port and terminal interests as well as freight forwarders. GSF has also reached out to carrier groups such as the World Shipping Council (WSC) to support the initiative. At the same time, GSF has continued to pursue the concept of establishing a forum with the ITF/OECD and at the ITF’s Annual Transport Forum meeting held in Leipzig in June 2017, stakeholders agreed to set up a Global Maritime and Logistics Forum. The first meeting will take place in Brussels on 1 December 2017.

GSF hopes that the Forum will herald a new era in shipper-carrier relations. There is no doubt that shippers want to move on to a new relationship with carriers, one that enables customers to discuss their service needs, industry performance standards and future trade developments with their service providers. The appetite from shippers for a new collaborative approach is so strong that GSF has agreed to sponsor the ITF/OECD Global Maritime Logistics Forum. This, we trust, will demonstrate GSF’s commitment to enhancing collaboration in the maritime and logistics chain through a neutral honest broker such as ITF.

GSF does not underestimate the challenge in moving towards a more collaborative relationship with the container shipping sector, particularly in view of the adversarial nature of past relationships. However, we are confident we can change this round. We will inevitably need to go through a confidence-building process to create the necessary level of trust to move forward. But, as our recent collaboration with the World Shipping Council on maritime safety issues has shown we have been able to work constructively on matters of common concern. I am confident that we can replicate the mutual respect and trust built between GSF and the WSC in the maritime and safety arena to other more contentious areas, such as the mega ships and alliances debate. We sincerely hope that the ITF/OECD Maritime and Logistics Council will provide a safe and trust-building environment for a more collaborative dialogue on enhancing the performance of the container shipping supply chain.

Promoting maritime safety

As discussed above, the partnership developed with the World Shipping Council, the International Cargo Handling Cooperation Association (ICHCA) and the TT Club of insurers has been very effective in promoting a common position on maritime safety. The four principal global organisations are currently working on a maritime safety campaign plan which will be unveiled at the GSF Annual Meeting and ICHCA 65th anniversary conference in Las Palmas, Gran Canaria on 2-4 October 2017. In addition, GSF is also working with the International Bureau of Containers (BIC) in the maritime safety field. The BIC holds a comprehensive database of containers, and during 2018 GSF will work with BIC to explore how that data can be used by shippers to enhance maritime safety and in making verified gross mass declarations.
A key GSF goal is to provide the best possible advice to shippers on interpretation and implementation of international transport legislation. This also includes leading edge best practice advice, such as the GSF/Baltic and International Maritime Council (BIMCO) SERVICECON container contract. The aim of the collaboration with BIMCO is to encourage shippers to enter into contractual agreements with carriers on equitable terms, and to promote the use of contracts to avoid disputes. To ensure the widest possible dissemination of the contract, GSF and BIMCO have produced a video promoting use of the contract. The GSF/BIMCO contract and best practice advice is available on the GSF website. In 2018, the GSF will re-launch its acclaimed Manager’s Guide to Working with Containers to promote the use of the IMO/IL/O/UNECE packing code of practice as part of the GSF, WSC, ICHCA and TT Club maritime safety campaign.

**Measuring air cargo performance**

Our collaboration extends beyond the maritime sector, as shippers use all modes of transport. In some respects, cooperation is more advanced in the air cargo sector due to the creation of the Global Air Cargo Advisory Group (GACAG) in 2011. During 2017 the GSF, along with our GACAG partners, the Internatonal Air Transport Association (IATA), the International Federation of Freight Fowarding Associations (FIATA) and The International Air Cargo Association (TIACA), identified five key areas for future collaboration designed to improve the performance of the air cargo supply chain. These priorities will be launched in late 2017 and will form the basis of our collaboration going forward. Perhaps the most exciting cooperative development in 2017 was the joint memorandum of understanding agreed with the air cargo IATA-based interest group Cargo iQ. Under the MOU, the GSF and Cargo iQ will jointly develop common industry performance standards. We hope the KPIs will provide shippers, forwarders and airlines with agreed air cargo industry standards and a common framework for measuring performance.

**Growing GSF membership**

The increasing range of issues impacting shippers’ global transport and logistics supply chains has heightened awareness of the need for coordinated and effective representation. During 2016 and 2017, shippers’ associations across the globe have been working to improve their representation and influence at a regional and international level. I am therefore delighted that following on-going discussions between the GSF and European Shippers’ Council, the ESC joined the Global Shippers’ Forum. At the same time, the FTA’s British Shippers’ Council re-joined the ESC. Also, over the last 12 months the Swiss and Korean Shippers’ Councils have joined the GSF. This has greatly strengthened shippers’ representation, enhanced coordination of policy activities and provided additional resources to ensure that the issues affecting shippers are dealt with effectively.

Today, the GSF has 40 national and regional shippers’ organisations in membership from all regions of the world and remains focused on expanding membership in 2018.

**Chris Welsh MBE**  
Secretary General
Maritime safety

GSF’s Mission Statement contains a clear commitment to promoting safe, secure and environmentally sustainable transport. These commitments are essential requirements for the performance of efficient transport and logistics supply chains, and are a priority for global shippers moving freight by all modes of transport internationally. Global shippers take their responsibilities to maintaining high transport safety standards seriously. Reporting incidents is a key component of corporate health and safety policies to ensure that risks to people's health and safety are properly controlled and managed covering all aspects of company operations. GSF’s commitment to this ethos is matched by a comprehensive policy programme, best practice advice and range of activities to promote maritime safety to enhance compliance and safety standards.

For example, the GSF has provided clear industry leadership in response to concerns over misdeclaration of container weights and in improving the standards of packing and securing of transport units. The GSF is working closely with regulators, such as the International Maritime Organization, and has jointly developed a maritime industry safety campaign with our main maritime supply chain partners including the World Shipping Council (WSC), The International Cargo Handling Cooperation Association (ICHCA) and TT Club of cargo insurers.

**GSF, WSC, ICHCA, TT Club maritime safety campaign**

The GSF has been jointly collaborating with WSC, ICHCA and TT Club on maritime safety issues since 2011, most notably on the development of the new IMO Verified Gross Mass (VGM) rules, and in the revision of the IMO/ILO/UNECE guidelines on the packing and securing of cargo transport units.

**Verification of container weights**

In December 2015, the 4 organisations produced a joint ‘Frequently Asked Questions’ document to assist shippers and other stakeholders with compliance with the VGM rules prior to implementation of the rules in July 2016. A revised version was published in June 2016. Both publications received the endorsement of the International Maritime Organization and was promoted by the IMO on their website.

The VGM implementation planning arrangements organised by GSF, WSC, ICHCA and TT Club enabled a remarkably smooth transition to the introduction and implementation of the new VGM rules. This planning was a major contributor to the avoidance of legitimate fears of major disruption to international trade, including delays and congestion at ports and container terminals. There is no doubt that the method 2 ‘calculated weight’ arrangements sponsored and promoted by GSF in IMO through our membership of ICHCA was a prime contributory factor towards the successful implementation of the new arrangements.

However, while the arrangements invoked by industry ensured that the VGM rules were implemented without major disruptions, this could not have been achieved without a significant degree of flexibility by national administrations and maritime regulators. Many national administrations were ill prepared for the introduction of the new VGM rules, including
the provision of implementing legislation and national guidelines for industry. This contributed to considerable uncertainty including erroneous rumours that the implementation of the VGM rules had been delayed. At the encouragement of GSF, WSC, ICHCA and the TT Club, the IMO Secretary General sent a communication to all IMO member states urging them to take a flexible approach to implementation of the VGM rules arising from concerns that not all IMO states were prepared for implementation of the VGM rules.

The fact that not all member countries of the IMO have embedded the VGM provisions in their legal and regulatory frameworks has provided significant problems for shippers, and the trade generally, in those countries. It confirms that there is a lack of capacity by many governments to be able to implement and enforce IMO rules. GSF members in Africa and other developing regions have reported problems with implementation and delays, including excessive VGM costs and new surcharges. The GSF has condemned the behaviour of unscrupulous service providers for introducing unwarranted fees and surcharges. It is, for example, unacceptable that some service suppliers have introduced a VGM ‘administrative fee’, even when shippers have communicated the VGM electronically to the carrier or terminal operator. INTTRA, the specialist EDI supplier to the maritime industry has confirmed that it charges circa $0.15 cents per transmission, with fees substantially lower than that for volume shippers. Many carriers and service suppliers are charging between $25-$50 for VGM declarations.

These concerns have led the World Bank to undertake a study into the impact of VGM fees and processes in West and Sub-Saharan Africa on the economies in the region. The study will also focus on the costs of implementation of the VGM rules. The GSF is collaborating with the World Bank on the study. At the same time the IMO is undertaking an initial parallel study on the implementation of the VGM rules in East and Southern Africa. The study is centred on identifying weaknesses, strengths and challenges in implementation of the VGM rules.

In view of the two parallel studies, the GSF was instrumental in organising a meeting between the two UN organisations. There was general agreement of the benefits of the two organisations in working together on global implementation and the challenges presented by the VGM regulations. Subject to agreement, it was agreed in principle to work on some pilot projects. The first step would be the development of a perception survey. GSF will support the initiative in a 3-way project when formally approved by both organisations.

CTU Code of Practice

The main focus of the joint GSF, WSC, ICHCA, TT Club maritime safety campaign themed ‘Safety in the Intermodal Supply Chain’ in 2017 is in promoting use of the IMO/ILO/UNECE Code of Practice for the Packing of Transport Units (CTU). The GSF took an early leading role in revising the 1972 packing guidelines. In 2010, the GSF was approached by the World Labour Organization (WLO) to review the safe packing guidelines following a number of high profile incidents which investigations indicated was likely to be attributable to poor packing or stowing of cargo in transport units. The GSF was invited to chair the joint IMO/ILO/UNECE working group and over a 2-year period reached agreement on a new Code of Practice. GSF, WSC, ICHCA and the TT Club have worked collaboratively to promote the code. This has included the development and dissemination of best practice advice, seminars, conferences and other activities to promote the use of the Code of Practice.

On 27 February 2017, the GSF, ICHCA, TT Club and the WSC held a joint seminar entitled ‘Safety in the Intermodal Supply Chain’. The aim of the seminar was to promote the IMO/ILO/UNECE Code for Packing Cargo Transport Units (CTU) in conjunction with European Shipping Week. Initial research by GSF, WSC, ICHCA, TT Club
presented at the seminar suggested that there was a lack of awareness of the code. The seminar attracted over 80 delegates and was addressed by Mr Kitack Lim, Secretary General of IMO and Ms Magda Kopczynska, Director of Waterborne Transport, DG MOVE, from the European Commission. Mr Lim said that containerisation had brought key benefits, but had also brought challenges, including the disconnect between those that pack containers in the first instance and those that handle and carry them. He noted that the seminar chimed with IMO’s theme for 2017, ‘Connecting Ships, Ports and People’, in that both were aimed at promoting safe practices. Mr Lim said he had no hesitation in supporting the aims of the seminar and thanked the GSF, ICHCA, TT Club and WSC for its on-going work in promoting the CTU code and maritime safety. Mr Lim stressed that there was “no point developing regulations that cannot be implemented and that input from industry was vital”. He indicated that national governments must develop the skills and expertise they need to enforce international measures effectively. Ms Kopczynska noted that the CTU Code and the VGM rules were important international rules. She believed it was the for the industry to get behind the Code of Practice, but that the European Commission would support and assist the joint industry campaign.

Mr Lim and Ms Kopczynska’s observations are important, most notably because they recognise the limitations of legislation in enhancing safety if insufficient resources are committed towards enforcement, promotion, education and know-how. It is recognition that regulations which are relatively easy to agree upon and introduce, are often difficult to implement in practice. Regulations do not therefore provide all the solutions and are not the sole means of enhancing maritime safety.

Consequently, the GSF believes that greater collaboration is needed between industry and regulators if maritime safety is to be improved. To that end, the GSF, WSC, ICHCA and TT Club organised a maritime safety presentation to IMO’s Cargoes and Containers Committee CCC4 on 12 September 2017. The aim of the presentation was to show that the 4-main global maritime supply chain stakeholders were working together on maritime safety and that member states, working with industry, had a key role to play in promoting the CTU Code of Practice. The initial survey
work carried out by GSF, ICHCA, TT Club and WSC indicated that packers and other industry stakeholder were still not sufficiently aware of the CTU Code and where to obtain it from. The joint industry campaign participants therefore intend to provide a maritime campaign webpage as a single entry point for information on safety regulations and guidance on industry best practice.

Containers and invasive species
The CTU Code of Practice provides a section on minimising pest movement by sea containers. Bodies such as the Commission on Phytosanitary Measures and national governments have become increasing concerned about contamination of containers and in minimising pest movements by sea containers, under the framework of the International Plant Protection Convention. In North America, the US Department of Agriculture and the Canadian Food Inspection Agency has established a joint industry/government ‘Task Force’ to look at the issue and make recommendations on new measures to improve security in this area. The GSF has been invited to participate in the North American Group, and GSF is represented by its Chairman Bob Ballantyne of the Canadian Freight Management Association. The World Shipping Council and ICHCA has presented an information paper to the IMO (CCC4) recommending some enhancements to the CTU code provisions. GSF supports the intention of the paper to provide clearer guidelines on the responsibilities of the stakeholders in minimising pest contamination. Our main concern is that this does not increase shippers’ responsibilities and liabilities. While shippers have responsibility for ensuring that containers are clean upon receipt and suitable for the cargo, and in ensuring the container is returned to the carrier clean and free from contamination, it remains the ultimate responsibility of the carrier to supply a shipper with a clean container and free from contamination.
**Liner shipping**

**Container shipping market turmoil**

In our fifth Annual Report published in July 2016, GSF reported the continuing crisis affecting most sectors of the shipping industry, and in particular the container shipping industry, arising from the 2008 financial crisis. We predicted that the aftereffects of the financial crisis would continue to adversely impact the industry in 2017. Although there have been some recent signs of recovery in container spot market rates, rates generally have remained subdued (figure 1). The severity of the continuing financial difficulties besetting the liner shipping sector was underlined by the unexpected bankruptcy of Hanjin Shipping in 2016, a top-10 line in the container league rankings.

The prospects for the shipping industry in 2017-2018 look equally daunting, especially for the container sector. While there is likely to be some revival in container rates due to increased demand and the impacts of consolidation through merger and acquisition, and better alignment of capacity with demand in the main haul liner trades, new capacity expected to enter the market in 2017-2019 is likely to keep rates suppressed over the short to medium term (figure 2). For example Xeneta, a rate benchmarking platform for containerised ocean, freight estimates that 78 new mega ships are due to enter the Asia-Europe trade in the next 2 years. The performance of the dry bulk trades also remain subdued.

The longer-term position looks equally challenging for the container industry and other shipping sectors. While there has been an enhanced rate of scrapping of ageing and redundant capacity and a slowdown in orders for new ships, underutilised shipyards and the prospect of competitively priced new tonnage is likely to ensure that capacity will outstrip demand for those new vessels for the foreseeable future.

The wider impact is, however, likely to be due to some more fundamental trends in the global economy. For the last decade, the spectacular growth in the Chinese economy has been the mainstay behind global GDP growth. The shipping industry has hugely benefited from this, and this growth is the main factor behind the substantial
increase in containership capacity, particularly investment in ultra large container ships over 18,000 TEUs. While the Chinese economy is holding up, mainly due to huge investment in infrastructure initiatives such as One Road and One Belt, OECD estimates GDP growth of 6-7 per cent in 2017 and 2018, rather than the 10-15 per cent relied on by the container ship operators to fill their mega container vessels.

Moreover, as the Chinese economy and that of other developing countries mature, OECD analysis suggests that the shipping industry can no longer rely on the international trade multiplier effect many in the industry thought would return following recovery from the 2008 financial crisis. Indeed, the OECD's trade outlook projections forecast a convergence in GDP growth rates between advanced and emerging economies, and an overall downward trend in demand for container shipping services to 3.5 per cent per year in 2018 and beyond. OECD estimates that global GDP growth rates for both emerging and developing economies of circa 2 per cent by 2050 (figure 3).

Container market restructuring

The acute financial trading position described above, namely the decoupling of the historic international trade multiplier associated with demand for container shipping services and over-investment in capacity, in particular investment in mega ships, have been major contributory factors behind the unprecedented restructuring of the industry. This restructuring has resulted in an acceleration of consolidation in the sector. For example, there have been more mergers and acquisitions (M & A) in the past 12 months than the last 12 years, and 8 of the top 20 container shipping groups have been acquired or forced into bankruptcy, including Hanjin Shipping. Industry analysts, including prominent industry leaders such as Soren Skou, CEO of AP Moller Maersk, predicts that further industry consolidation is inevitable and that only 5 or 6 container carriers will survive consolidation of the container sector through further M & A activity. Finch Ratings Agency estimates that the remaining top 5 or 6 container carriers will have a market share of around 57 per cent by 2018.

Figure 3

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\text{Trade outlook: economic changes}
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GDP % average annual rate

Emerging economies

World

Advanced economies

Source: ITF/OECD (2016)
To date, the main acquisitions have been Hapag Lloyd’s acquisitions of CSAV, the Chilean Latin American line and UASC, CMA-CGM’s purchase of NOL/APL, the Singapore-based carrier, the COSCO/China Shipping merger and their subsequent takeover of Orient Overseas International Lines (OOCL), Maersk Line’s acquisition of Hamburg Sud and the proposed merger of the 3 leading Japanese carriers NYK, MOL and K Line. From the container industry’s perspective, this shakeout is seen solely as a means of achieving market equilibrium, aiding financial recovery and in bridging the gap between supply and demand, the root cause of overcapacity through excessive shipbuilding.

**GSF influence**

As far back as 2003/04, shippers recognised that a restructuring of the container market centred around consolidation of the industry through future M &A was inevitable. Moreover, GSF’s predecessor organisation, the Shippers’ Tripartite Group (STG), said that M & A was preferable to alliances because alliances were likely to give rise to competition problems. Essentially, shippers back in the early 2000s recognised that the market was likely to be dominated by a few major liner companies and this was likely to cause concerns on competition grounds. Shippers believed then, as they do now, that with a significantly reduced number of carriers, those carriers should be required to compete head to head to ensure adequate competition in the market for customers to benefit from competitive rates and higher quality services.

At the time, the STG pointed out that in other sectors market consolidation and rationalisation had been accompanied by a strengthening of competition policy, a factor recognised by the then Head of Unit of the Transport Section of the EU Competition Directorate, Jurgen Menchling, who indicated that much of the Commission’s future activity regarding the container sector was likely to be focused on the competition implications arising from concentration and market dominance. This observation was fundamentally reinforced by Philip Lowe, a former Director General of the EU Merger Unit and Chef de Cabinet for Neil Kinnock, a former EU Transport Commissioner, in a Chatham House speech in 2008, when he said the Commission’s ability to be effective in competition policy was dependent on the instruments at their disposal and how willing it was to adapt, to reform and improve their processes in the face of a changing and complex world. They were prescient words, which competition authorities and maritime regulators would be best advised to take note of. This is discussed in more detail below and in the following sections covering the impact of mega-ships and alliances, but recent experiences in responding to merger and acquisition applications and alliance filings does suggest that an urgent review of competition policy and/or the regulatory framework may be necessary.

For example, GSF has recently provided comments to competition authorities and maritime regulators on various M &A applications, including the Hapag Lloyd acquisition of CSAV and the Maersk Line takeover of Hamburg Sud. In the United States and the EU, mergers and acquisitions are dealt with by the Department of Justice and the EU Competition Directorate. In the latter case, it investigated under the EU Merger Regulation. A key benefit of this approach, from a shipper perspective, is that the European Commission is required to undertake a full market and competition analysis, and key customers are asked to complete questionnaires on the potential impacts of the merger or acquisition as part of the market review. As a result of these interventions, the European Commission took account of certain aspects of GSF’s concerns, most notably with regard to the impacts for competition on ‘thin routes’ and in specialised ‘cool markets’ where competition could be diminished. The Commission sought changes in the membership of the merged parties’ consortia and alliance arrangements to ensure competition was preserved on key trade lanes. While that is reassuring, the European Commission’s definition of market dominance and oligopoly is potentially problematic in GSF’s view, in its assessment of the competition impacts for shippers in the rapidly consolidating container shipping market within an alliance structure which consists of three mega alliances involving
virtually all the top remaining container lines, see the section below on alliances and figures 4 and 5 below.

**Figure 4**

*Consolidation of container shipping*

Alliance market shares of East-West Container Capacity

![Pie chart showing market shares of different alliances: 2M (34%), Ocean Alliance (32%), THE Alliance (5%), and Rest (29%).](source: Shanghai Shipping Exchange)

As indicated above, the consequences of market concentration for shippers are fewer services to choose from and reduced competition. The wider implications for shippers, and international trade, are discussed in the following section on mega ships and alliances. But as argued here, the GSF believes existing competition laws need to be reviewed in response to the changing nature of the container shipping market, and regulators may need to adapt or reform their competition and regulatory procedures to ensure that effective competition is maintained to the benefit of shippers and, ultimately, the consumers they serve.

**Mega ships and alliances**

In 2015, the OECD published two important reports: the *ITF/OECD Report on Mega Ships and the OECD Competition Committee report on Competition Issues in Liner Shipping*. The first report critically...
analysed the impact of mega ships. The report indicated that although shipping companies benefited from greater economies of scale and lower fuel costs, significant costs were borne by other parts of the supply chain including shippers, ports and terminals, and that these costs needed to be weighed against the cost benefits of mega ships.

The OECD competition report made 3 important observations on alliances and mergers and acquisitions.

- That competition agencies should take note over the exchange of information in the more elaborate map of cooperation agreements (figure 5)
- Competition authorities and regulators should carefully scrutinise the impact of strategic alliances on competitive conditions, and strike the right balance between efficiencies they entail and their potential anti-competitive effects
- Merger control should take account of the impact of cooperative arrangements on competition conditions in the relevant trade lanes, avoiding a move towards excessive concentration and interdependency

Following publication of these reports, the GSF undertook a comprehensive analysis of the key ITF/OECD findings and recommendations. Our responses were published in November 2016 in our report: The Implications of Mega Ships and Alliances for Competition and Total Supply Chain Efficiency: An Economic Perspective. (https://www.globalshippersforum.com/media/1267/gsf-mega-ships.pdf).

The GSF report confirmed that while carriers enjoyed the benefits of economies of scale, this did not mean that shippers’ costs had declined to
the same extent or that overall supply chain costs had fallen. This was because the cost to shippers of shipping goods includes not only freight rates, but the higher costs of stockholding and inventory, as well as the costs dealing with unexpected supply chain disturbances, alliance ‘blanked’ sailings, and short notice changes to ports of call and schedules.

Moreover, the GSF report stressed that the investment in mega ships and the development of strategic alliances and their associated commercial practices were a key driver for consolidation of the container sector through mergers and acquisitions. The report questioned the received wisdom that consortia and strategic alliances were preferable to consolidation, when shipping lines were coordinating capacity, sailing frequencies, transit times and ports of call within alliances.

The organisational structure of the container market into 3 strategic alliances – the 2M, Ocean Alliance and THE alliances – where the top 8-10 lines control about 80 per cent of total TEU capacity (and 96 per cent of TEU capacity on the East-West trades) suggests that the container industry is fast transitioning to a real oligopoly market, especially if as Mr Skou’s prediction of yet further consolidation results in 5 or 6 lines dominating the world’s main liner trades (figure 4) proves to be true. Our report indicates that the growth of strategic alliances has produced barriers to entry for new carriers and made it impossible for independent carriers to compete on key global trades. The GSF therefore believes that competition authorities and regulators should undertake regular alliance market assessments, similar to those carried out in merger and acquisition cases.

The GSF is not entirely alone in believing that competition and regulatory arrangements and instruments should be reviewed in the face of a rapidly changing and complex global container shipping market. At the recent Lloyds Container Shipping Conference in Hamburg in June 2017, US Federal Maritime Commissioner Dan Maffei said existing antitrust regimes needed updating. He said he believed a review was necessary to examine whether adjustment was necessary in view of the concentration of global trades into 3 mega alliances and the huge increase in vessels’ size.

Since the launch of its mega ships and alliances report the GSF has focused on initiating a debate with regulators, carriers and other maritime supply chain stakeholders about the structure and regulation of the container market.

The need for dialogue

Carriers have perhaps understandably largely viewed the introduction of mega ships, the development of alliances and mergers and acquisitions as necessary to ensure financial sustainability. From a shipper perspective, less priority has been given to the wider impacts on the trade and on shippers’ needs, both in the short and long term.

A key point made in GSF’s mega ships and alliances report was that if carriers solely viewed their strategies and operational decisions from a self-interested point of view, and if they substantially differ from that of other stakeholders and their customers, then their actions are unlikely to fully reflect the needs of shippers and other supply chain stakeholders. There is considerable evidence that this non-alignment of interests is a key factor affecting the performance of the wider maritime and logistics supply chain. For many shippers, the mega ships and alliance structure arrangements have adversely impacted ‘just-in-time’ manufacturing and logistics operations.

For example, recent changes implemented by the 3 alliances on 1 April 2017 caused considerable disruption to trade, including space and equipment shortages, reduced commitment allocations and delays. Some shippers reported having to pay higher freight rates to secure both equipment and space due to capacity shortages created by the new alliance schedules. An indication of the chaos and lack of planning for the new alliance was underlined by the fact that details over main alliance base ports in Asia were...
unknown up until a week before the planned introduction of the new alliance arrangements. This was largely brushed off as teething problems, but for shippers operating just-in-time logistics deliveries and required to make costly stock and inventory decisions, this was a nail-biting time with real concern that customer deliveries would not be made on time.

As set out earlier, the GSF believes that a new collaborative relationship by partners in a highly-fragmented container and logistics supply chain is urgently required. As a result, opportunities to increase efficiency and improve the performance of the supply chain for stakeholders in the chain are lost. The GSF has championed the case for a maritime forum and has worked with the ITF/OECD, Feport (the independent terminal operators’ association), and others to establish such a forum. The GSF is therefore pleased that the ITF/OECD took the initiative at its 2017 annual Transport Forum meeting in Leipzig to invite stakeholders, including the GSF, carrier representatives and other stakeholders to discuss the benefits of such a forum. We are therefore delighted that the stakeholders agreed to establish the Global Maritime and Logistics Forum. The Forum will have its first meeting in December 2017. Initially, the Forum will focus on short-term and practical solutions to enhance collaboration. Key issues identified for discussion include data sharing and digitalisation, and how discussion on these issues can make progress in optimising performance of the supply chain.

Regional competition developments

The international competition and regulatory framework for the container shipping industry is such that it continues to remain a main focus for the GSF and a key policy priority. Following repeal of the EU liner conference antitrust exemption in October 2008 and the US ‘OSRA’ (Ocean Shipping Reform Act) reforms of 1998, there has been a significant shift towards reform of antitrust exemptions for the container sector. Today, the reform countries now outnumber those that retain price fixing and other ‘hard core’ cartel restrictions. However, as discussed in this Annual Report, problems still remain, and new competition policy approaches are required to deal with new challenges such as mega ships, mega alliances and market concentration. This essentially was the main message contained in the OECD 2015 Competition Report on liner shipping. The report repeated its early 2002 findings that there was no solid evidence to support antitrust exemptions and, in turning its attention to new competition law challenges, set out recommendations for competition authorities and regulators regarding information exchanges between carriers in strategic alliances, and mergers and acquisitions.

Box Club raided

The concerns raised above were perhaps best exemplified by the raid carried out by the US Department of Justice on the container shipping industry ‘Box Club’ meeting in San Francisco in March 2017. The Box Club (International Council of Containership Owners) meetings are exclusively reserved for the CEOs of all the major container lines and senior officials. The DOJ issued subpoenas on the CEOs, noting that the 3 strategic alliances: THE, 2M and Ocean Alliance, “will result in a significant increase in concentration in the industry as the existing four major alliances are replaced by three”. The DOJ also noted that the alliances will “facilitate coordination in an industry that is already prone to collusion”. The DOJ referred to earlier DOJ investigations involving various carriers for price fixing, bid-rigging and market allocation among roll-on, roll-off carriers as reasons for its concerns about the Box Club meeting.
The purpose, and appropriateness, of the Box Club has never been entirely clear to shippers, given the container shipping industry has official trade associations to represent the industry, including the World Shipping Council, of which the GSF has the highest professional regard. In many ways, the Box Club is a throwback to the past, of an era when captains of the shipping industry enjoyed full carte blanche to organise the affairs of the trade in their own self-interest without the sort of antitrust oversight now in place. Whatever the why’s and wherefores, the attention drawn to the Box Club meeting by the DOJ raid will have raised questions among shippers about the necessity of the Box Club.

EU price signalling case
The European Commission formally adopted a decision making legally binding various commitments offered by 14 container shipping lines to reduce the likelihood of coordinated freight rates on 7 July 2016. The decision marks a further success for the GSF in preventing possible collusion on freight rates. The GSF asked the Commission to investigate whether various General Rate Increase (GRI) announcements made by container shipping lines amounted to coordination of prices through price signalling in contravention of EU competition rules in 2010. Fifteen carriers imposed a series of substantial GRIs at around the same time, at virtually identical amounts. The European Commission opened up legal proceedings against the lines in 2011.

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The decision took effect from 7 December 2016 and will remain in place for 3 years. While the commitments decision does not conclude there has been an infringement of EU antitrust rules, it does not alter the Commission’s original assessment of competition infringements. For example, the Commission could reopen the case in the event of non-compliance with the carriers’ commitments. However, if a company breaks the above commitments, the Commission can impose a fine of up to 10 per cent of the company’s worldwide turnover, without having to find an infringement of EU antitrust rules.

The commitments lay down an important legal marker, and effectively put an end to the use of
GRI in the pricing of container shipping services in trades to and from Europe, which shippers have historically opposed. In announcing the commitments decision Competition Commissioner Margrethe Vestager said “competitive shipping services are essential for European companies and the EU’s economy. The commitments offered by 14 carriers will make prices for these services more transparent and increase competition”. The outcome of the case is a significant achievement for the GSF and FTA, and shippers generally, as it will bring liner shipping pricing practices into line with pricing arrangements in the wider economy.

Hong Kong Competition Authority prohibits vessel discussion agreements

In a landmark maritime competition decision, the Hong Kong Competition Commission (HKCC) accepted legal submissions and representations by the GSF and Hong Kong Shippers’ Council (HKSC) excluding Vessel Discussion Agreements (VDAs) from a block exemption order (BEO) for Vessel Sharing Agreements (VSA). The decision is a substantial victory for the HKSC, and for shippers in Asia. The decision prohibits carriers from sharing data, fixing prices and discussing rates and costs and other commercially sensitive information likely to influence prices paid by shippers. The decision effectively prohibits the Intra-Asia Discussion Agreement and Trans Pacific Stabilization Agreement in providing a framework for TSA members to exchange the information described above, including limiting of capacity or sales, other than within activities permitted under the VSA exemption in trades to and from Hong Kong. The new provisions entered into force on 2 August 2017.

The Hong Kong Liner Shipping Association (HKLSA) made a supplementary submission on 27 February 2017 requesting the HKCC to reconsider its position following a preliminary statement issued by the HKCC prohibiting VDAs. The GSF was invited by the HKCC to comment on the carriers’ supplementary submission. In its response to the supplementary submission application for VDAs, the GSF said that the HKLSA had failed to demonstrate that discussion agreements covering rates, costs and the exchange of commercially sensitive information promoted economic efficiency, and had failed to provide any evidence of a causal link between the VDA restrictions of competition and the economic benefits the HKLSA claimed VDAs provided. The GSF also challenged HKLSA claims that the exchange of information would enhance regulatory compliance, promote best practice and facilitate discussions between carriers and shippers and shipper groups. The Hong Kong Competition Commission agreed with GSF and the Hong Kong Shippers’ Council and rejected the supplementary application for exemption of VDAs under the Block Exemption Order.

With regard to the VSA Exemption Order, the HKCC has provided a 5-year block exemption for vessel sharing agreements and will review the exemption from 8 August 2021. The approach taken by the HKCC largely follows that of the EU Consortia Block Exemption Regulation, including the list of permitted activities. Therefore, like the EU exemption, the HK exemption rightly precludes cooperation of inland transport activities. One key difference is the market thresholds. The HKCC exemption covers VSAs with market shares of up to 40 per cent, whereas the EU thresholds are set at 30 per cent. The GSF urged the HKCC to align the thresholds with the EU thresholds in order to ensure that strategic alliances with market shares over 30 per cent would be subject to more detailed competition scrutiny. As explained elsewhere in this Annual Report, the GSF argues that this will become increasingly important due to the gathering pace of consolidation in the container shipping sector. Overall, however, the approach taken by the HKCC is warmly welcomed by the Global Shippers’ Forum. Hong Kong has introduced a modern rules-based competition policy approach to liner shipping in line with WTO and OECD principles.

Australian antitrust developments

The GSF and the Australian Peak Shippers’ Association (APSA)/Freight & Trade Alliance are actively engaged in the general review of Australian competition policy as it applies to liner
shipping. The Competition and Consumer and Amendment (Competition Policy Review) Bill was introduced into the Australian Parliament on 30 March 2017. The bill legislates a number of recommendations of the Harper Review, including recommendations made by GSF and APSA/FTA that the liner shipping industry did not warrant unique individual exemption previously provided by competition and consumer legislation. The new legislation will grant powers to the Australian competition regulator and the Australian Competition and Consumer Commission (ACCC) to grant class exemptions.

The repeal of Part X, which provided an exemption for liner shipping to fix prices and set tariffs, is expected to take another 18 months. At that point, the shipping industry will need to apply for an exemption. As the new bill strengthens various competition tests, and with the possible repeal of Part X during the course of the next 18 months, the shipping industry may have no protection other than protections that may or may not be granted by the ACCC through a class exemption. GSF/PSA/FTA will be strongly urging the ACCC to reject a class exemption for carrier discussion agreements on pricing.

New Zealand antitrust reforms
Under new competition law provisions, international shipping lines will no longer be exempted from the general provisions of New Zealand’s antitrust laws. This effectively means that lines will generally be prohibited from fixing prices, unreasonable capacity limitation, market allocation, and the sharing of commercially sensitive information. The legislation provides an exemption for shipping lines for activities related to vessel sharing arrangements, such as coordination of schedules, pooling on vessels, sharing of equipment and capacity adjustments in response to fluctuations in supply and demand.

Lines operating in VSA agreements will be able to agree container prices with regard to space on the ship as part of the VSA, provided the cooperation improves the service supplied to shippers. The arrangements are challengeable under the competition provisions of the Commerce Bill if it does not improve the quality of the services supplied to shippers.

In Washington it’s ‘wait and see’
Throughout this past year the GSF maintained its intense focus on shipping industry regulation in the United States. GSF’s US member, the 110-year old National Industrial Transportation League (NITL), maintains a close watch on all aspects of international ocean shipping policy, law and regulation from its base in Washington, DC. As GSF members know, among GSF member countries and regions, only the United States has an independent government agency whose sole purpose is to monitor and regulate that nation’s oceanborne foreign commerce: the Federal Maritime Commission (FMC). US shipping law (primarily the Shipping Act of 1984 as amended by the Ocean Shipping Reform Act of 1998) gives carriers a limited exemption from that country’s antitrust (competition) laws. Carriers are permitted to form legal cartel-like entities through written agreements filed with, and closely monitored by, the FMC.

Prior to the enactment of the 1998 law (known as ‘OSRA’), carriers serving the American market were typically organized into ‘conferences’ with common tariff pricing; inter-carrier competition was almost solely dependent on service differentiation. The US was not alone; conference-based carrier operations were the norm in most or all major trade lanes globally. With OSRA the forces of real market competition were unleashed worldwide.
Negotiated service contracts replaced conference tariffs, and carriers acted quickly to gain market share based on both price and service quality. However, as important as OSRA was to both carriers and shippers, the limited antitrust immunity granted to carriers remained in place and continues to this day. While other nations have ended or reduced carriers’ special treatment under their competition laws, the failure to do so in the United States serves as a key rationale for maintaining the FMC in Washington, DC.

The FMC is a very small agency within the federal government. The 5 Commissioners who lead the agency are appointed by the President; their service is approved by the US Senate, and a Commissioner’s term of service is typically limited to 5 years unless reappointed by the President. The President’s political party enjoys majority representation among the 5, and the President also designates 1 Commissioner as Chairman. As our report is being finalized, the FMC now has only 4 Commissioners evenly divided between the President’s party and the opposition, and an Acting Chairman in charge (Michael Khouri).

US law and the actions of the FMC over nearly 2 decades have created a highly deregulated ocean shipping industry environment in the United States. The GSF notes that statements from the FMC concerning the agency’s role and mission in that environment in both the Obama administration and now the Trump administration are strikingly similar: to maintain fair and competitive ocean shipping markets to and from the United States. Where we perceive possible differences are the preferred means to achieve those goals. Whereas the Obama-era FMC might have been only slightly more inclined toward an activist posture, Mr Khouri has left no doubt that his preferred means of conflict resolution is via a free and competitive market – not government regulations. In recent statements from the Acting Chairman at industry gatherings he noted that ‘one size fits all’ government ‘solutions’ were just as likely to make matters worse and said, “It is my goal at the Commission to make a concerted effort to reduce regulatory burdens on our constituents as well as aggressively look for ways to make compliance with Commission requirements easier and more cost effective for shippers, carriers, and ocean transportation intermediaries.” Other Commissioners share that view.

As discussed elsewhere in this Annual Report, the GSF – and shippers generally – have riveted their attention on the continuing consolidation of the world’s liner shipping industry, first through the dramatic reorganization of carriers into massive global alliances and then the steady march of mergers and acquisitions. Again, as discussed elsewhere, these actions were the predictable outcomes of very long-term market fundamentals: carrier decisions to add capacity and acquire huge vessels to reduce their operating costs, coupled with uniformly sluggish recovery from the worldwide economic and trade downturns of nearly a decade ago.

The FMC has very limited powers to reject carrier alliances; US law makes most such agreements self-effecting in 45 days from their filing at the FMC. Nevertheless, in the Obama-era the FMC aggressively examined every new alliance proposal and imposed very vigorous reporting requirements on the alliance participants touching on a wide array of performance measures so that the agency would have sufficient objective data with which to judge the impact of the alliances on shippers, intermediaries and consumers. GSF is pleased to note that Mr Khouri has signaled no deviation from that posture, and we are reassured by comments like this from the Acting Chairman, “The Commission has been steadily seeking more information through reporting requirements with which agreements must comply. Among other things we want to know about are trends in volumes, changes to service offerings, changes in vessel deployments, and to be notified in advance of blanked and cancelled sailings. Essentially, we are requiring more information, more frequently, all with the goal of maintaining competition that benefits the shipper and the consumer.”

Earlier this year, and before the departure of former FMC Chairman Mario Cordero for the
Port of Long Beach, California, the Commission unanimously adopted a significant new rule that substantially lessened reporting burdens on parties to service contracts. The NITL was broadly supportive of the action noting that such contracts are frequently amended to reflect highly competitive conditions and rapidly changing circumstances in many trades. Together with a broad-based coalition of shipper interests, NITL also has been leading an initiative seeking to end an especially unfair practice by some carriers and US container terminals. It has asked the FMC to issue a policy to end the imposition of demurrage and detention penalties on shippers and others when those parties are not responsible for delays in picking up or returning containers. The FMC has not yet acted on this request.

The Commission has continued its ‘Supply Chain Innovation Initiative’ established in the spring of 2016, to advance industry-developed solutions to problems confronting end-to-end supply chains. Industry experts are confronting issues that go far beyond the headlines of port and container terminal congestion. This initiative is being led by Commissioner Rebecca Dye and has garnered widespread support. Ms Dye is now serving her fourth term as a Commissioner.

Another significant matter of interest for importers in North America and their global product sources is a joint initiative by agricultural agencies in Canada and the United States responsible for protecting their respective domestic agriculture, meat and poultry industries from pests and non-native species that could be harmful. While this matter is still in an early stage, the initiative focuses on ensuring that no such harmful organisms are in or on the shipping containers bound for North American ports. GSF supports this reasonable goal but insists that shippers not bear sole responsibility for achieving it given the many actors in global supply chains (carriers, ports, terminals, forwarders, container owners and lessors and even government agencies.) GSF Chairman Robert Ballantyne, the President of Canada’s Freight Management Association, has led our efforts to make sure shipper concerns are fully considered. He is being supported by NITL in Washington. GSF expects this matter to be taken before the IMO in the fall of 2017.

What lies ahead? Seasoned industry professionals will be focused on any new deregulatory actions by the FMC that might result from its call for proposals from the public for “FMC regulations that should be repealed, replaced, or modified”, a position in line with President Trump’s directive upon taking office to reduce the number of federal regulations. GSF expects this to be a slow and deliberative process, and we will monitor significant developments carefully. In the interim we expect the President will name a permanent Chairman and nominate someone to replace Mr Cordero. We note too that Commissioner Maffei’s term in office has expired (although he may continue to serve until he is either reappointed or replaced).

But perhaps the most intriguing – and opaque – matter is a proposal from senior members of the US Congress to conduct a review of the limited antitrust immunity enjoyed by carriers. In Congressional hearings earlier in 2017, committee leaders openly questioned the appropriateness of this special privilege in the modern marketplace. GSF ardently supports such a review having long maintained that carrier operations no longer merit this anticompetitive protection in the United States or elsewhere. The NITL reports that there has been no movement on this proposal as the Congress grapples with other highly contentious policy matters dividing Washington. GSF will continue to monitor this and other developments in Washington that will or could affect shippers. Whether the Congress amends the Shipping Act on this or any other provision, the FMC will continue to be charged with enforcing that law as it is written.
Environmental issues continued to feature highly on the GSF agenda over the last 12 months. Although we keep track of issues in the aviation sector our main focus is the maritime sector, where global approaches to greenhouse gases and sulphur emissions could have lasting implications for the supply chain. Global environmental issues for the maritime sector are debated and agreed by national governments coming together at the United Nations technical regulatory body for shipping, the International Maritime Organization (IMO).

**Maritime greenhouse gas emissions**

GSF has represented shippers’ interests at the IMO for many years, producing a series of briefing documents, submissions to meetings, and spoken interventions during plenary sessions. GSF has also made technical input into a number of working groups, committees and informal discussions that take place outside of the full Committee meetings.

Please see the table below for a short summary of GSF actions and publications. This involvement is crucial to upholding and proposing members’ interests which differ in parts from those of the major shipowners and shipping lines, who are strongly represented at IMO.

**The shippers’ view: meet climate targets, incentivise energy efficiency**

The community of global shippers represented by GSF is environmentally progressive, and accepts the case that the maritime sector must play its part in contributing to the broader greenhouse gas (GHG) agreement reached at COP 21 in Paris in 2016. GSF members wish to see policy measures put in place that address environmental concerns while avoiding damaging supply chain cost impacts.

For this reason, GSF has for many years proposed a policy approach that would incentivise the uptake of technical fuel-efficiency measures and energy management on board ships. These approaches are ‘win-wins’ because in addition to supporting environmental goals they create lower running costs for operators, and thus reduce pressure to raise rates to customers.

The difficulty is that costs for investment in energy saving technology (whether for new ships or retrofitted onto existing ships), and also costs involved in adopting energy management techniques (training, monitoring systems, regular reporting and verification) fall on owners and operators. For this reason these communities have supported alternative approaches such as a ‘bunker levy’ which would load the costs onto the customers instead (see below).

<table>
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<tr>
<th>GSF involvement in global GHG emissions development at the IMO</th>
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<tr>
<td><strong>July 2017</strong></td>
<td>GSF co-sponsors 3 papers with several Pacific small island states and European nations, to promote a comprehensive approach to managing GHG emissions while avoiding disruptive costs for the international supply chain. GSF speaks at GHG Intersessional Working Group to support the development of a vision statement for GHG emissions from ships.</td>
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<td><strong>October 2016</strong></td>
<td>GSF submits paper to MEPC 70 and speaks at the full Plenary session proposing learning points from the approach to global GHG emissions agreed by the equivalent body for aviation, ICAO.</td>
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<td><strong>September 2016</strong></td>
<td>GSF publishes a Policy Statement for the UNFCCC COP 21 meeting in Paris, calling for the IMO to retain its regulatory role on climate change, and promoting an energy efficiency-based approach to minimise supply chain costs.</td>
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<td><strong>April 2016</strong></td>
<td>GSF submits paper to MEPC 69 and speaks to the full Plenary session, repeating the call that this system collect energy efficiency data, and recording opposition to the use of a proxy measure known as ‘design deadweight’ that is the theoretical maximum loading capacity of the ship, thus over-stating energy efficiency.</td>
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<td><strong>May 2015</strong></td>
<td>GSF submits paper to MEPC 68 and presents key points to the full Plenary session, supporting the creation of a global fuel consumption database, and asking that this collect data on cargo carried by ships to enable the IMO to analyse the true energy efficiency of the maritime sector.</td>
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<td><strong>March 2014</strong></td>
<td>GSF publishes its landmark Policy Briefing on Maritime Emissions, analysing the strengths and weaknesses of the various policy options considered by the IMO over the preceding years. The conclusion is that the preferred option for shippers would be one based on energy efficiency, to achieve GHG reductions while minimising supply chain costs.</td>
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GSF has also strongly supported data gathering mechanisms that capture data on the cargo carried by ships, to allow measurement of energy efficiency as well as fuel consumption. This data would allow IMO member states to consider policy measures based on energy efficiency targets in contrast to targets that focus solely on reducing fuel use. In contrast, shipowners and operators have argued for a simpler fuel consumption database with theoretical ‘proxy’ measures for cargo carried, which means that only data on fuel is collected. This, in turn, makes it less likely that future policy measures will be based on energy efficiency improvements.

In the long term, technical experts from all sides – academia, environmentalists and the shipping industry – agree that the adoption of low-GHG alternative fuels will be required to deliver a step change in maritime emissions. Given the long lifetime of maritime vessels this is an ambitious vision that will require significant incentives and policy support. GSF has not developed a position on this yet but will engage with members over the coming years to develop a shippers’ vision in this space.

The case against a ‘bunker levy’
Shippers have contrasting positions on a number of policy and regulatory issues compared to shipowners and operators. On GHG emissions there is agreement from all sides on the need to tackle the issue – both GSF and the shipping industry have called for action at the IMO level to ensure shipping plays its role in meeting Paris Agreement climate targets.

However, there are differing views on how this should be done. As noted above, GSF supports an approach based on primarily energy efficiency, while several bodies representing the shipping industry support and promote a ‘bunker levy’ approach. The bunker levy is an additional charge levied on bunkered fuels, which would be hypothecated into a dedicated fund for climate offsetting projects.

Climate offsets are widely used by industries that struggle to reduce their own emissions, so instead fund projects to reduce emissions in other sectors (typically renewable energy or energy efficiency projects, often in developing countries).

GSF members have two concerns with this approach. First, this would create zero incentive for in-sector emissions reduction. In other words, this policy would not address the sector’s own emissions and instead pay other sectors to reduce their emissions. This, we believe, is not an acceptable position given the need for all sectors to contribute to the global GHG goals agreed at the Paris conference.

The second concern is around costs. The bunker levy proposal would impose the cost burden of reducing GHG emissions onto the customer (the shipper) rather than the shipowner or operator. This is because the bunker levy fee would be passed through to customers by operators.

In addition, if the levy were to be set at a standard global rate, then it would pose proportionally higher burdens to shippers moving low-margin products, typically developing country
exporters. United Nations Conference on Trade and Development (UNCTAD) studies have demonstrated that logistics costs can be significantly higher for developing countries, particularly those with poor connectivity.

The status of GHG talks at the IMO
Over the period 2016-17 some reasonable progress has been made on these issues at the IMO. This is not a criticism of the IMO itself – GHG reduction is a challenging topic on which to achieve consensus between member states, as there are significant differences between them, and it is the member states that must seek agreement. The staff at IMO act as a Secretariat, and do an excellent job of impartial management of meetings and enabling accredited stakeholders to put views across.

Unlike some other UN bodies, including the United Nations Framework Convention on Climate Change (UNFCCC) (the UN body that handles the topic of climate change more broadly), the IMO does have a mechanism to take issues to vote. However, the voting mechanism is used as a last resort, and agreement by consensus is strongly preferred.

IMO agreements in October 2016: fuel consumption database and GHG roadmap
In the meeting of the Marine Environment Protection Committee (MEPC) on 24 - 29 October 2016, the IMO member states agreed a ‘roadmap’ through to 2023 to develop an approach to tackling GHG emissions.

Fuel consumption
The IMO approved a fuel consumption database, which will require ships of 5,000 gross tonnage and above to collect consumption data for each type of fuel oil they use, as well as other, additional, specified data including proxies for transport work. These ships account for approximately 85 per cent of CO₂ emissions from international shipping. The stated aim is to collect data to provide a firm basis on which future decisions on additional measures, over and above those already adopted by IMO, can be made.

GSF was involved in the debates around how the fuel consumption database should work, and made strong representations at the previous MEPC to the effect that more accurate data, or more realistic proxy values, should be used to estimate transport work, as this enables the assessment of ships’ energy efficiency.

IMO member states did not fully endorse the GSF position, instead agreeing a simplified system which will provide only limited energy efficiency information. Access to the database will also be tightly controlled and open only to member states. Business associations such as GSF will not have access to it.

Nevertheless, the new mandatory data collection system is still a useful development, and is the necessary first step in what IMO refers to as its ‘3-step approach’ to policy making, which involves gathering data, analysing it and then making policy recommendations based on the evidence. GSF supports this approach to policy making, notwithstanding its concerns over the detail of the data collection system.

Roadmap to reduce GHG emissions
The other important development related to GHG emissions was the approval, after a long and difficult debate, of a 6-year ‘roadmap’ (2017 - 2023); this is a plan for how IMO member states will negotiate whether or not to introduce measures to reduce GHG emissions from ships.

The roadmap contains a list of activities, including further studies to forecast future trends in maritime GHG emissions which will be aligned with the data collected by the fuel consumption database (see above). At the end of the 6-year period – 2023 – IMO member states will negotiate whether or not to introduce measures to reduce GHG emissions from ships.

During the debate, GSF was invited to address the plenary session, having submitted a paper to the Committee via our partner the International Cargo Handling and Coordinating Association (ICHCA)
which has observer status at the IMO.

Our intervention stressed the need to look at the agreement reached in the equivalent body for aviation, the International Civil Aviation Organization (ICAO); this organization had managed to chart a course through the political and environmental issues and find a compromise solution. We were supported during the plenary debate by the Argentinian delegation, an important step forward for GSF, since having member state endorsement provides additional credibility to the GSF position.

The roadmap is a plan for negotiations and studies, and no agreements were made about what any policies will be, for example whether there will be some kind of cap or emissions limit and how GHG allocations will be distributed across member states.

It was also agreed that a sub-group should be set up to continue the debate before the next MEPC in 2017; GSF joined this group to follow and influence the discussions. In conclusion, it is important to stress that no new GHG measures will be announced in respect of shipping until 2023 and whatever is announced is likely to enter into force no earlier than 2024 or 2025.

Progress at the IMO in 2017: GHG sub-group and MEPC discussion
Another crucial round of talks took place at the International Maritime Organization (IMO) in London, as the maritime community tried to agree on a way forward to tackle greenhouse gases.

For the first time, GSF was invited by a group of national governments to co-sponsor papers to the IMO. This is an important development for shippers as it demonstrates that countries are keen to understand GSF members’ concerns. GSF co-sponsored 3 papers, with the following contents.

- **Emissions scenario**: a summary of a technical study into options to reduce GHG emissions from shipping
- **Level of ambition**: technical paper on how to calculate the overall level of emissions reductions required by shipping in order to contribute to meeting global GHG targets agreed in the Paris Climate Agreement of 2015 – http://unfccc.int/paris_agreement/items/9485.php
- **Impacts on transport costs**: summary of existing studies on the cost impacts of GHG reduction and a call for for additional work to be done to make assessments of the potential GHG impact of future measures

The MEPC agreed on a draft outline for the structure of the initial IMO strategy. The initial strategy is set to include:

- preamble/introduction/context including emission scenarios
- vision
- levels of ambition
- guiding principles
- list of candidate short-, mid- and long-term further measures with possible timelines and their impacts on states
- barriers and supportive measures; capacity building and technical cooperation; R&D
- follow-up actions towards the development of the revised strategy
- periodic review of the strategy

The Committee approved terms of reference for the second and third meetings of the Intersessional Working Group, which will run 23-27 October 2017 and 3-6 April 2018, with the next round of written submissions due by 22 September 2017.

GSF will work with IMO member states and other stakeholders to ensure shipper views are fully considered.
**Maritime sulphur emissions – global cap to enter into force in 2020**

Ships generate approximately 5-10 per cent of all man-made sulphur oxide emissions at a global level; these have significant health impacts. However, because the vast majority (around 70 per cent) of these emissions occur within 400km of coastal communities, around 60,000 early mortalities each year are attributed to shipping emissions, mainly in the coastal areas of East Asia, South Asia and Europe.

Recognising these health impacts, the IMO has set 1 January 2020 as the implementation date for a significant reduction in the sulphur content of the fuel oil used by ships. The decision will have the effect of implementing a global sulphur cap of 0.50 per cent m/m (mass/mass) in 2020. Exemptions are provided for situations involving the safety of the ship or saving life at sea, or if a ship or its equipment is damaged. This represents a significant reduction from the 3.5 per cent m/m global limit which is currently in place.

The IMO decision followed the completion of an independent review which concluded that sufficient compliant fuel oil would be available to meet the fuel oil requirements. IMO member states had the option to defer the implementation date to 2025, but decided that given the positive outcome of the fuel availability study, and the health improvements that will result, the earlier date was preferred.

Ships can meet the requirement by: using low-sulphur compliant fuel oil; using alternative fuel gases which emit low sulphur oxides; or, by using exhaust gas cleaning systems or ‘scrubbers’, which ‘clean’ the emissions before they are released into the atmosphere. In this latter case, the equivalent arrangement must be approved by the ship’s ‘Administration’ (the flag state).

The new global cap will not change the limits in SOx Emission Control Areas (ECA) established by IMO, which since 1 January 2015 has been 0.10 per cent m/m. The ECAs established under MARPOL Annex VI for SOx are: the Baltic Sea area; the North Sea area; the North American area (covering designated coastal areas off the United States and Canada); and the United States Caribbean Sea area (around Puerto Rico and the United States Virgin Islands).

For shippers, the key issues surround the implementation of these measures. The fuel supply and shipping industries have been aware for some time that this regulation was highly likely to enter into force globally in 2020, and already have several years’ experience in ensuring they meet regional low-sulphur requirements in ECAs. There is no justification for additional surcharges on shippers to meet these air pollution requirements, particularly for trades into existing ECAs, where the rules are already in force.

GSF members are encouraged to watch out for surcharges purported to be caused by the increased cost of low-sulphur fuel, which is likely to be the main route to compliance for container ships. There is very little reliable information on the cost of procuring low-sulphur fuel, and GSF will provide more detail on this issue in future communications.
At the GSF Annual Meeting held in Colombo, Sri Lanka in July 2017, the GSF established a global surcharges campaign. The campaign was inaugurated in response to growing concerns about the widespread use of non-negotiable surcharges and other add-on charges by carriers. Shippers, particularly those from developing nations, reported their increasing concern that such surcharges and add-on charges were having a negative impact on the international competitiveness of their goods in global markets. Many of these goods are relatively low-valued commodities, where transport costs represent a high proportion of import cost.

### Freight costs

According to UNCTAD, (UN Committee for Trade and Development) developing nations economies in Oceania pay between 40-70 per cent more for transport costs than developing nations.

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Freight costs as a percentage of import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>11.4%</td>
</tr>
<tr>
<td>Developed countries</td>
<td>6.8%</td>
</tr>
<tr>
<td>Oceania</td>
<td>9.6%</td>
</tr>
<tr>
<td>Asia</td>
<td>9%</td>
</tr>
</tbody>
</table>

The Colombo annual meeting set the following key campaign goals.

- To remove the imposition of surcharges as a standard commercial practice by 2020
- To obtain recognition from WTO that non-negotiable shipping surcharges and ancillary charges amount to significant non-trade barriers within Trade Facilitation Agreements
- To campaign for the inclusion of surcharge provisions in the 2020 INCOTERMS revision (including promotion of the FCA term in contractual terms between buyers and sellers when using containerised shipping)
- Supporting members' national and regional campaigns and policy legislative initiatives to prohibit the imposition of surcharges

The Sri Lanka Shippers' Council has been at the forefront of international efforts to legislate against the imposition of surcharges (The Licensing of Shipping Agents, Freight Forwarders, Non-Vessels Operating Common Carriers and Container Operators Act 2013). The effectiveness of the Sri Lankan legislation is underlined by recent submissions by the China Shipowners' Association who have lobbied the Sri Lankan...
Ministry of Highways, Ports and Shipping, to lift the ban on surcharges which the China Shipowners’ Association claims is contrary to the international standard permitting ocean carriers to recover their costs through the ‘imposition’ of ancillary charges.

The China Shipowners’ Association representations graphically illustrate how carriers use the imposition of non-negotiable surcharges and ancillary charges to avoid negotiation of competitive freight prices with shippers. The GSF contends that whilst this may be standard practice for the shipping industry, it is highly anti-competitive and damaging to international trade, and particularly to developing world economies who are forced to pay higher transport costs as evidenced above by UNCTAD.

Moreover, as highlighted in this Annual Report covering the EU price signalling case, the commitments’ decision agreed by carriers (including Chinese carriers), in conjunction with the European Commission, noted that future price announcements to be made useful for customers should include 5 main elements of the total price, including base rate, bunker charges, security charges, terminal handling charges (and peak season charges if applicable). The GSF notes that there is no mention of surcharges or ancillary charges in this decision.

The European Commission commitments’ decision provides a legally binding framework which the Commission says the aim of which is “to increase price transparency for customers and to reduce the likelihood of coordinating prices”. The GSF fully supports this decision and proposed framework for the modern pricing of container shipping services.

In 2017/2018, the GSF will work with governments, regional bodies such as the SAARC (South Asian Association for Regional Cooperation) countries, the African Union, UNCTAD, OECD and the World Bank to undertake a more detailed impact on surcharges. We will intensify our representations with the WTO, and other UN agencies, for inclusion of surcharges and ancillary charges as non-tariff barrier impediments to international trade, calling for the introduction of measures to reduce red tape and ensure that shipping fees and charges are approximate to the cost of services rendered. For further details relating to TFAs, see the section on WTO Trade Facilitation Agreement: what it means for shippers (page 38).
Market developments
The air cargo market registered strong growth in the second half of 2016 and 2017, and recorded its best performance since 2010. According to the International Air Cargo Association (IATA), global freight tonne kilometres (FTKs) grew by 10.4 per cent year-on-year, indicating a strong rebound from the 2007-8 global financial crisis. Industry analysts attribute the resurgence in air freight demand to strong improvement in global trade with developed and emerging economies showing positive increases in GDP growth. Virtually all regions reported strong growth, with demand for air cargo services outstripping capacity on many trade routes. There are signs that the cyclical upturn has slowed with growth now flattining, but the medium to long-term projections suggest that demand will remain reasonably strong. There are indications that the strong growth is partly attributable to industry needing to restock quickly at the start of the economic pick-up to meet consumer demand.

The performance of the air cargo market is in stark contrast to the shipping industry as reported in the maritime section of this report. While shippers have experienced higher rate inflation and surcharges on some trade routes, the air cargo market remains competitive and broadly responsive to shippers’ requirements. Moreover, shippers have reported few problems with air cargo services and in obtaining sufficient capacity.

During the recession that followed the 2007-2008 financial crisis many high-value shippers, including major pharma businesses, switched to deep container shipping to cut costs. While ocean transport will remain a long-term option for these sectors, there are signs that air cargo is again becoming a more attractive method of distribution, mainly due to the present lack of reliability and predictability of container maritime services as outlined in the maritime section of this report.

However, the long-term attractiveness and future growth of air cargo remains vulnerable. While the container shipping industry currently remains largely unresponsive to shipper demands and expectations, this is likely to dramatically change. For example, the application of robotics and artificial intelligence in ship and terminal operations are likely to be easier to introduce than in the aviation sector. The prospect of a new generation of fast crew-less intelligent container ships and fully automated container terminals presents the opportunity of new low cost and highly efficient fully integrated door-to-door container shipping services. This opens the possibility of highly innovative fast and frequent point-to-point container shipping services, similar to the development of low cost airline point-to-point services. It may sound far-fetched, but various ‘block-chain’ projects driven by major global brand shippers are supporting and developing platforms for the data integration and information sharing to make this a reality. The vision these shippers have is for full end-to-end supply chain visibility with open data sharing to achieve this. The challenges in obtaining this vision are not insignificant, not least the prevailing culture of the shipping industry and its ability to change. However, the air cargo industry will need to match and out-run the maritime sector if it is to maintain and grow the air cargo market.

Air cargo block-chain initiatives
While the culture of the air cargo sector is more receptive to the kind of innovative changes described above, global air cargo shippers are concerned about the pace of development of air cargo e-freight which is essential for the future value-added services shippers require. This has led to the development of a predominantly, but not exclusively, air cargo block-chain initiatives led by Ericsson, but supported by large global shippers, including the Global Shippers’ Forum. The GSF and other stakeholders, including the European Commission, attended a project inception meeting in Stockholm earlier this year to discuss the project concept and progress to date, including the establishment of a Trade and Cargo Facilitation Association in providing an independent platform for development of the project. The platform framework sets out principles of how to best to share shipment data, best practices and how to increase efficiency.
and transparency for involved stakeholders in a global and intermodal value chain. The concept envisages the use of the ‘Cloud’ and a consignment unique identifier to bring together and make visible all the data elements to authorised stakeholders. There are significant, but not insurmountable, challenges in digitisation of the documents in the supply chain. A key potential obstacle is the acceptability and use of such e-documents by regulators, including the World Customs Organization and the International Civil Aviation Organization. This underlines the need for a strong international shippers’ organization such as GSF. The GSF will use its growing influence with the WCO and ICAO in seeking to overcome such regulatory obstacles.

It is notable that these initiatives are driven by global shippers whose objectives are to optimise the performance of their just-in-time logistics supply chains. The high cost of managing production and inventory has focused attention to achieving supply chain efficiency improvement required to meet consumer demands. This is why shippers need to be placed at the centre of air cargo initiatives to improve performance of the air cargo product, and why GSF established this as a major objective in 2016.

**Shippers at the centre of air cargo product service development**

As part of the objective of placing shippers at the centre of air cargo developments, the Global Shippers’ Forum teamed up with TIACA to ensure that shippers’ views were at the centre of discussions at the TIACA Air Cargo Forum held in Paris 26-28 October 2016. As well as participating in key conference sessions, GSF organised two workshop sessions and hosted a Shippers’ Pavilion to showcase the GSF and shippers’ policy objectives. The first workshop organised in conjunction with Cargo iQ focused on how the supply chain working in unison could optimise the performance of the air cargo supply chain by building on existing work on airline performance, see below details of the MOU signed by GSF and Cargo iQ; the second on exploring innovative ways in which air cargo performance could be enhanced by cutting through red tape to reduce the door-to-door air cargo chain by a half.

Both sessions included real air cargo innovators, seasoned industry experts, and top international regulators to report on progress on key projects and measures underway to transform the performance of the air cargo supply chain. Robert Mellin from Eriksson, a leading shipper advocate, who is spearheading the above-mentioned industry ‘Backbone’ project presented the objectives of the initiative. Boubacar Djibo, Director ICAO’s Transport Bureau, responsible for developing ICAO’s air cargo strategy, explained how ICAO could potentially significantly cut current regulatory burdens imposed on the air cargo sector to support industry initiatives to enhance the performance of the air cargo product.

The GSF has continued to build strong relationships with the main air cargo industry representative organisations, including TIACA, IATA and FIATA. While the 4 main global air cargo associations have continued to collaborate within the Global Air Cargo Advisory Group (GACAG), the GSF has worked bilaterally with these global stakeholders. For example, the GSF is supporting TIACA’s Shippers’ Advisory Committee (SAC) which includes a number of high profile air cargo shippers affiliated to GSF member associations internationally. The aim of the SAC is to ensure that shippers are at the centre of the global discussion encouraging data sharing and in supporting technical innovation. Lars Droog, Head of Supply Chain at Tosoh Corporation, is Chairman of the Advisory Committee. Denis Choumert, Chairman of GSF member association, the European Shippers’ Council has been appointed to the TIACA board to ensure that shippers can play a full active part in the development of TIACA activities.

During 2016, with GSF assistance, the SAC published a shippers’ position paper entitled *Change is Needed*. The paper describes the changes and challenges facing global manufacturers and sets out what the air cargo industry needs to do to meet these demands. The paper also supports the role GSF plays in ensuring
that the shippers' voice is heard within GACAG and with the major international regulators such as ICAO and WCO.

GSF-Cargo iQ Memorandum of Understanding
At the TIACA Air Cargo Forum held in October 2016, the GSF and Cargo iQ signed an Memorandum of Understanding (MOU) on working together on developing air cargo industry standards. The MOU commits both organisations to working cooperatively to support Cargo iQ’s Quality Management System to promote the sustainability of the air cargo supply chain. The aim of the initiative is to fuse earlier work carried out by shippers in developing air cargo service performance indicators with Cargo iQ’s operations-based standards and indicators.

The joint initiative will result in common agreement on air cargo industry performance standards, including agreed definitions of the standards and measurement criteria. The KPIs will provide shippers and carriers with the framework to measure service performance. As the project matures, and the industry becomes more open and transparent regarding carrier performance, the GSF hopes that individual airline performance can be benchmarked against agreed industry standards. This, the GSF believes, will encourage the industry to strive for ever higher standards of performance.

GSF/Cargo iQ set up a joint working group to scope out the key performance indicators during the course of 2016. GSF/Cargo iQ will present the findings of the working group to their respective memberships for approval in September/October 2017. The KPIs will be launched to the industry at the TIACA Air Cargo Forum meeting in Miami USA in October 2017.

Enhancing GSF’s influence with air cargo regulators
During 2016, the GSF sought to strengthen its links with air cargo regulators, including the International Civil Aviation Organization and the World Customs Organization. The GSF met with the ICAO Secretary General Dr Fang Liu at the TIACA Paris Air Cargo Forum in October 2016. Dr Liu has taken a special interest in air cargo and has impressed the GSF with her determination to devote ICAO resources into developing and supporting the air cargo sector. She believes that shippers, as the main drivers behind air cargo, have a vital role to play in the development of ICAO’s air cargo strategy and initiatives. The GSF, together with our GACAG partners have developed a joint set of air cargo priorities which will form the basis of on-going policy discussions with ICAO, see GACAG section below.
To ensure that shippers’ views are fully taken into account, the GSF and ICAO are to enter into a Memorandum of Understanding in 2018. The MOU will cement GSF’s relationship with ICAO, enabling the GSF to fully participate in ICAO meetings and working groups, ultimately paving the way to obtaining full observer status with the ICAO in due course.

In June 2017, the GSF was invited by ICAO to attend the Second ICAO meeting on Air Cargo Development in Africa held in Addis Ababa, Ethiopia. In addition to the involvement of the GSF secretariat, the GSF delegation included representatives from the Union of African Shippers’ Councils (UASC), with shipper delegations from Benin, Ghana and the Cameroon attending. The invitation again underlined the increasing importance regulators place on having strong shipper representation at such meetings. After all, a main goal of the meeting was to promote sustainable air cargo within Africa and on routes to and from Africa for the benefit of users of air cargo services. The meeting was attended by over 40 government delegations from Africa and the Secretary General of the World Customs Organization. The GSF delegation played a key part in the meeting, calling on governments and representatives of the African Union to take further steps to liberalise intra-African air transport. The GSF urged African government delegates to implement the Yamoussoukro 1999 decision to facilitate further liberalisation of air cargo services and to take the necessary measures to facilitate security and customs arrangements. A presentation by the Ghana Shippers’ Authority exemplified the problems faced by shippers in many parts of Africa. The GSA highlighted delays in handling transit cargo and processing documents by state institutions, and the need for harmonisation of customs codes and simplification of customs procedures across the continent. The GSF will continue to support the Union of African Shippers’ Council’s efforts to improve the competitiveness of African imports and exports in global markets.

Providing air cargo leadership

The GSF has played a key role in providing air cargo industry leadership since its establishment as a formal NGO in 2010/11. GSF has been at the forefront of liberalisation of air cargo, recognising that liberalisation has been the main driver behind the growth of air cargo over the past 20 years. It has greatly enhanced connectivity in air cargo services, opened new markets in goods and services, and increased choice and competition for shippers. That is why the GSF and UASC and their members have been calling for much-needed liberalisation of air cargo services in Africa. While steps have been taken within the ASEAN (Association of Southeast Asian Nations) region to implement a single aviation market and liberalise air cargo markets, it is notable that China and India have disappointingly made limited progress in market liberalisation. The GSF will use its voice within ICAO, WTO, OECD and other intergovernmental bodies to counter protectionist air transport approaches and make the case for open and competitive globalised air cargo markets in the interest of fostering international trade.
The Global Air Cargo Advisory Group (GACAG)
The GSF, together with IATA, FIATA and TIACA jointly established GACAG in 2010 to identify air cargo industry priorities and to provide industry leadership. In 2016, GACAG reviewed its activities and agreed the following priorities.

- Overturning the ICAO ban on lithium ion batteries and promoting the safe transport of Lithium batteries
- Securing effective border security and advance cargo information
- Obtaining efficient border management and trade facilitation
- Accelerating industry modernisation
- Minimising the environmental impact of air cargo

In January 2017, under the auspices of GACAG, GSF, IATA and TIACA jointly wrote to all ICAO member states asking for early resolution of the lithium batteries ban and agreement to new packaging standards by the ICAO Dangerous Goods Committee. The joint letter prompted a number of replies, including a letter from the US Secretary of Transportation. Although the US defended the current ban, Transportation Secretary Anthony R. Foxx said that his department looked forward to partnering with GSF and other GACAG partners in identifying safe and practical solutions to the problem. This a clear illustration of how by working together GACAG can influence the outcome of decisions made in ICAO. The 4 GACAG partners have subsequently raised the matter with the ICAO Secretary General.

GACAG partners met in Zurich in August 2017 to agree the priorities and action plan for taking forward these priorities. It was agreed that GACAG would organise a joint industry summit with ICAO to develop a plan aimed at tackling lithium batteries, security, advanced cargo information and efficient border management and controls. GACAG will be seeking support from ICAO for enhanced collaboration between ICAO, WCO and other international regulatory agencies to find solutions acceptable to industry to enhance the performance of air cargo.
Trade facilitation

WTO Trade Facilitation Agreement: what it means for shippers

Background to the TFA
An important milestone for the global trading system was reached on 22 February 2017 when the WTO Trade Facilitation Agreement entered into force, following ratification of the agreement by two-thirds of the 164 WTO members. This is the first multilateral deal concluded in the 21-year history of the World Trade Organization.

The aim of the agreement is to reduce red tape associated with customs procedures and to facilitate industry and government partnership on trade facilitation matters. The TFA contains provisions for expediting the movement, release and clearance of goods, including those in transit. The TFA also sets out measures for effective cooperation between customs authorities in different countries on trade facilitation and customs compliance issues.

The WTO estimates that the full ratification and implementation of the TFA is expected to reduce trade costs by more than 14 per cent for low-income countries, more than 15 per cent for lower middle-income countries and more than 13 per cent for upper middle-income countries.

Summary of TFA customs provisions for shippers
The following section briefly summarises some of the most important TFA provisions related to customs for shippers to be aware of. The full TFA agreement is available for download at: http://www.tafacility.org/sites/default/files/sections/931_e.doc

Publication of information including through the internet
Each member shall promptly publish the following information in a non-discriminatory and easily accessible manner:

- Procedures for importation, exportation, and transit, and required forms and documents
- Applied rates of duties and taxes of any kind
- Fees and charges imposed by or for governmental agencies
- Rules for the classification or valuation of products for customs purposes
- Laws, regulations and administrative rulings relating to rules of origin
- Import, export or transit restrictions or prohibitions
- Penalties provisions for breaches of import, export, or transit formalities
- Procedures for appeal or review
- Agreements or parts thereof with any country or countries
- Procedures relating to the administration of tariff quotas

Information available through the internet
Each member shall make the following information available through the internet:

- A description of its procedures for importation, exportation, and transit, including procedures for appeal or review, that informs governments, traders and other interested parties of the practical steps needed for importation, exportation and transit
- The forms and documents required for importation into, exportation from, or transit through the territory of that member
● Contact information on its enquiry point(s)

● Members are encouraged to provide additional trade-related information

Enquiry points and fees

● Each member shall, within its available resources, establish or maintain one or more enquiry points to answer reasonable enquiries of governments, traders and other interested parties. Members of a customs union or involved in regional integration may establish or maintain common enquiry points at the regional level.

● Members are encouraged not to require the payment of a fee for answering enquiries and providing required forms and documents. If any, members shall limit the amount of their fees and charges to the approximate cost of services rendered.

Consultation with trade and other customs agencies

● Each member shall, to the extent practicable and in a manner consistent with its domestic law and legal system, provide opportunities and an appropriate time period to traders and other interested parties to comment on the proposed introduction or amendment of laws and regulations of general application related to the movement, release and clearance of goods, including goods in transit.

● Each member shall, as appropriate, provide for regular consultations between its border agencies and traders or other stakeholders located within its territory.

Advance rulings

● Each member shall issue an advance ruling in a reasonable, time-bound manner to the applicant that has submitted a written request containing all necessary information.

Appeals

● Each member shall provide that any person to whom customs issues an administrative decision has the right, within its territory, to an administrative appeal or review by an administrative authority higher than or independent of the official or office that issued the decision and/or a judicial appeal or review of the decision.

Fees and charges for customs processing

● Shall be limited in amount to the approximate cost of the services rendered on or in connection with the specific import or export operation in question.

● Are not required to be linked to a specific import or export operation provided they are levied for services that are closely connected to the customs processing of goods.

Release times

● Members are encouraged to measure and publish their average release time of goods periodically and in a consistent manner.

Facilitations for Authorised Operators

● Each member shall provide additional trade facilitation measures related to import, export, or transit formalities and procedures, to operators who meet specified criteria, to become ‘authorised operators’.

● Alternatively, a member may offer such trade facilitation measures through customs procedures generally available to all operators and is not required to establish a separate scheme.

Expediting shipments

● Each member shall adopt or maintain procedures allowing for the expedited release of at least those goods entered through air cargo facilities to persons who apply for such treatment, while maintaining customs control.

Benefits for developing and least-developed countries

● Members are able to set their own timetables for implementing the TFA depending on their capacities.
Trade Facilitation Agreement Facility has been set up to help ensure they receive the assistance needed to reap the full benefits of the TFA, with a dedicated website at http://www.tfafacility.org

Single window
Members shall endeavour to establish or maintain a single window, enabling traders to submit documentation and/or data requirements for importation, exportation, or transit of goods through a single entry point to the participating authorities or agencies.

National TFA committees
Members are required to set up a Trade Facilitation Committee. This enables coordination among the public and private sectors and among users and providers of trade-supporting services.

Trade promotion and restriction measures: highlights from the WTO Annual Review
The WTO releases an annual monitoring report of trade measures put in place by national governments around the world. This provides a useful tracker of progress on trade facilitation around the world. The report is available on the WTO website at https://www.wto.org/english/tratop_e/tpr_e/trade_monitoring_e.htm

Restrictive measures fall to 11 per month
The WTO reports that from mid-October 2016 to mid-May 2017 WTO members implemented 74 new trade-restrictive measures, amounting to an average of almost 11 new measures per month. This is down from 15 restrictive measures per month, and marks the lowest monthly average since 2008.

Trade-restrictive measures include:
- the introduction of new import or export tariffs, increases in existing import or export tariffs
- the introduction of import bans or quantitative restrictions

Facilitative measures at 11 per month
During the same period, WTO members introduced 80 measures aimed at facilitating trade, amounting to just over 11 new measures per month. This is the second lowest monthly average since trade monitoring began in 2008.

Examples of trade facilitating measures include:
- the elimination or reduction of import or export tariffs
- the simplification of customs procedures
- the temporary or permanent elimination of import or export taxes
- the elimination of quantitative restrictions on imports or exports

Free Trade Agreements and trade policy: key points from the past year
Free Trade Agreements
There has been some significant progress in Free Trade Agreements over the past 12 months, but also worrying signs of growing protectionist sentiments. President Donald Trump has removed the United States from the Trans-Pacific Partnership (TPP), and called into question the benefits of the North American Free Trade Agreement (NAFTA).

In positive news the European Union recently signed a Free Trade Agreement with Canada, and has concluded free trade negotiations with Japan. There has been little progress on the Transatlantic Trade and Investment Partnership (TTIP).
Trade preferences: success for Sri Lanka and the UK
A notable success for Sri Lankan shippers was the decision by them to reinstate the GSP Plus trade preference facility. This provides the opportunity for 66 per cent of the total EU tariff lines/products to enter into the EU on a duty free basis, and puts Sri Lankan exports on a level playing field with other countries such as Bangladesh and Pakistan, and several countries from Africa and South America.

Another positive note for shippers came from the United Kingdom, which has committed to using the ‘everything but arms’ trade preference policy with least developed economies after it exits the European Union. The UK Government will also explore options for trade preferences with developing countries which currently benefit from a mixture of reduced or zero tariffs, in addition to maintaining existing trading arrangements and avoiding costly tariffs.

Brexit: implications for shippers
One of the most important issues for British shippers and their trading partners around the world was the decision taken by the British people in the referendum of June 2017 to leave the European Union.

Brexit: positives and negatives for shippers
British shippers have concerns about the implications of Brexit for trade between the UK and the EU, and have been calling for a transition arrangement after the formal date of Brexit in March 2019, to allow time for customs, trade and businesses to adapt to new trading arrangements.

In the long term British shippers want to see a comprehensive Free Trade Agreement with the EU, and the most ‘frictionless’ trade arrangements possible.

On the more positive side, British shippers can see benefits that could arise from the ability for the UK to negotiate trade agreements with trading partners outside of the EU, and are looking to Global Shippers’ Forum partners to learn how shippers across the world have engaged with trade policy and supported their governments in developing trade relationships with partners.

Keep Britain Trading Conference: GSF on centre stage
The UK Freight Transport Association worked in partnership with the Global Shippers’ Forum on a major conference in March 2017, featuring over 300 delegates, with speakers from across the UK and international supply chains.
Speakers included one of the key ministers responsible for Brexit negotiation, the Rt Hon David Jones MP, and Mr Yagamaram Soobramanien, Head of Trade Policy, Commonwealth Secretariat.

GSF member associations took centre stage at the conference.

- Sean Van Dort, Chairman, Sri Lankan Shippers Council
- Bob Ballantyne, President, Freight Management Association of Canada
- Travis Brooks-Garrett, Secretariat, Australian Peak Shippers’ Association; and Partner, Freight & Trade Alliance

All three speakers gave practical examples of how trade between Britain and their countries provides mutual benefits, and how shippers have become involved as key partners to improve trade policy and facilitation.

The Chairman of Sri Lanka’s Shippers’ Council, Michael Joseph Sean Van Dort, said the UK represented a $1bn market for the island, with 10 per cent of its exports bound for the UK.

Mr Travis Brooks-Garrett argued that the UK should be able to speed up trade negotiations by removing the need to harmonise agreements with 27 other members. The EU has spent 10 years negotiating with China and still does not have a deal in place. After 13 months, Australia had reached and signed an agreement with the Chinese.

Mr Ballantyne focused on the benefits of the new CETA (Comprehensive Economic and Trade Agreement) agreement, which will gradually abolish 99 per cent of customs duties, liberalise access for companies to bid in each other’s markets, and among many other measures establishes a joint customs committee to resolve disputes.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ACC3</td>
<td>Air cargo or mail carrier operating into the EU from a third country airport</td>
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<tr>
<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
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<td>ACCF</td>
<td>Air Cargo Carbon Footprint</td>
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<tr>
<td>AEI</td>
<td>Advanced Electronic Information</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation (forum of 21 countries)</td>
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<tr>
<td>APSA</td>
<td>Australian Peak Shippers’ Association</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BEO</td>
<td>Block Exemption Order</td>
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<tr>
<td>BIMCO</td>
<td>Baltic and International Maritime Council</td>
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<td>BSC</td>
<td>British Shippers’ Council</td>
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<tr>
<td>CAA</td>
<td>Civil Aviation Authority (UK)</td>
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<tr>
<td>CETA</td>
<td>Comprehensive Economic and Trade Agreement</td>
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<tr>
<td>CCWG</td>
<td>Clean Cargo Working Group</td>
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<td>CISG</td>
<td>UN Convention on Contracts for the International Sale of Goods</td>
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<tr>
<td>CLECAT</td>
<td>The European association for forwarding, transport, logistics and customs services</td>
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<td>CO₂</td>
<td>Carbon dioxide</td>
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<tr>
<td>COA</td>
<td>Container Owners’ Association</td>
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<td>CSG</td>
<td>Consultative Shipping Group</td>
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<td>CSI</td>
<td>Clean Shipping Index</td>
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<td>ECA</td>
<td>Emission Control Area</td>
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<tr>
<td>EEDI</td>
<td>Energy Efficiency Design Index</td>
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<tr>
<td>ESC</td>
<td>European Shippers’ Council</td>
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<td>ETS</td>
<td>Emissions Trading Scheme (EU)</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FIATA</td>
<td>International Federation of Freight Forwarders Associations</td>
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<td>FMA</td>
<td>Freight Management Association of Canada</td>
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<tr>
<td>FMC</td>
<td>Federal Maritime Commission (USA)</td>
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<td>FTA</td>
<td>Freight Transport Association (UK)</td>
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<tr>
<td>GACAG</td>
<td>Global Air Cargo Advisory Group</td>
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<tr>
<td>GCF</td>
<td>Green Climate Fund</td>
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<td>GHG</td>
<td>GreenHouse Gas</td>
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<tr>
<td>GLEC</td>
<td>Global Logistics Emissions Council</td>
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<tr>
<td>GRI</td>
<td>General Rate Increase</td>
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<td>GSA</td>
<td>Ghana Shippers’ Authority</td>
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<td>GSF</td>
<td>Global Shippers’ Forum</td>
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<tr>
<td>HKCC</td>
<td>Hong Kong Competition Commission</td>
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<td>HKLSA</td>
<td>Hong Kong Liner Shipping Association</td>
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<td>HKSC</td>
<td>Hong Kong Shippers’ Council</td>
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<tr>
<td>IATA</td>
<td>International Air Transport Association</td>
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<td>ICAO</td>
<td>International Civil Aviation Organization</td>
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<tr>
<td>ICC</td>
<td>International Chamber of Commerce</td>
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<tr>
<td>ICHCA</td>
<td>International Cargo Handling Co-ordination Association</td>
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<td>ICS</td>
<td>International Chamber of Shipping</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMO</td>
<td>International Maritime Organization</td>
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<tr>
<td>IMO MSC</td>
<td>International Maritime Organization Maritime Safety Committee</td>
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<td>ITF</td>
<td>International Transport Workers’ Federation</td>
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<td>JFTC</td>
<td>Japan Fair Trade Commission</td>
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<td>MBM</td>
<td>Market-Based Measure</td>
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<td>MEPC</td>
<td>Marine Environment Protection Committee</td>
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<tr>
<td>MOFCOM</td>
<td>Ministry of Commerce, People’s Republic of China</td>
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<tr>
<td>MOU</td>
<td>Memorandum Of Understanding</td>
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<tr>
<td>MRV</td>
<td>Measurement Reporting and Verification</td>
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<td>NITL</td>
<td>National Industrial Transportation League (USA)</td>
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<tr>
<td>NVOCC</td>
<td>Non-Vessel Operating Common Carrier</td>
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<tr>
<td>NZSC</td>
<td>New Zealand Shippers’ Council</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>SOLAS</td>
<td>Safety Of Life At Sea</td>
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<tr>
<td>SSI</td>
<td>Sustainable Shipping Initiative</td>
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<td>TEU</td>
<td>Twenty-foot Equivalent Unit</td>
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<td>TIACA</td>
<td>The International Air Cargo Association</td>
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<tr>
<td>TSA</td>
<td>Transportation Security Administration</td>
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<tr>
<td>UASC</td>
<td>Union of African Shippers’ Councils</td>
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<tr>
<td>UCC</td>
<td>(European) Union Customs Code</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCC</td>
<td>UN Climate Change Conference</td>
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<td>UNCTAD</td>
<td>UN Committee for Trade and Development</td>
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<tr>
<td>UNECE</td>
<td>UN Economic Commission for Europe</td>
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<tr>
<td>UNFCCC</td>
<td>UN Framework Conference on Climate Change</td>
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<tr>
<td>VGM</td>
<td>Verified Gross Mass</td>
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<td>VDA</td>
<td>Vessel Discuss Agreements</td>
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<td>VSA</td>
<td>Vessel Sharing Agreement</td>
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<td>WCO</td>
<td>World Customs Organization</td>
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<td>WSC</td>
<td>World Shipping Council</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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The Global Shippers’ Forum (GSF) is the international non-governmental trade association representing the interests of shippers as users of international freight services on regulatory, operational, and trade issues concerned with all aspects of the global supply chain covering all modes of transport.

The membership of the GSF comprises regional and national shippers’ associations from over 20 countries from the world’s main trading regions, covering the majority of goods shipped by sea, air, road and rail.

GSF mission

The goal of the GSF is to promote policies that reflect competitive and efficient global freight transport and logistics systems, including the promotion of safe, secure and environmentally sustainable international transport operations through dialogue and cooperation with national governments and inter-governmental organisations.

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