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In response to agricultural shippers, who rely on good market information and assistance, USDA created this semiannual report as an update on the ocean container market's cost and service trends. The report is the result of input from large and small agricultural shippers, including shippers' associations, controlling over 150,000 40-foot equivalent units, split nearly evenly between dry and temperature-controlled (refrigerated and frozen). Input was also received from vessel and non-vessel operating ocean carriers, as well as freight forwarders, in key U.S. agriculture import and export trade routes. Although it is not a statistical sampling of the population of agricultural exporters, every attempt has been made to contact a broad range of shippers.

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Agricultural Ocean Transportation Trends February 2001

The Bottom Line: *As reported in the Agricultural Ocean Transportation Trends report issued 6 months ago, there was nervousness among agricultural importers and exporters that “things are about to get tougher.” Rates were expected to go up, and equipment shortages were looming. That has, in fact, turned out to be true-- agricultural exporters and importers report that they are paying more now than they did 6 months ago. But it also appears that this is about to change. A combination of factors will cause rates to fall over the next 6-12 months.*

Overview

Service Contract Trends: Nearly 2 years since passage of the Ocean Shipping Reform Act (OSRA), most agricultural shippers are shipping under contract. Those who do ship under the tariff, do so only occasionally for spot shipments or only for infrequently used destinations.

Documentation: A recurring issue with documentation is the frequent failure of the carrier to provide the shipper or the foreign consignee with the bill of lading in a timely and accurate manner; this is only exacerbated by the new bill of lading surcharge shippers must pay.

Equipment Availability Trends: While capacity is increasing and demand is diminishing overall, demand for particular types of equipment continues to outstrip supply.

Rate Trends: Overall rates are expected to begin to decrease as carriers take delivery of additional capacity and as the U.S. economy weakens.

Confidentiality Trends: While a majority of shippers believe their contract terms are not truly confidential, they also appear to be unaware of the rates that competitors are paying.

Appendix I: Increases in Containerized Shipping

Appendix II: The Cost of Exporting Agricultural Products to Asia

Appendix III: Comparison of World Oil Prices and Bunker Surcharges

Summary

Ocean transportation is cyclical and shifts back and forth between periods of lower rates (more vessel space than cargo to fill it) and higher rates (cargo volume closely matches vessel space). This cycle is particularly evident right now. Demand for vessel space and supply of available containers is changing and may continue to change quite dramatically over the coming year.

One key factor contributing to this cycle is vessel supply. During 2001 and accelerating into 2002, additional containerized vessel capacity will be entering the trade lanes. Port authorities are moving aggressively to deepen their channels in order to remain competitive as load centers for the next generation of containerized vessels. However, the next generation of vessels is imminent. Most major steamship lines are taking delivery during 2001 and 2002 of significantly larger vessels, with deeper drafts, requiring deeper navigation channels, and carrying substantially more cargo on each voyage.

At the same time, a number of sometimes conflicting factors will determine demand for container space over the next 6-12 months. On one hand, the dollar is still high but declining in value relative to other world currencies. This makes U.S. agricultural exports more competitive in the global marketplace. On the other hand, a slowing global economy could reduce demand for U.S. agricultural products. Other factors, including harvest volumes in the United States versus competitive foreign sources, will determine the demand for container space by U.S. agricultural exporters. For example, U.S. cotton exports during December 2000 and January 2001 are substantially below their normal levels, due to large cotton harvests in Australia, supplanting U.S. cotton purchases by the Asian textile factories.

As the U.S. economy cools and consumer spending drops, the demand for container space to serve U.S. consumer imports also has dropped. Thus, container space for inbound cargo is increasing, and transport costs are dropping to the benefit of U.S. agricultural imports.

A Closer Look

See Appendix I: Increases in containerized shipping U.S. exports of lentils, bulk versus container, by weight (1992-2000)

Another factor is the continuing trend of U.S. agriculture to shift from bulk and break bulk shipping format to containerized movements. This shift has been dramatic, particularly for commodities such as lentils. The migration of heretofore bulk and break

bulk cargo to containerized modes will result in new demand for container space, even if other, traditionally containerized commodities (such as cotton) are shipped in smaller volumes this year.

On the supply side, in addition to the delivery of new containerized vessel capacity, are two other factors: first, continuing consolidation of the liner industry and, second, the continuing, even growing role of the ocean carrier talking agreements.

Under the terms of the talking agreements, the member carriers agree on terms such as surcharges. However, they are free to determine for themselves whether to apply terms in the transportation contracts they individually negotiate with shippers. During the latter half of 2000, the number of new surcharges agreed upon by the carriers through the talking agreements increased. These surcharges were imposed on cargo moving under tariff as well as cargo moving under contract. Most contracts will allow for general rate increases and imposition of new surcharges, plus some increases in other surcharges identified in the contract.

A Closer Look:

Have you been asked to pay any of the following surcharges?

Chassis Usage Fee:	78%
Fuel Surcharge:	100%
Panama Canal Surcharge:	49%
Bill of Lading Surcharge:	70%
Shipper Export Documentation (SED) Processing Fee:	18%
Currency Adjustment Factor:	74%

Forecasting into 2001, as capacity increases and demand decreases, it can be expected that individual carriers will be less insistent upon including these surcharges in contracts.

Service Contract Trends

Since the enactment of the Shipping Act of 1984, cargo has increasingly shifted from tariff rate movements to negotiated contracts. The Ocean Shipping Reform Act of 1998 (OSRA) provided further incentives for carriers and shippers to ship under contract, rather than under published rates. OSRA provided the additional incentive by allowing carrier and shipper, if they choose, to maintain the contract rate as confidential. Nearly 2 years since passage of OSRA, most agricultural shippers are shipping under contract. Approximately 75 percent of shippers never ship under the published tariff and always ship under negotiated contracts. The approximately 25 percent of agricultural importers and exporters who do ship under the tariff do so only occasionally for spot shipments or only for infrequently used destinations.

The trends relating to contract rates are addressed below under the heading, "Rate Trends."

A Closer Look:

Has a carrier refused to offer a service contract for a small amount of cargo?

No: 90% Yes: 10%

Contracts continue to cover virtually any amount of cargo, no matter how small. Rarely are carriers refusing to offer a service contract for even a small amount of cargo. However, while carriers and shippers are comfortable with contracting, the ability to negotiate tailored terms continues to be limited. Since 1984, ocean transportation contracts essentially traded volume

for rates. They have been largely volume discount agreements. The service terms have tended to be identical regardless of the volumes. Since OSRA allowed for confidentiality of rates and service terms, many expected that there would be increasing differentiation of contract terms, as shippers and carriers negotiated

tailored service provisions. This has not occurred as quickly as many agricultural shippers had hoped.

Generally, delivery date guarantees are included. And, in recent months, some contracts have begun to include certain rate reductions for failure to deliver on a timely basis in instances in which the carrier has been willing (by its option) to provide a delivery date guarantee.

Similarly, Force Majeure clauses are beginning to be subject to modest negotiations. One objective has been to include reduction of the minimum quantity commitment (MQC) obligation of the shipper in case of crop failure or harvest disruption. Other modifications of the once-rigid Force Majeure clause are appearing, not frequently but often enough to suggest an emerging trend.

Overwhelmingly, carriers continue to be willing to amend the contract in case of a shortfall (the inability of the shipper to deliver the contractually committed number of containers before the expiration date of the contract). Typically, the amendment is in the form of an extension of the contract to allow the shipper additional time to meet the MQC. Carriers rarely seek to collect from shippers liquidated damages for failure to meet the MQC. This has been a constant since the Federal Maritime Commission (FMC) changed its service contract regulations in 1992 to allow contracts to be amended.

On the other hand, a trend which has been gaining strength over the past year is inclusion in the contract of a provision which clarifies that a carrier is under no obligation to continue to carry cargo under the terms of the contract if the MQC has not been met. In fact, this only serves to emphasize what has been the carrier's right since service contracts were first authorized in 1984. Since that time, carriers have customarily allowed shippers to ship

volumes significantly above the committed amount until the contract expiration date. Two years ago, as rates were rising, carriers began informing shippers that they would no longer accept cargo under the contract terms after the MQC was met. This caught many shippers by surprise and forced them to negotiate new contract terms at prevailing higher rates. In 2001, consistent with the projection of overall declining rates, carriers are expected to refrain from enforcing their right to discontinue carriage under contract terms once the MQC has been met. On the other hand, shippers will likely choose to inform carriers that the MQC has been met in order to negotiate new contracts which reflect prevailing declining freight rates.

As stated in the previous report, reflecting increasing container demand and rising rates over the past year, carriers have successfully imposed new surcharges. While in the form of charges for specific services, these generally reflected market forces which were allowing carriers to increase the price charged for transportation services. Thus, under the umbrella of the talking agreements, carriers agreed to

A Closer Look:

Were you able to obtain service items requested?

A total 61 percent of shippers said they were able to obtain most of the key service contract provisions they sought; the remainder of those surveyed (39 percent) were able to obtain some of the key provisions they sought.

impose bill of lading fees, fees to supply a chassis, additional fuel charges, and Suez and Panama Canal charges. These charges were for services previously provided by the carrier under the negotiated freight contract rate. The ability to charge separately for these services is a reflection of the strength of the market over the past 6 months. As capacity increases and demand decreases during 2001, it can be expected that shippers will resist paying additional charges, and carriers will respond by retracting them.

It is often asked how these additional charges can be imposed on cargo moving under a negotiated contract rates. The answer is that most contracts include language which subjects the contract to the carrier's governing tariff. Any change in the governing tariff is applied to the contract. In this manner, should the carrier amend the governing tariff through the imposition of an additional surcharge, that surcharge is then applied to the contract rates. In some instances, the governing tariff is amended by the carrier without notice to the shipper and, at times, without the knowledge of the local steamship lines salesperson, who is often the contact person for the shipper. Thus, during the latter half of 2000, some agricultural exporters and importers were surprised by substantial additional freight charges imposed in the governing tariff. As shipper negotiating leverage increases due to weaker demand and increased capacity, carriers are beginning to agree to either make the rates "all inclusive" (all-in) or subject to a limited number of specific surcharges identified in the contract itself. In some instances, carriers may agree to provide the contract shipper with 30 days' notice of any amendments to the governing tariff.

Confidentiality

Even 2 years since enactment of OSRA, many shippers and carriers mistakenly believe that transportation rates in the contracts are required to be "confidential." In fact, this reflects a fundamental misunderstanding of OSRA. In no instance does OSRA mandate that ocean transportation contract terms be confidential. OSRA only eliminated the longstanding statutory requirement that the contract freight rates be filed at the FMC or published by the carrier. This, in turn, provided the carrier and the shipper with the "option," to keep the contract rates confidential. Many contracts include confidentiality clauses, although, thus far, it does not appear that these clauses have ever been enforced by either party to the contract. Such clauses would be enforced in a court of law and not through the FMC.

There is a high level of skepticism among shippers as to whether the rates they negotiate are, in fact, being kept confidential. Many feel that they are aware of freight rates paid by competitors. On the other hand, it appears that the carriers and shippers are becoming more comfortable with the concept that they not only do not know what their competitors are paying but, more interestingly, that they do not need to know. Surveys suggest that the trend toward confidence in the confidentiality of the terms of the contract is increasing. While a majority of shippers believe their contract terms are not truly confidential, the majority also appear to be unaware of the rates that competitors are paying.

Another emerging trend is the willingness of carriers to negotiate contracts on schedules that suit the specific needs of shippers. In the beginning of 2000, ocean transport contracts still tended to be negotiated on a uniform schedule. Virtually all contracts for all commodities were negotiated for a term which would begin May 1, for example, and continue until May the following year. Today, carriers appear increasingly willing to depart from the traditional schedule to select contract-effective dates which more closely match the specific needs of the agricultural importer and exporter. These effective dates largely reflect the different harvest, processing, and shipment seasons of the various agricultural commodities. However, while the diversity of the effective dates is rapidly increasing, the willingness of the shipper or the carrier to depart from the 1-year term is only gradually emerging.

Perhaps reflecting the consolidation of the ocean carrier industry into fewer steamship lines but with more capacity and service options, the number of contracts signed with groups or consortia of ocean carriers is minimal. Prior to OSRA, many contracts were signed with the conferences. This meant that the parties to the contract included the shipper and several ocean carriers. While such contracts continue to be allowed under the law and FMC regulation, today very few contracts are signed by the shipper with more than one carrier. Instead, shippers are signing individual contracts with individual carriers.

Documentation

A major concern, which has emerged over the past year and continues to present difficulties for agricultural shippers, relates to documentation. The problem is the relatively frequent failure of the carrier to provide the shipper or the foreign consignee with the bill of lading in a timely and accurate manner. In certain cases the letters of credit have expired prior to the ability of the shipper consignee to obtain from the carrier an accurate bill of lading. The result is a lost sale or one which must be renegotiated, often at less desirable terms for the shipper. It appears that this difficulty, which emerged in 2000, hasn't been resolved and may be getting worse. It may reflect the continuing ocean carrier consolidation, as well as cost-cutting initiatives such as centralization of documentation services. It does appear that the carriers are aware of this problem, although agricultural shippers continue to rate this difficulty as one of their more serious challenges. Exacerbating the situation was the emergence during 2000 of a bill of lading or documentation surcharge--an additional charge for the bill of lading, which traditionally has been included in the basic freight rate.

A Closer Look:

Are the ocean carriers providing the bill of lading in a timely manner?

No: 100% Yes: 0%

If no, is this getting better or worse?

Worse: 78%

No change: 22%

Equipment Availability

While capacity is increasing and demand is diminishing overall, demand for particular types of equipment continues to outstrip supply. Specifically, rates for temperature/humidity-controlled containers continue to reflect high demand. This new technology continues to enter the market but not at a sufficient rate to satisfy

demand. The two carriers that were the leaders in introducing temperature/humidity-controlled capacity (Maersk and Sealand) have merged. It is unclear whether the rate of introduction of additional temperature/humidity-controlled containers into the trade will slow as a result.

In certain trade lanes, the shortage of adequate temperature-controlled capacity is sufficient to limit U.S. agricultural export penetration in various foreign countries. This is most apparent with regard to delivery of U.S. fresh fruit and vegetables to the Southern Hemisphere (to take advantage of reverse seasons). It is not expected that this shortage of humidity-controlled service will be sufficiently alleviated by the increasing vessel capacity coming online in 2001 and 2002. The larger ships and additional humidity-controlled containers coming into service will be employed in the East-West trades, not necessary in the North-South trades.

The one-way nature of the trade reduced the incentive of the carriers to provide the desired additional refrigerated container, or "reefer," capacity in the North-South trades. Temperature/humidity-controlled equipment is expensive to manufacture and operate, and its deployment in a trade where the opportunity for revenue on the return voyage is limited to nonexistent provides little incentive for the carriers to make such an investment.

Rate Trends

In June 2000, it was reported that rates had hit bottom and would be increasing. That has, in fact, proven to be the case in virtually all trade lanes. The result is increased tariff rates (under which very few shipments actually move) and contract rates. Carriers were able to further increase revenues through imposition of surcharges on tariff and contract shipments. The surcharges were imposed for services previously included in the underlying freight rate.

Rate increases often depended upon the equipment and the trade lane. Agricultural exports, utilizing the main outbound trade lanes to Asia, Europe, and the Mediterranean, experienced some decline in costs. Rates for specialized (reefer) equipment in those trade lanes held steady. Rates for both dry and reefer container space for both exports and imports between the United States and Latin America increased, in some cases dramatically. Rates for the much desired temperature/humidity-controlled equipment continued to increase, as did shipper concern over the shortage of equipment.

In the previous report, surcharges were treated separately from freight rates. However, surcharges are simply a component of the total freight charges. In the trade lanes where shipper demand remains strongest, the carrier has the ability to increase revenues, whether by tariff rate, contract rate, or any additional charges such as surcharges. However, overall rates are expected to begin to decrease as carriers take delivery of additional capacity (a trend which will accelerate into 2002) and as the U.S. economy weakens.

There is one exception to this rule, fuel. This is one surcharge which shippers have come to expect and for which resistance is significantly less than has been the case

with other surcharges. Increasingly, contracts include a fuel or bunker adjustment factor (FAF or BAF), which is tied into the Clarkston Index. Even fixed-rate contracts continue to be subject to a fluctuating FAF. Most contracts continue to include a currency adjustment factor. Many include the bill of lading surcharge, although many carriers are willing to drop this. The chassis surcharge is one which the shippers appear to be resisting most successfully, and, increasingly, carriers are exempting contract shippers from the chassis usage fee. In fact, despite the collective agreement by talking agreement member carriers to charge various surcharges, the majority of carriers appear to be acting independently and are willing to forego certain surcharges for contract shippers.

A Closer Look:

See Appendix II: Comparison of world oil prices and bunker surcharges (for the Transpacific trade lane) (1995-2000)

A factor which may help maintain demand for export container space is the diminishing value of the dollar relative to other currencies, which is making U.S. agricultural exports more

competitive abroad. This, combined with the weakening U.S. consumer market forecast for 2001, will result in East-West trade lanes coming more into balance. In other words, the demand for import cargo space is diminishing, while demand for export space is holding steady.

While demand and capacity can be empirically measured, there is another, more subjective factor which has an enormous impact on rates: carrier competition to garner market share. At times when rates are declining, carriers must consider whether the revenue gained from handling a loaded container covers the carrier's cost to move it. As rates decline, it is possible that the revenue generated does not compensate the carrier for the additional costs of handling a loaded (as opposed to an empty) container. Often the carrier will continue to market and carry cargo at such low rates in order to maintain market share and to maintain a relationship with customers whose revenue is appreciated when rates cycle upward. As a carrier seeks to maintain market share, it may price below variable cost for that particular leg. On one hand, agricultural shippers are pleased with the lower rates which make their product more competitive in the foreign marketplace. On the other hand, agricultural shippers are cognizant that pricing below variable cost can only continue so long as the revenues gained by the carriers on the return (inbound, import) trade are sufficient to cover all costs. In the current market, it appears that some carriers are offering dry containers for westbound movement at, or possibly even below, variable cost. This coincides, however, with continuing demand for eastbound (import) container space, which allows the carrier to justify the "roundtrip."

Contracts being negotiated in early 2001, for trades in which container capacity is expected to grow most dramatically, are already reflecting the anticipated lower rates. Further into 2001, as shippers and carriers negotiate contracts which will extend well into or even through 2002, rates--both inbound and outbound--in the major East-West trade lanes can be expected to drop further. This reflects the delivery of large new ships into service during 2001 and 2002.

In sum, both objective factors (supply and demand) and subjective factors (carrier's desire to maintain customer relations, competition among carriers for market share, and attempts to "forecast" future supply and demand) are reflected in the rates and terms of currently negotiated contracts.

More about rate trends:

See Appendix III

Ocean freight rate trends for raw cotton and fresh apples shipped to selected markets in Asia from the U.S. West Coast

Conclusion

The first 6 months of 2001 will constitute another transition period in the cyclical ocean transportation environment. With the exception of certain trade lanes, demand and rates increased relative to carrier capacity during 2000. However, during 2001, carrier capacity will begin to increase, demand for export space will hold steady, and demand for import cargo space will diminish. Dramatic increases in carrier capacity will occur late in 2001 and then again in 2002. At the same time, a slower economy will keep shipper demand for container space weak. The result will be dramatically reduced rates, beginning with elimination of surcharges and the return to "all-in contracts" (with the exception of the reasonable fuel adjustment factor).

However, increased carrier capacity will not be evident for all types of equipment, particularly for temperature/humidity-controlled containers for which demand will continue to be high and availability low, translating into relatively higher reefer rates. Also, it is unclear whether the increased capacity in the major highest volume East-West trade lanes will carry into the lower but growing volume North-South trade lanes, where U.S. agricultural exporters continue to be locked out of the market due to lack of carrier capacity and historically high transportation rates.

Appendix I: Increases in Containerized Shipping

Due to decreased costs and lower rates, customer demand, and increasingly cost-efficient processes, the use of containers for seaborne cargo has seen a steady increase since its introduction in the mid-1960s. Agricultural exports have seen a similar trend. Based on weight, in 1992, 9 percent of all U.S. agricultural exports moved in containers; in 1998, the number increased to 13 percent. (Source: PIERS (Port Import Export Reporting Service), *Journal of Commerce*, New York, NY, 1992 through 1998)

As mentioned previously, lentils are a common example of a commodity that has noticed a progression toward container from bagged and bulk movement. Figure I-1 demonstrates this trend using total U.S. lentil exports from January 1992 through October of 2000. In 1992, the amount of lentils moved was split nearly evenly between bulk and containerized shipping but, by 1998, the amount of containerized movements had increased to nearly 80 percent of all U.S. exports of lentils. Lentil shippers, as well as shippers of other commodities, have found the bulk system of transportation unable to meet the demands of suppliers and customers. Whether due to a slow process, too much commingling, or too small quantities, the bulk system is inadequately or inefficiently transporting such products.

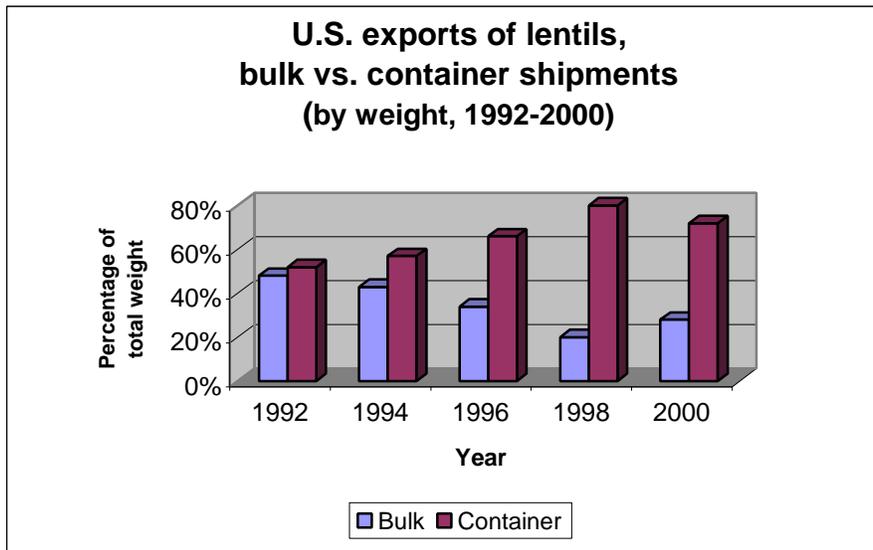


Figure I-1: U.S. exports of lentils, bulk vs. container shipments (by weight, 1992-2000) (2000 represents shipments for January–October only) Source: PIERS (Port Import Export Reporting Service), New York, NY, 1992-2000

Appendix II: Comparison of World Oil Prices and Bunker Surcharges

The year 2000 saw incredible increases in bunker surcharges as the price of fuel increased, sparking protests, strikes, and boycotts around the world. As mentioned in appendix I, these surcharge increases are reflected in the average rates paid by U.S. exporters and shippers this past year. Figure II-1 shows the typical bunker fuel surcharge set by the carriers in the transpacific trade lane from 1995 through 2000 compared to the world oil prices for the same period. After declining for nearly 2 years (1998 to the beginning of 2000), the bunker fuel surcharge jumped from \$2.00 to \$8.00 per metric ton shipped in just one quarter. As fuel costs have begun to decrease, the surcharge charged by shipping lines has remained steady throughout the latter half of 2000.

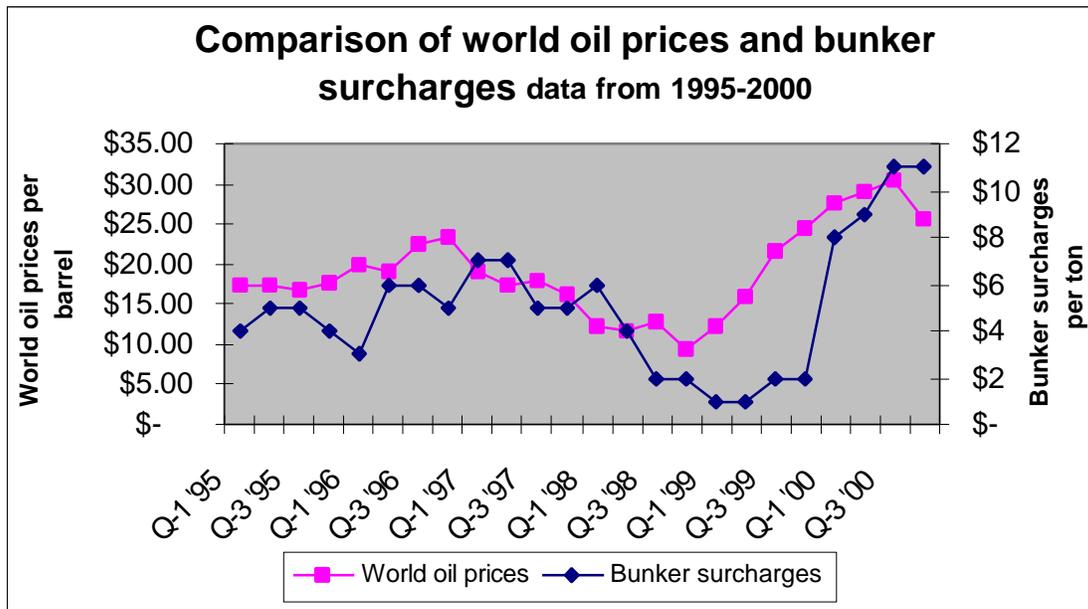


Figure II- 1: Comparison of world oil prices and bunker surcharges (for the transpacific trade lane, 1995-2000)

Source: *Ocean Freight Rate Bulletin*, USDA, Washington, DC, 1995-2000 and the Energy Information Administration, Department of Energy, <http://www.eia.doe.gov/emeu/cabs/chron.htm>

Appendix III: The Cost of Exporting Agricultural Products to Asia

USDA has been tracking ocean container rates to Asia since 1994 using tariffs filed with the Federal Maritime Commission and, since May 1999, by the carriers electronically. Apple and cotton rates have been selected to act as indicators of refrigerated and dry container rates, respectively, due to the amount of cargoes shipped each year and the number of Asian countries which receive both commodities. Rates (inclusive of surcharges) are weighted and averaged, according to each carrier's market share, by commodity and by country. The resulting rate is meant to reflect the cost the U.S. exporter pays, on average, to ship apples or cotton to a particular country. Figure III-1 shows the 1997-2000 freight rates for apples. As discussed in the previous report, rates for apples witnessed a decline after the Asian crisis, as exports of U.S. apples also fell. However, as the Asian economies began to recover at the beginning of 2000, ocean rates remained steady.

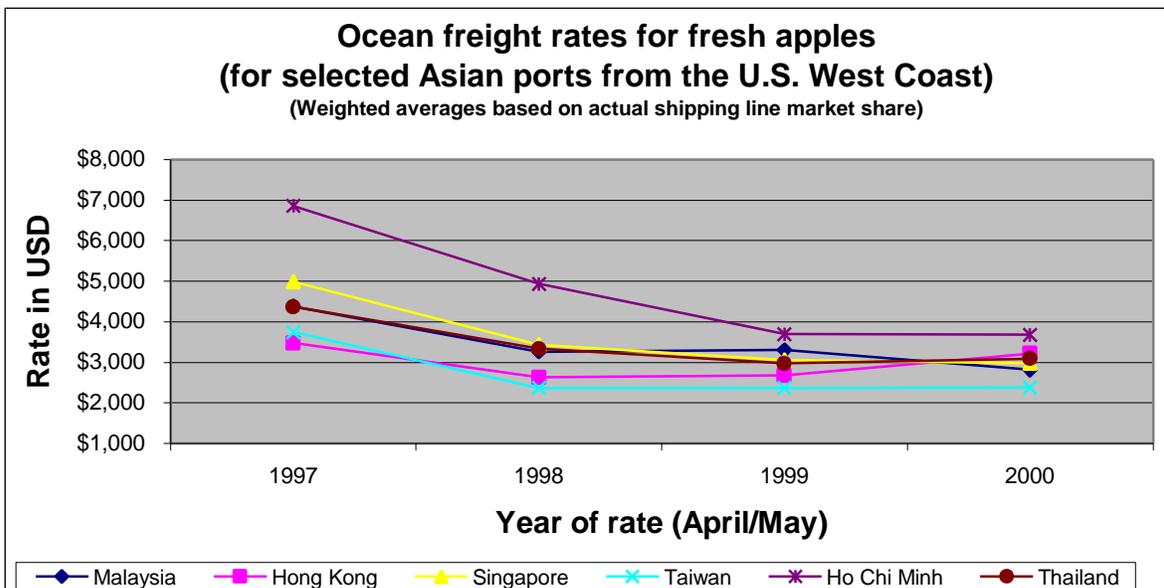


Figure III-1: Ocean freight rates for fresh apples, 1997-2000

In figure III-2 are the monthly weighted average rates for fresh apples to various markets in Asia from January 2000 through January 2001. The graph reflects the general rate increases implemented by the shipping lines in the westbound trade lanes in the beginning and middle of 2000. After suffering a slowdown due to the Asian economic crisis, refrigerated exports began to show growth in 2000; therefore, as demand for reefer slots on vessels increased, so did the rates. Although, some industry journals reported in 2000 increases up to \$1,200 or higher for refrigerated commodities, for apples to the destinations in the table below, actual rate increases ranged from \$200 to \$600, when they hit a peak in the third quarter of 2000.

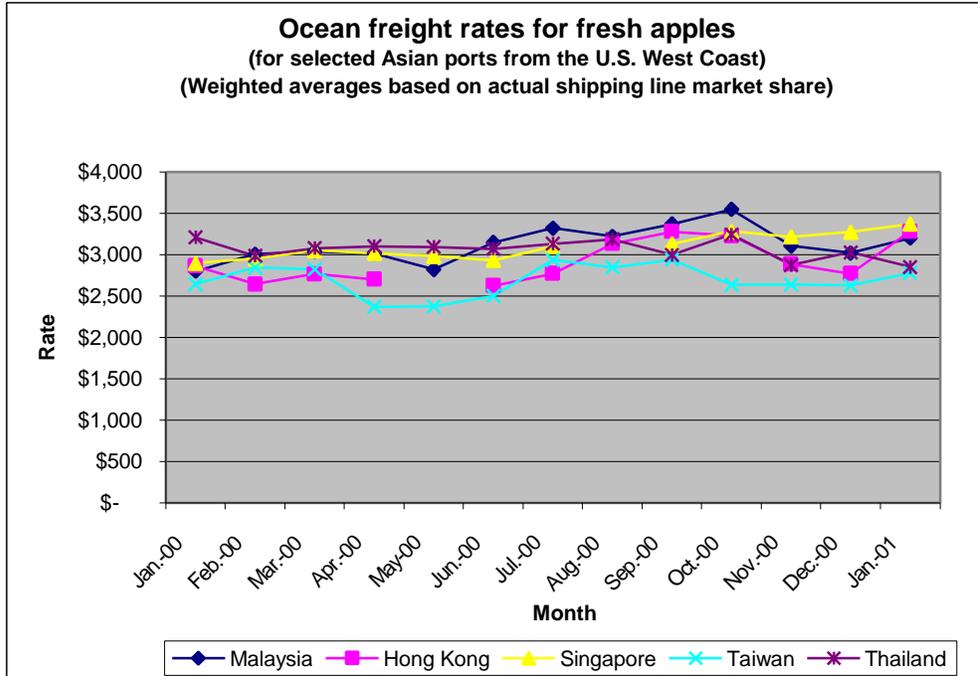


Figure III-2: Ocean freight rates for fresh apples, 2000

Rates for fresh apples to Malaysia, Hong Kong, and Singapore all show increases through the third quarter of 2000. Some of this is attributed to increased bunker surcharges (see appendix II), but this also is a result of the general rate increases reported by shipping lines throughout the year. However, apple export rates dropped slightly the fourth quarter for all the trade lanes and have again shown a slight increase thus far in 2001. As stated previously, since exports are expected to remain steady, so too should container rates remain steady throughout 2001.

Figure III-3 shows the average freight rates for raw cotton shipped to various markets in Asia from January 2000 to December 2000. After the Asian financial crisis hit and cotton exports fell, rates also fell steadily from 1997 through 1999. However, as the market for U.S. cotton exports grew stronger in 2000 than it had been in recent years, rates remained steady or increased throughout the year. See figure III-4. Rates to Vietnam showed especially significant increases throughout 2000 due to this increase in trade. In January, a 40-foot container was shipped at an average cost of \$1,550, but by November, the average rate had jumped to \$2,049. Thailand saw a similar jump, though not as steady, from \$1,657 in January to \$1,920 in November.

In July 2000, the Westbound Transpacific Stabilization Agreement announced proposed increases (80-100 percent) for cotton rates to Asia in December 2000. However, as mentioned previously, the U.S. cotton industry is experiencing an unusual amount of competition with Australian cotton exporters.

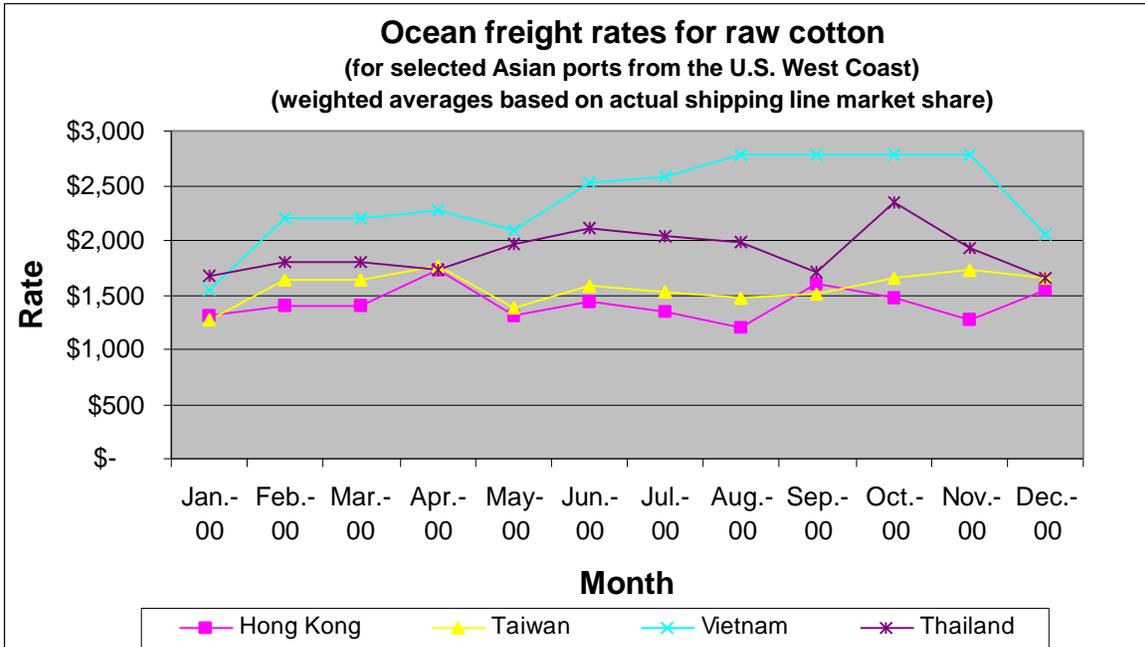


Figure III-3: Ocean freight rates for raw cotton, 2000

Therefore, since demand is not as expected, rates have not increased as projected. In fact, according to the weighted averages reported in the *Ocean Freight Rate Bulletin*, actual rates have fallen (from November to December) for cotton shipped to some of the markets represented in the figure. Vietnam's rate fell over \$700, Thailand's rate dropped \$300, and Taiwan's rate decreased about \$100.

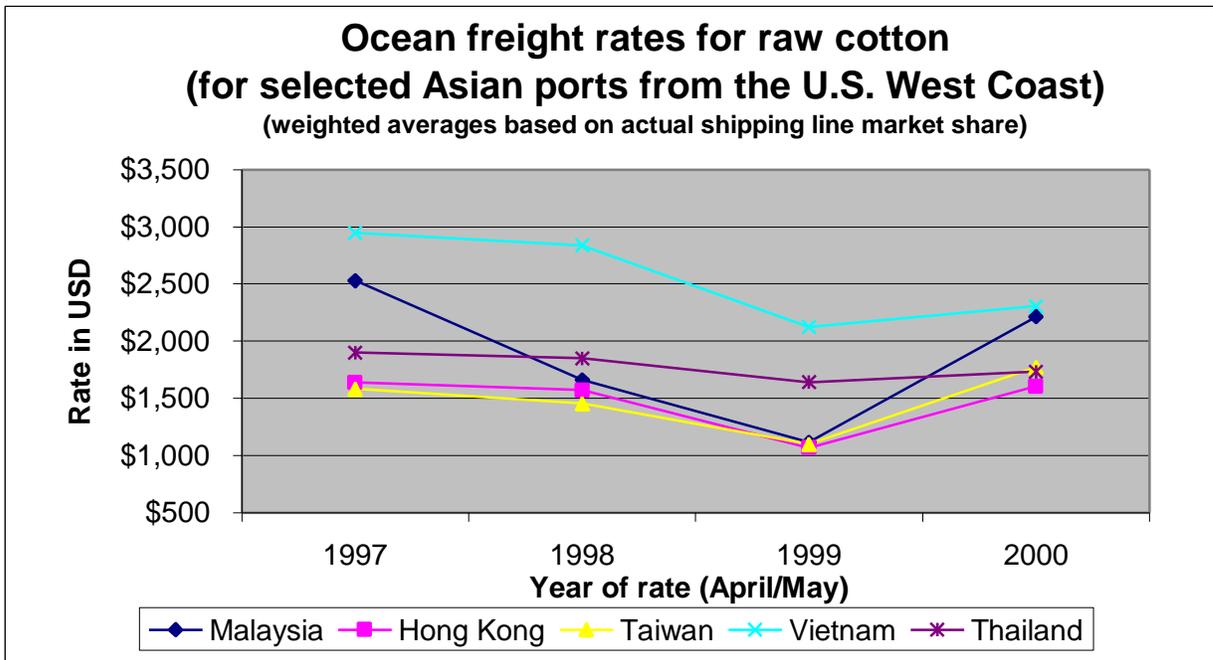


Figure III-4: Ocean freight rates for raw cotton, 2000