

TJOCARGO NEWS

SPECIAL 2008 FIRST EDITION



Lloyd's of Yesterday



Lloyd's Trading Floor



Lloyd's of Today

Lloyd's Going Paperless

What do skyscrapers, Betty Grables legs, Keith Richards' hands, and the cargo you shipped last week have in common? If you insure your cargo with TJOCARGO, the common thread may have been insurance coverage underwritten by Lloyd's insurance market in London. TJOCARGO uses resources on both sides of the Atlantic; Lloyd's being one, to obtain coverage for your cargo. I tend to take our relationship with the London market for granted; until one of my valued customers, a premier printing press dealer, Mr. Bob Wittmaekers, *Graphics USA, Inc of Ponte Vedra Beach Florida*, sent me an article from the Wall Street Journal. The article Bob sent me reminded me what a truly amazing organization Lloyd's is and where Lloyd's is heading.

For this article to hold together, I'm going to have to lay down a bit of groundwork by talking about the structure of Lloyd's of London. Many of us envision a very large and very stable insurance company steeped in tradition. Steeped in tradition yes, insurance company, not at all. Lloyd's is a large collection of insurance underwriting companies that "co-own" Lloyd's. For lack of a better description, think of an insurance flea market owned collectively by all of the vendors. Everyday thousands of brokers shop for insurance in the Lloyd's market on behalf of their customers. The brokers hustle among scores of underwriters who sit in groups, or "boxes" and write policies. What one insurance underwriter may reject, another may accept.

Historically, the deals between the brokers and underwriters were typically scribbled down in rough draft form as they played "let's make a deal". They worked in sort of a "cut the deal now, handle the details later" environment. Any of you who have ever insured "unusual" cargo through TJOCARGO may remember me coming back to you with questions to get the insurance completed for you. More often than not, these questions did not originate with me. Typically it was a Lloyd's syndicate underwriter asking a question of a London broker, who in turn asked me, which brought the question to you. The answer invariably would work its way back to the underwriter in reverse on the same track. Much of this back and forth, done with e-mails and slips of paper, has always been the way for the Lloyd's Syndicate. *(Continued on Page Two)*

Bad News can be Good News

It's hard not to pick up a paper or read an online article without hearing about fourth quarter losses in many industries. In our humble industry of transportation, losses, volume down turns, or flat revenues were reported by Old Dominion, Con-way, J.B. Hunt, refrigerated TL carrier Marten, and the rail, intermodal segment. There are some bright spots such as third party logistics (3PL) superstars like Landstar, CH Robinson, and Ryder, who all reported gains, but the asset based companies are not faring nearly as well.

One of the reasons the 3PL's are being less affected by the over all flat market than the asset based crowd, is asset based companies pain turns out to be the 3PL's profit. 3PL's appear to be taking advantage of asset based carrier's empty capacity, and resulting lower rates, in the attempt to fill that capacity. Keep this in mind the next time you are moving your freight. You too can capitalize on, just like the superstar 3PL's, the transportation fire sales happening in some segments. Look at your TL, LTL and intermodal provider and know they may be more willing then ever to get creative to earn your business. Now that you are getting better deals on your freight, remember, there is a flip side to most coins.

Publishers Note

The edition I'm sure you've all been waiting for is here, the TJOCARGO News first addition of 2008! This edition would have been a Christmas Edition, but the whole Hollywood writers strike thing took a toll on production.

My Father, being an old union man, just couldn't understand why I would want to write anything during a writer's strike. Fortunately I was able to explain to him that I wasn't a real writer and I only wrote for fun and to inform my customers. After recovering from the utter disappointment of realizing that his son did not write for a living, my Father reluctantly gave his blessing for me to write another newsletter.

Of course this edition, as well as past editions, is also available on line in our website "links" section. As always, if you would like to contribute to the effort, contact us by e-mail. As long as your contribution is related to the transportation industry in some, even loose way, not offensive, and not obvious advertising, we can throw it in. Of course we reserve judgment on what goes in. For instance, all mention of Brittany Spears and the New England Patriots are forbidden until further notice.

As the publishers, we get to make or break rules as we go along, so anything and everything can change without notice. If you wish not to receive this newsletter, let us know and we can remove you from the mailing list.

Enjoy,
Tom O'Malley
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Lloyd's Going Paperless

Lloyd's has known for quite some time the importance of updating their time-honored systems. The world famous group knew the traditions started many years ago in Edward Lloyd's 17th century coffee house, where the market started as a place for ship captains and merchants to trade coverage on wooden vessels and cargo, would not hold up much longer under the weight of the \$32 billion in premiums expected this year. Lloyd's decided to take action.

Enter Mr. Richard Ward. Mr. Ward is a physical chemist by trade, with no previous insurance experience, and former CEO of the International Petroleum Exchange. Ward is largely credited for bringing the International Petroleum Exchange out of a stone-age type of haggling and paper floor-trading system, to the modern electronic trading platform that is successfully used today. Ward is now making changes at Lloyd's and is just getting started. You can bet the changes will be slow, and sometimes painful, in coming. Habits that are three hundred years old take time and persistence to change. Ward, taking the project as a "one step at a time" challenge, is not taking "no" for an answer. In July of this year Ward sent a letter to insurers, Ward threatened to publish lists of people falling behind its targets and potentially limit the amount of coverage sold by those who keep relying on paper slips.

As of August of this year Lloyd's was up to 30% of its claims being processed electronically. Even with that progress, Lloyd's still produces more than four tons of paper every day that gets hauled off to a London suburb for storage. So with much improvement behind them, and much ahead, Ward knows Lloyd's is up to the task. In the article, Ward states he wants to maintain the historical charm of the process and the superb Lloyd's brand itself. The collection of businesses and entrepreneurs that make up Lloyd's is a priceless commodity.

Where will Lloyd's be in tens years? There will be a meaner, leaner Lloyd's coming to a town near you. They see business becoming more localized so there are plans to expand their presence globally. There are already Lloyd's underwriting structures in Singapore and China and the Middle East, South America, as well as India are being looked at. So it's not going to be business as usual at Lloyd's, it's going to be better.

Tom for President?

Every once and a while I think about the lengthy list of dumb things I have done in my lifetime and start to wonder about myself. Then I catch a story in the news of some dumb things other people do, and I wonder why I'm not President.

Our Neighbors

ADRIAN, Mich. - A man was charged with drunken driving after going through two bottles of wine, cutting through a snowstorm on his lawn mower and riding down the center of the street to reach a liquor store, authorities said.

Police found Frank Kozumplik, 49, homeward bound on a John Deere tractor Saturday night, toting four bottles of wine in a paper bag, officials said.

He told officers that his wife had taken their car to work, and that the mower was the only way he could reach the store, two miles from home.

His blood alcohol level was 2 1/2 times Michigan's legal driving limit of 0.08 percent, police told WLEN-FM. They arrested him and confiscated the mower. Kozumplik declined to comment Monday night.

From Down Under

MELBOURNE, Australia - Two Australian robbers thought they were hauling away a big sack of cash from the Cuckoo Restaurant, but it turned out to be bread rolls — and one of them accidentally shot the other in the buttocks during the heist.

Benjamin Jorgensen, 38, and his accomplice Donna Hayes, 36, were sentenced Tuesday after pleading guilty to robbing the restaurant in the southern Australian city of Melbourne on April 1 last year. During the April Fools Day holdup, Jorgensen grabbed what he believed was a bag with the Cuckoo's daily take of about U.S. \$26,000 in cash, but later found it was full of bread rolls, the Victorian County Court heard.

He also fired his gun accidentally during the heist, shooting Hayes in the buttocks.

Judge Roland Williams told the robbers they were a "pair of fools," before sentencing Hayes to eight years in prison and Jorgensen to seven. Earlier this week, defense lawyer Greg Thomas said Jorgensen had been under the influence of drugs at the time, had made a full admission to police and was remorseful, News Ltd. newspapers reported.

My Education in INCOTERMS

Two things happened recently to spark me into writing this piece. The first trigger was my good friends John and Cindy Ferguson of C&J Freight Services in Savannah, GA who suggested I include INCOTERMS into my newsletter. Even though C&J mainly provide trucking services, they have their fair share of experience in international freight. John and Cindy noticed that many "would-be" importers and exporters just didn't have enough exposure to INCOTERMS. The second thing that happened was a request made of me to speak about risk and cargo insurance at a business workshop. The organizers of the workshop asked if I could also speak about INCOTERMS. After thinking about it for a moment, I realized I could only speak on the subject for about 90 seconds. After that precious minute and a half, I was out of knowledge. I agreed to speak, but begged my way out of the INCOTERMS subject. So there you have it, the origins of this article. Let's learn a little about INCOTERMS.

INCOTERMS are standard trade definitions most commonly used in international sales contracts. Published by the International Chamber of Commerce, they are at the heart of world trade. Imagine a world where everyone is speaking a different language while trying to do business. Needless to say there would be disputes, losses, and mayhem that would all trace back to language differences.

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Bad News can be Good News

Buyers beware and plan smart when it comes times to picking vendors. Be aware some carriers may be heading down the road to insolvency. Knowing a carriers balance sheet before you start using them may seem like over kill, right up until the time the carrier becomes insolvent, closes their doors, and stops operations with your freight in their system. Ouch!

I know if your carrier becomes insolvent and screeches to a halt while your freight is on board, it shouldn't be the end of the world. You'll get your freight back, right? Sure you will. After everything is sorted out and the dust settles, your cargo should be available to you. Many of us can't afford to have our freight sitting in a pad locked cross docking warehouse when our customers are waiting for their order. So look at the carrier offering you the great rates. The due diligence of making sure the carrier isn't a dead man walking will be worth your time and effort.

So now we all have great rates with stable carriers that will be around for a while. Life is good and transportation cost savings is putting a little money on the fun side of our P&L. Let's take a look at the next caution. I'm not sure about you, but my world revolves around next quarters, or even next years, business. It's not unusual for TJOCARGO to provide reliable rate matrix pricing for its customers for business I can't even see it's so far away. What do I base the prices on? The current market and what I expect it to be when the work comes.

One thing is for sure if we look at the market historically, it will go back up. Do you remember the asset based carriers I mentioned at the top of this page that may be headed to insolvency? Many of those carriers will not be there when the pendulum swings back to a brisk market. More freight, the ever-present driver shortage, and fewer carriers left after the flat market, and there will be a capacity crunch. Don't let yourself fall into the trap of quoting tomorrow's business using today's fire sale pricing if you will be bound by contract. In many cases the very same company you snagged as a customer today with great rates, will be boiling you in oil tomorrow with those same great rates.

My Education in INCOTERMS

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INCOTERMS were the salvation to that problem. The very first versions of INCOTERMS date back to the 1930's and have been updated and modified to what we have today. Today's coded trade terms were established by the International Chamber of Commerce in 1953 and are updated as required.

Among the best-known INCOTERMS are EXW (Ex works), FOB (Free on Board), CIF (Cost, Insurance and Freight), DDU (Delivered Duty Unpaid), and CPT (Carriage Paid To). Much of the time the correct reference is to "INCOTERMS 2000". Earlier versions can still be binding, so leave nothing unsaid, and agreed, as to what INCOTERMS are being referenced. Riveting stuff, isn't it? It's the kind of reading one can get lost in on a rainy day. Reading that makes your pulse quick or not, don't be caught short without having all the meaning of each INCOTERM at your fingertips.

The deal of a lifetime can turn into a living nightmare if you don't know the language to cut the deal. For complete information on INCOTERMS go to the following link: <http://www.iccwbo.org/incoterms/id3043/index.html> and enjoy the reading.



In business, standing in the same spot for too long can be a mistake.



Truth in Advertising

Pick up the Sunday paper and scan the automobile section. There will be car dealership screaming on every other page about the latest "price special". Most of us know by instinct, the stock number for the actual car mentioned in the ad, belongs to a day-glow purple stripped down model, with available "up sell" options starting at back seats and a steering wheel. It's not new to the buying public. Making the price look smaller to achieve the goal of getting you to the car lot is an art form. Once a savvy salesperson helps you get by the initial irritation it was a bait and switch, they will be happy to show you how affordable something a little better equipped can be.

Something similar happens in the transportation industry. Shippers sometimes undervalue their freight by stating a not all-together accurate description of the cargo. It saves money on such things as LTL and cargo insurance costs. For transportation costs partly measured by risk, that can save the shipper a few dollars. Shipping "textile machine parts" instead the more fragile "textile-weaving machine" may reduce the risk for insurance because parts are less breakable than the whole machine. Have you ever seen an operating weaving machine? It looks like an angry porcupine full of energy drinks. There are parts, appendages, and pointy things moving in a blur, all sticking up looking very fragile in the precise mad dash of doing its job. Hardly the rough and tumble cargo described by the shipper, it's a precision machine. The shipper thinks they are just saving a few dollars by telling a small white lie about the commodity. In reality they are exposing themselves to risk of uninsured loss.

Even if the shipper states the correct dollar value for insurance purposes, the act of misstating the commodity to get pricing from a lower risk category can make their insurance certificate worthless in the event of a loss. If a claim is filed on a covered loss each insurance company holds the right for a surveyor of their choice to inspect the freight. When the surveyor's inspection reports states "12 damaged textile weaving machines due to vertical impact" instead of the correct "12 skids of damaged textile machine parts due to vertical impact" the insurance company, along with the carrier, can, and will, walk away with clean hands.

Of course the shipper will think the claim not being paid is horrific. Losing that shipment can put them out of business. The shipper may even drag the insurer, the carrier, and yours truly, into the courtroom in an act of desperation. All parties, me included, will hold up the carefully collected commodity description, provided by the shipper himself, used to secure the transportation and the insurance. The case will be dismissed, the shippers claim will not be paid, and he can now add a legal fee to his long list of losses.