

Uncertain outlook

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Billions of dollars will eventually be funneled into Iraq to rebuild its war-ravaged infrastructure, but the effects on the U.S.-Middle East container trade have been limited. Even after commercial cargo begins flowing freely to Iraq, it may not provide the boon that U.S.-based companies expect.

U.S. military and relief cargoes have dominated shipments to Iraq in recent months. These shipments have moved primarily on U.S.-flag services of carriers such as Maersk Sealand and P&O Nedlloyd. Other carriers have benefited by commercial shipments that U.S.-flag lines have replaced with military shipments.

"We were able to increase our volume to an extent, due to some of the cargo that was displaced by U.S.-flag carriers," said Alan Clifford, senior vice president for sales and marketing at Mediterranean Shipping Co. Other non-U.S.-flag carriers report similar experience.

Containerized shipments between the U.S. and the Middle East have grown modestly during the last few years. The Port Import/Export Reporting Service (PIERS), a sister company of The Journal of Commerce, forecasts a 13 percent increase in U.S. containerized exports to the region this year, and says imports are expected to increase 9 percent from a much smaller base.

Falling oil prices, triggered in part by resumption of Iraqi production, are expected to limit growth in containerized exports to the region to 2 percent in 2004 and 2005, PIERS said.

War and the vagaries of oil prices aren't the only things affecting the Middle East trade. Anil Vitarana, president of United Arab Agencies, U.S. agent for United Arab Shipping Co., said increased sourcing from China is producing a shift in trade patterns.

Although overall volume has been stable, the composition of cargo is changing. On exports from the U.S., Vitarana said, "We see a reduction in manufactured items, which was a mainstay in the past." U.S. exports include a rising proportion of lower-value commodities such as wood pulp and wastepaper. "The U.S. is pricing itself out of most markets," he said.

Jim Garst, director of the International Furniture Products Shippers Association in Greensboro, N.C., said high-end U.S.-made furniture is still selling in the region, but that U.S. furniture exports overall have declined more sharply in the Middle East than in any other trade lane. "The Middle East has dropped off the radar screen for us," he said. "Asia is where we're focused."

Efforts to transform Iraq into a market economy have stimulated optimism, but the slow pace of reconstruction in Iraq has many shippers and carriers taking a wait-and-see attitude. Estimates as to when commercial cargo will start moving vary from three months to up to a year. Iraq "is the X factor in that region we are all looking for," Garst said.

The Bush administration is seeking about \$20 billion from Congress mainly to rebuild Iraq's electricity, oil and water infrastructure as part of the \$87 billion first installment of postwar spending on the country. "Once the requirements are clearer, it will be easier for carriers to adjust," said Stephen Edwards, senior vice president of Atlantic trade for P&O Nedlloyd.

With Iraq's ports still being reconstructed, most relief cargo to the region has moved through Jordan's Port of Aqaba on the Red Sea. Severe congestion there has led carriers to impose a surcharge, originally \$600 per FEU and now \$950.

Although attention is focused on Iraq, that country is only part of a diverse region where politics and economics intersect and sometimes conflict. "If the region continues to implement reforms and diversifies and stabilizes, then opportunities will open up in various industries," said Salma Ehsanuddin, a senior economist at PIERS.

Israel is the region's second-largest destination for U.S. containerized exports, behind Saudi Arabia, and is by far the region's leading supplier of U.S. imports. Most Arab nations do not trade directly with Israel.

Iraq's neighbor, Iran, could eventually develop as a U.S. market. With 70 million people, one-third of whom are 14 or younger, Iran is the most populous nation in the region. But for now the 16-year U.S. embargo against most Iranian trade casts a shadow over prospects for movement of cargo.

For carriers, the Middle East is a difficult trade lane, and not just because of the political strife. The U.S.-Middle East trade is highly imbalanced, with containerized imports exceeding exports by a ratio of 7-to-4 during the 12 months ending in August, according to PIERS.

UASC's Vitarana said base freight rates from the U.S. to the Middle East have not risen since 1998. UASC's service to the region underwent changes last month with a revision of the AMA (Asia-Middle East-Atlantic) service, in which UASC was a partner with Hanjin Shipping. Instead of operating between the U.S. East Coast and Asia, the AMA now operates between the Mediterranean and Asia. A new, overlapping service, MIX, operates between the U.S. East Coast and the Indian subcontinent.

Carriers say that although rates have been flat, shippers continue to demand services such as extended free time for use of containers. "If returns become less attractive, there'll be even fewer carriers providing dedicated service to that market," Vitarana said. "Rates would go up, and the quality of service would decline."

Non-vessel-operating common carriers play a prominent role in the Middle East trade, accounting for an estimated 40 percent of volume. Abed Medawar, president of **Somerset Marine**, a Hillsborough, N.J., NVO, said his company handles about 3,500 TEUs a year to the region.

But he said political tension between the U.S. and Arab countries is affecting business. He said some Middle Eastern buyers are reluctant to visit the U.S. "We risk losing this market for good," he said. "Once these buyers are gone, they're not coming back. The French, Germans, Chinese and others are providing the ultimate sourcing with a smile rather than a fist."