NSA Survey

Awareness and Attitudes towards NVO Service Arrangements

An electronic survey conducted by BDP International

April 2006

Executive summary

In January 2005, the U.S. Federal Maritime Commission (FMC) formally empowered non-vessel operating common carrier (NVO) to enter into confidential service arrangements (NSA) with shippers. The ruling represented the culmination of a two-year long effort led by a group of logistics companies such as UPS, FedEx Trade Network, BAX Global and C.H. Robinson, as well as BDP International. Available for more than a year, NSAs have not yet been as widely adopted as anticipated. As of February 14, 2006, 351 of the 3,398 NVOs operating in U.S. international trades had registered to become NSA filers, according to the Federal Maritime Commission (FMC). Of these, 53 had filed 222 NSAs.

Between March 29 and April 12, 2006, BDP International conducted a limited survey to determine the reasons why NVO service arrangements (NSAs) have been slow to gain acceptance in the marketplace. An anonymous 12-question on-line survey was distributed electronically to National Industrial Transportation (NIT) League members, readers of *American Shipper's* on-line newsletter and a BDP database of approximately 450 shippers.

Targeted to those whose responsibilities include transportation, procurement, logistics, supply chain and regulatory compliance, the survey drew 85 respondents reporting annual ocean transport volumes ranging from under 100 TEUs to over 5,000.

Among the issues addressed were awareness levels of NSAs, initiation of NSAs, advantages and barriers to use of NSAs, likelihood of widespread adoption of NSAs and receptivity to enter into NSAs.

Results of the survey reflect the prevailing industry view that, while NSAs have received a rather lukewarm reception to date, they are expected to gain momentum. Pent-up interest and receptivity, particularly among small- to medium-size shippers, bode well for the future of NSAs. In light of current awareness levels, however, a major educational effort will be needed to convert that interest into action.

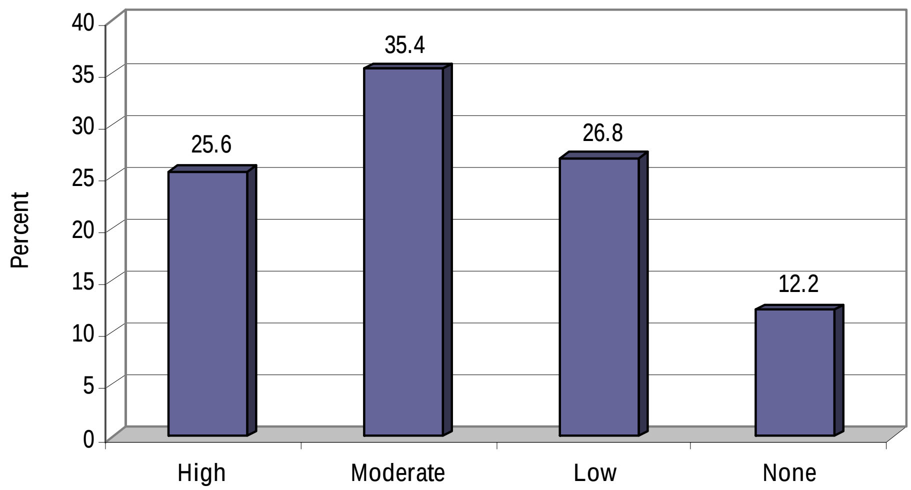
Conclusions

Top-line results of the survey indicate the following:

- Low overall awareness of NSAs
- Minimal communication by NVOs
- Competitive rates for small-to-medium annual volumes in niche lanes, a primary inducement for entering NSAs
- Perceived resistance to minimum volume commitments based on lack of awareness, particularly among smaller shippers
- Large shippers' preference for direct contracts with carriers
- Low awareness of pricing flexibility as a negotiable component of an NSA
- Smaller-to-medium volume shippers see widespread adoption of NSAs
- More than two-thirds receptive to NSA use in the future.

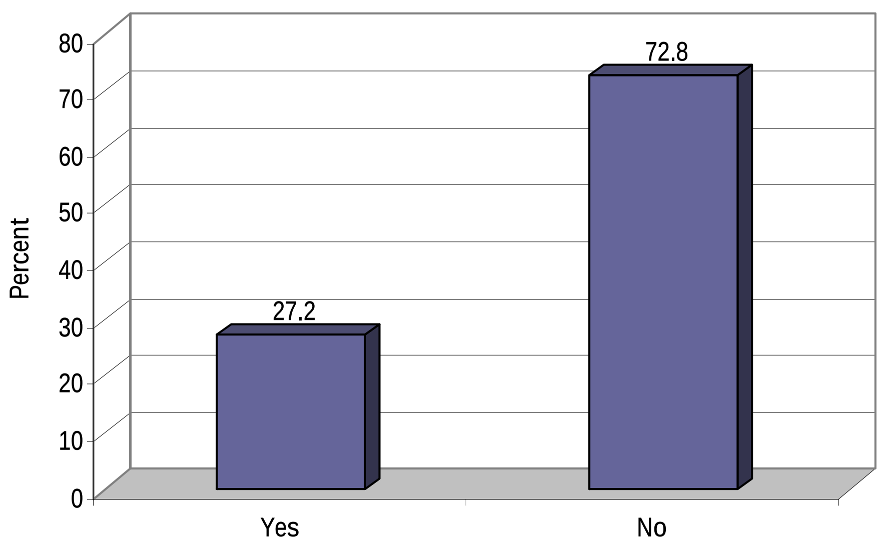
Highlights of Key Findings

1. Awareness/knowledge of NVO service arrangements



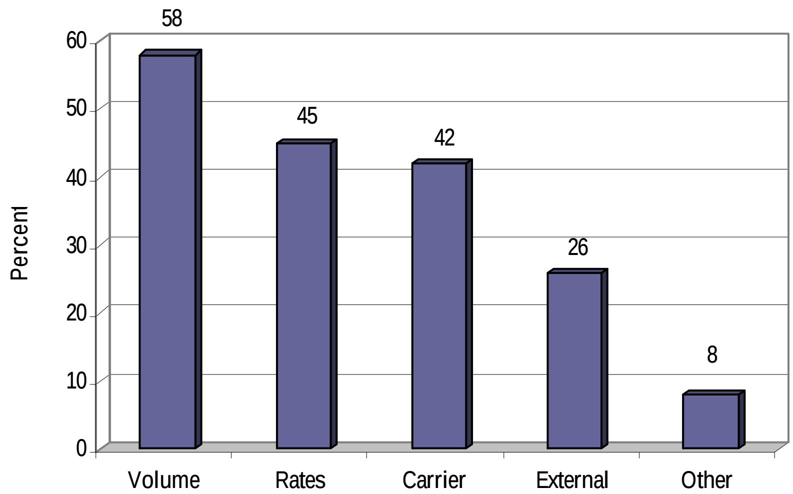
Only about a quarter of respondents reported being highly aware of or knowledgeable about NSAs. Over half of the small- to medium-size shippers responding, those with under 1,000 annual TEUs, had little to no awareness of NSAs.

2. Contacted by an NVO contact regarding NSAs?

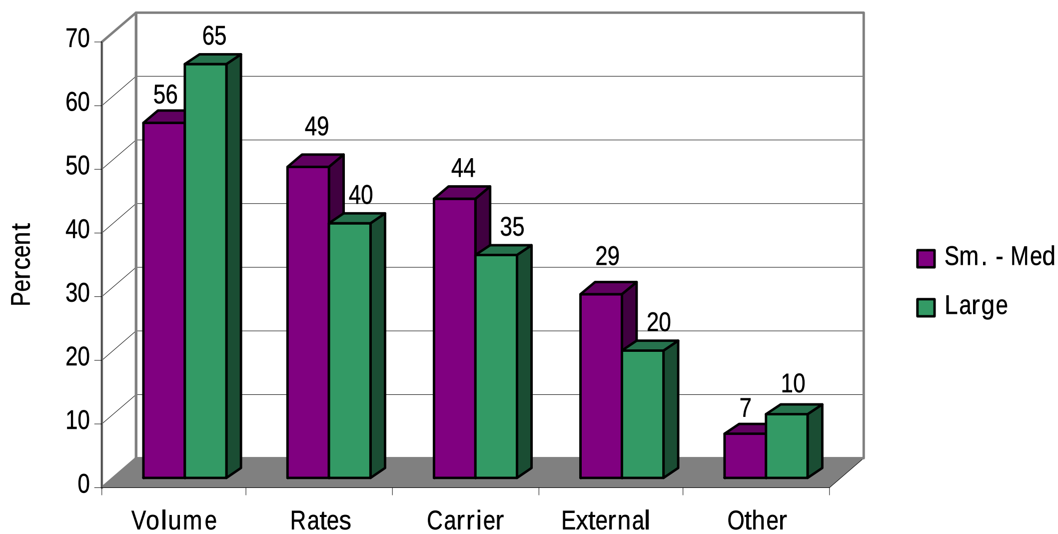


Nearly three-quarters of the respondents reported not having been contacted by an NVO regarding NSAs. Among small- to medium-size shippers, only 14 percent had been approached. This would seem to indicate that NVOs have not been actively promoting NSAs to their clients.

3. Why would you enter into an NSA?



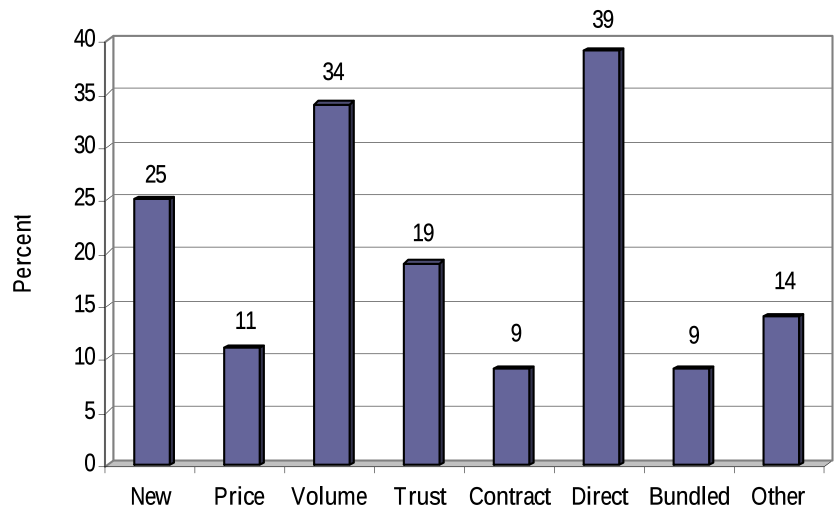
Volume: Obtain competitive rates for small volumes in certain lanes
Rates: Obtain guaranteed rates during periods of instability
Carrier: Desire for multiple carrier options through one provider
External: Hedge against outside cost increases (port/rail/etc



Nearly 60 percent of respondents indicated they would enter an NSA to obtain competitive rates for small volumes in certain niche trade lanes.

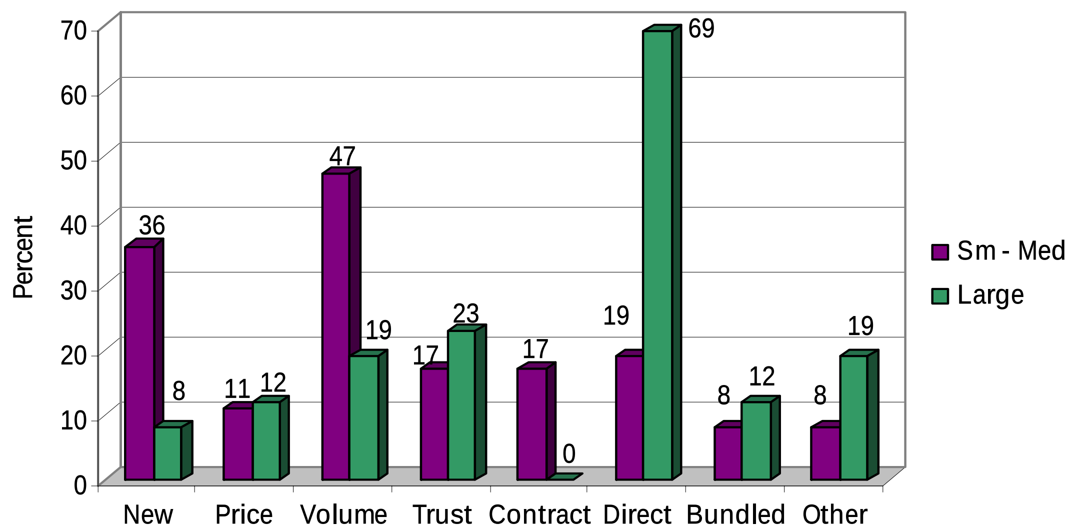
When the results are filtered for the responses from small-medium sized shippers (< 1000 TEUs annual shipping volume) and large shippers (< 1000 TEUs annual shipping volume), one will notice that among large shippers, the percentage of who indicated they would enter an NSA to obtain competitive rates for small volumes in certain niche trade lane was even higher (65%).

4. Why would you NOT enter into an NSA?



New: Concept too new
Price: Price inflexibility
Volume: Volume commitment
Trust: Lack of confidence in NVOs

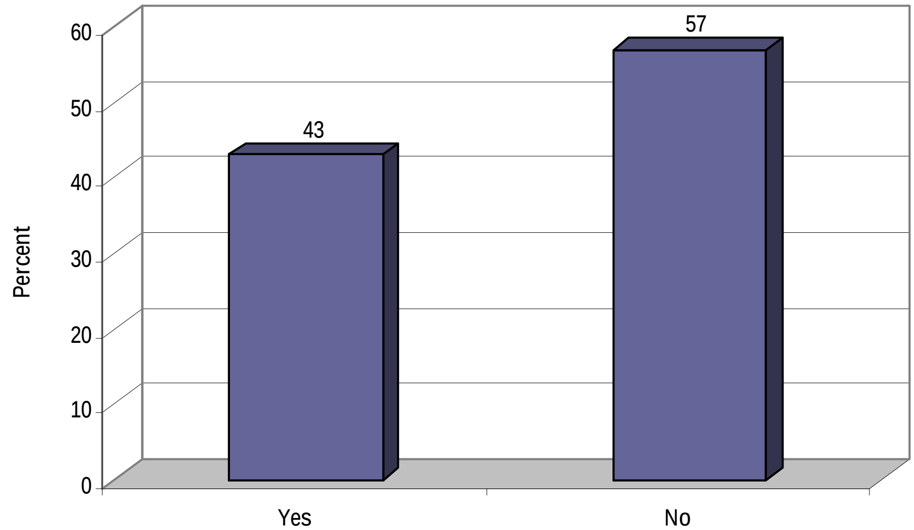
Contract: Preference for my own contract
Direct: Direct contract with carriers
Bundled: Comprehensive bundled services



Nearly 40 percent of respondents indicated they prefer direct contracts with carriers versus going through an NVO intermediary.

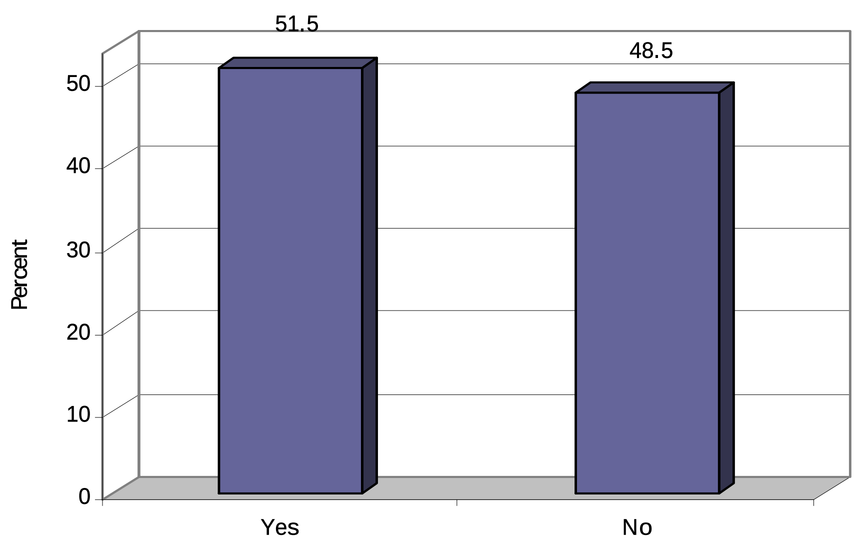
Significantly, 69.2 percent of large shippers noted this preference, compared with only 19.4% of smaller shippers. However, 47% of smaller shippers cited minimum volume requirements as a deterrent to entering into an NSA, while 36% of them said the concept is too new.

5. Are you aware NSAs can be structured for price flexibility?



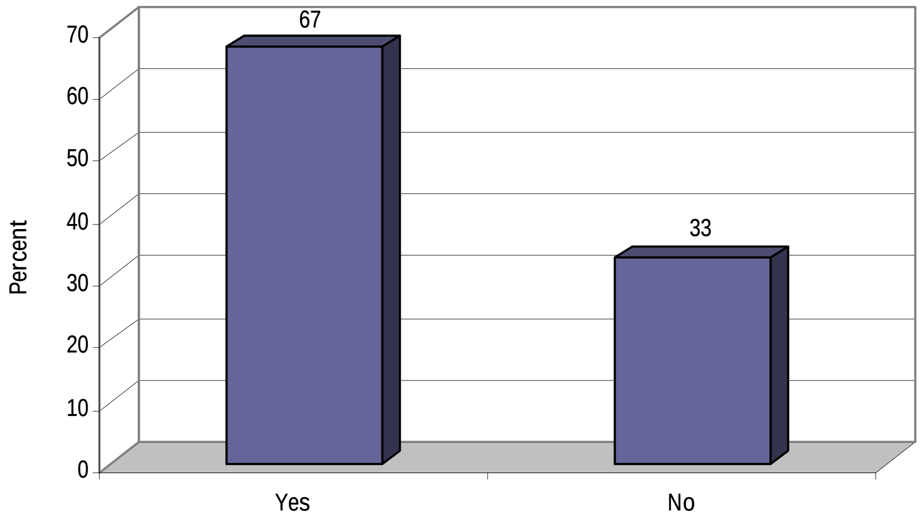
Over half of respondents were not aware that NSAs can be structured for price flexibility, but only 11 percent cited price inflexibility as a deterrent to entering an NSA. This would indicate that volume rather than pricing issues primarily determines how respondents viewed NSAs.

6. Will NSAs become widely adopted?



About half of the respondents felt NSAs will become widely adopted.

7. Would you consider entering an NSA?



While only 27 percent of respondents had been approached by an NVO regarding NSAs, more than two-thirds indicated they would consider entering into an NSA. Among small- to medium-size shippers, the percentage jumps to over 80 percent.

About BDP

BDP International is one of the leading privately held freight logistics/transportation management firms based in the U.S. It operates freight logistics centers in more than 20 cities throughout North America and a network of subsidiaries, joint ventures and strategic partnerships in 113 countries. The company serves more than 4,000 customers worldwide. Clients include Bayer, Cargill, Conoco Phillips, Heineken, Honeywell, Johnson & Johnson, Marks & Spencer, Osram Sylvania, Revlon, Rohm & Haas, Trek Bicycle, Wacker and others. BDP provides a range of services, including ocean, air and ground transportation; lead logistics process analysis, design and management; export freight forwarding; import customs brokerage and regulatory compliance; project and energy logistics; warehousing/consolidation/distribution; and Internet shipping transaction/tracking management systems.

BDP Transport, LLC. is a subsidiary of BDP International with NVOCC operations in Asia, Europe and the Americas.

For more information visit: www.bdpinternational.com.

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Appendix: The Survey

1. What is your annual ocean transport volume?
   - ☐ ≤ 100 TEUs
   - ☐ 100 to 500 TEUs
   - ☐ 500 to 1,000 TEUs
   - ☐ 1,000 to 5,000 TEUs
   - ☐ ≥ 5,000 TEUs

2. Where do you import from?
   - ☐ Asia/Pacific
   - ☐ Europe
   - ☐ Africa/Middle East
   - ☐ Latin America
   - ☐ Other

   Where do you export to?
   - ☐ Asia/Pacific
   - ☐ Europe
   - ☐ Africa/Middle East
   - ☐ Latin America
   - ☐ Other

3. Have you contracted for ocean freight services?
   - ☐ Yes
   - ☐ No

4. Your level of awareness/knowledge of Non-Vessel Ocean Common Carrier (NVO) service arrangements (NSAs) is:
   - ☐ High
   - ☐ Moderate
   - ☐ Low
   - ☐ None

5. Have you been approached by an NVOCC regarding the use of an NSA for your ocean transport requirements?
   - ☐ Yes
   - ☐ No

6. Have you approached an NVOCC about using an NSA?
   - ☐ Yes
   - ☐ No

7. Why would you enter into an NSA?
   - ☐ Obtain competitive rates for small volumes in certain trade lanes
   - ☐ Obtain guaranteed rates during periods of price instability
   - ☐ Desire for multiple carrier options through a single vendor
   - ☐ Hedge against pass-through price increases to offset rising fuel costs and needed port, rail and highway improvements
   - ☐ Other (please specify)____

8. Why would you NOT enter into an NSA?
   - ☐ Concept is too new; need more information
   - ☐ Price inflexibility
   - ☐ Volume commitment
   - ☐ Lack of confidence in NVOCCs
   - ☐ Preference for my own contract with NVOCCs
   - ☐ Preference for direct contracts with carriers
   - ☐ Preference for more comprehensive bundled service agreements
   - ☐ Other (please specify)____________________________________

9. Are you aware NSAs can be structured for price flexibility?
   - ☐ Yes
   - ☐ No

10. Do you think NSAs will become more widely adopted in the near future?
    - ☐ Yes
    - ☐ No

11. Would you ever consider entering into an NSA?
    - ☐ Yes
    - ☐ No

12. Which best describes your area(s) of responsibility?
    - ☐ Transportation
    - ☐ Procurement
    - ☐ Logistics
    - ☐ Supply Chain
    - ☐ Regulatory Compliance
    - ☐ Other (please specify)_____________________________