The Future of Northwest Maritime Industries VIII

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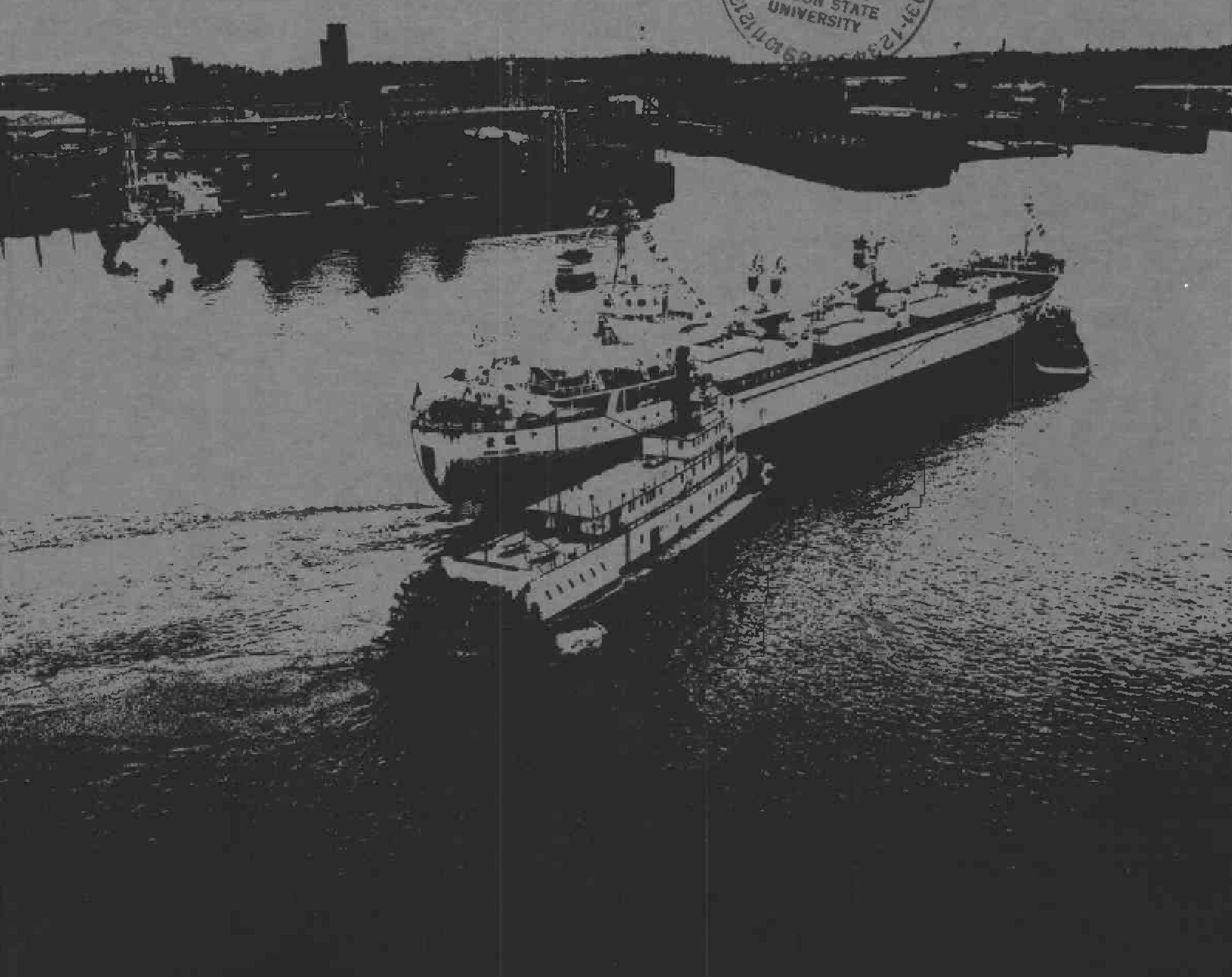

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THE FUTURE OF NORTHWEST MARITIME INDUSTRIES VIII

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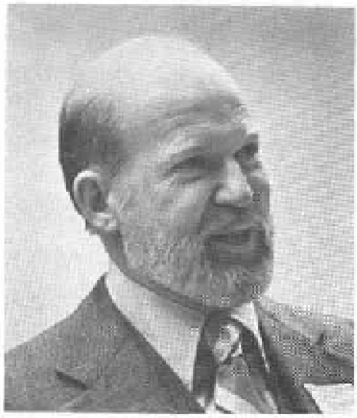


The Future of the Northwest Maritime Industries VIII is history. Written evaluations received to date indicate it was one of the best in the series. Attendance was nearly two hundred, far more than most of us ever envisioned. I must give credit for the success of the panel discussions and attendance to the steering committee and co-sponsoring organizations. It is a pleasure to work with this membership and allied industries.

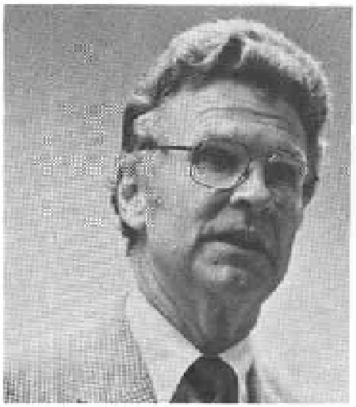
The conference record this year is a different format and process. Pictures, remarks and record of those in attendance is important to many if received in a timely manner. This publication is an entirely new concept designed to speed up production and delivery to you. Constructive criticism concerning this new scheme and publication is welcome.

A conscious effort was made this year to expose those in attendance to a bit of Sea Grant Extension work. I would be pleased to provide additional information on an individual or group basis. More specifically, I would like you to know what I am doing and/or what you perceive as extension work appropriate to the maritime industry in Oregon.

PANEL: WATERWAY USER TAX

INTRODUCTORY REMARKS

Lloyd Anderson, Executive Director
Port of Portland, Moderator



Whether it is highway, air or waterway, I think it's reasonably accurate to say that there's a fairly strong feeling that our transportation system in the United States is in trouble. It's in trouble largely because it's underfinanced. You look at the highway system in the United States right now -- the system is unraveling at the rate of about 1,000 miles a year. And that largely because of the lack of resources to keep the highway system in shape, from revenue either at the state or federal level. So you look at programs, as I have the last couple of days in a national convention of the American Public Works Association, and one of the major themes and concerns at that session was how to finance the maintenance of the highway system of the United States.

Clearly, in the case of waterways--particularly since the demand for facilities that can handle the export of coal--more than at any other time we've seen a focus on the need for more money to finance the waterway system than we've had in the past. And there have been a variety of proposals for such financing, ones that have elicited a fair amount of heat between different modes of transportation, and even internally among the ports of the United States.

The panel this morning then should be helpful -- I don't know whether they are going to reveal light or heat in the course of their discussion, but in any case we have every reason to expect a little of both.

Highway and Waterway Transportation Subsidies

Frank Wilner, Director of Waterway Studies
Association of American Railroads

There's an old Gaelic expression that if you want an audience you should start a fight. Well, I think we've got an audience among railroads, motor carriers and barges these days, and I guess part of the reason is because we've started one hell of a fight! And the fight really has to do with something that we call competitive equity.

But in this fight we have displayed an awful lot of rhetoric. And some of the rhetoric truly reminds me of amateur boomerang players practicing their art in a crowded room. I'm going to try to avoid what I call sophistry. I have certainly challenged some of my opponents in debates and my cohorts around the country to stop engaging in sophistry.

And what do I mean by sophistry? Sophistry is complaining about what the other fellow's federal aid or subsidy is, when you're all over Capitol Hill lobbying for your own subsidy. You can't debate the other fellow's subsidy when you say, I want one of my own. That, folks, is sophistry.

If waterway interests want to demand a continuation of public policy that has the taxpayer, rather than the benefitted user, paying for waterways facilities, then waterway interests cannot be heard to complain that railroads require federal aid just to be able to compete with the federal government. Do not lecture the railroads on free enterprise capitalism when waterways interests descend upon Capitol Hill and expend very scarce resources to lobby for a perpetuation of waterways subsidies and what I would call socialistic solutions to waterways problems. I say that the waterways interests have got to cease roiling, wondering, about private enterprise capitalism and seek a consistent public policy, a consistent public posture, in respect to competitive equity issues now before Congress.

Either you support free enterprise capitalism or you support socialism, when it comes to America's transportation infrastructure. But you cannot demand one approach for the railroads and at the same time, demand another approach to expansion and maintenance of the inland waterways system and the deep water port system we have in this country. You cannot demand a project because it has a positive benefit cost ratio and then be heard to complain that if full recovery user charges would be imposed all of the benefits would be wiped out. That, folks, is inconsistency -- a Bill Sapphire word would be it's an "oxymoron."

If waterways interests are demanding that railroads repay past federal aid, then it would appear to me that waterways interests at the same time would have to themselves volunteer to repay all of their past federal aid. If waterways interests demand that the railroads repay current federal aid that the railroads are receiving, then it would appear to me that the waterways would have to volunteer to repay in full the current federal aid that they are receiving. You know that the railroads have never suggested that waterways interest repay their past federal aid. And according to the United States Department of Transportation - not the railroads, the DOT -- waterways, inland navigation projects, have received substantially more federal aid in past years than have railroads. And I'm talking about so-called railroad land grants, retirement highway grade crossings, federal railroad administration assistance, the U.S. DOT says the magnitude of past federal aid to the waterways exceeds that to the railroads. The U.S. DOT, the Congress back in the 1940's, several other independent studies, have also said that the railroads have repaid almost all of their past aid while the waterways interests have not repaid any of their past aid. And I say, so what?

The railroads don't suggest that waterways interests repay what was given years ago. Those are sunk costs and the proper focus of economic analysis is not on sunk costs, it is on future costs, future recoveries. That is where our interests must lie. If you allege that railroad retirement -- and that's the railroad equivalent of Social Security, railroad workers don't receive Social Security -- but if barge interests say that the railroads should repay the value of Railroad Retirement assistance, then I say that the waterways interests should volunteer to repay the value of Social Security subsidies. If you call Railroad Retirement a private pension plan, you have to call Social Security a private pension plan. And, folks, you'd be wrong on both counts.

If you allege that the Federal Railroad Administration and FRA test facility expenditures are subsidies to the railroad industry, and they turn out to be so, let me tell you that the railroads will go arm and arm with you up to Capitol Hill and say that those subsidies ought to be ended. If you say that Railroad Retirement is a subsidy to the freight railroads, and it turns out that Railroad Retirement <u>is</u> a subsidy to the freight railroads, folks we will go with you to Capitol Hill and we will say, those subsidies should be ended. But at the same time, if you're going to say Railroad Retirement is a subsidy, and we go with you to end that, you'd best go with us and say that Social Security should be ended as well. And if you say that Federal Railroad Administration subsidies or FRA research and test expenditures are subsidies to the railroad, and we go with you to end those subsidies, you'd best be prepared to go with us and say, that Corps of Engineers expenditures are a subsidy to the waterways interests and U.S. Coast Guard expenditures are a subsidy to the waterways interests. You cannot be inconsistent.

And I want to remind you that the Association of American Railroads has already gone to the Hill and testified before Congress that we will not oppose an end to federal aid for Conrail. And we will not oppose an end to federal aid programs otherwise created by the Railroad Revitalization and Regulatory Reform Act of 1976, the four-R Act. In other words, we have already told Congress that we believe in private sector solutions and that we do not oppose an end to railroad subsidies. You cannot be inconsistent and I want to know where the waterways interests are today and why they are not on Capitol Hill during these difficult times saying, yes, we also have to give up subsidies to the waterway interests and waterways projects should pay for themselves in full.

What's of major consequence in this country today is what's going to happen to our transportation infrastructure. Will it remain in private hands or is it going to become another U.S. Postal Service? I believe, and the railroads believe, that the only way to keep our transportation infrastructure in private hands is to insure that all modes, railroads included, compete solely on the basis of market forces and not on the basis of subsidy. The railroads support not only the elimination of federal aid to the waterways, but we support the end of federal aid to the railroads as well. Transportation should not be a burden upon the general taxpayer. But until waterways interests cease calling for even larger chunks of the public treasure for themselves, Congress is going to be unable to end federal aid to the faltering railroads and Congress is going to be unable to take the burden of high taxes off the general taxpayer. And as we continue to demand this federal aid for our transportation infrastructure, I tell you that we are travelling further down that road to nationalization of all forms of transportation. And what I think are the very gross inefficiencies of a non-marketplace oriented economy.

Ronald Reagan once said that one of the goals of drivers in life is to park their car at a parking meter on the other fellow's nickel. Well, that seems like a nice thing to do, but President Reagan pointed out that sooner or later, the time runs out on that parking meter. And I wonder if the time has not run out on the transportation parking meter in this country today. Our highways are literally crumbling under our freight. We have waterways that are terribly congested and we have locks and dams that are just crying for either enlargement or repair or even normalized maintenance. The railroads are not investing as much as they should to cover expansion of rail facilities and renewal of rail facilities. Industry in general in this country has not been renewing its resources. The money has not been available.

In 1919, when Samuel Gompers was travelling about the world talking about the labor unions and the freedom of labor unions, and the freedom of the worker under labor unions, he was in Paris one day and he paused and he gave great thought to something he had said and he repeated it. Mr. Gompers said, you do not know how safe a thing freedom is. Well, freedom also extends to the way we choose what sort of business we are going to operate, how we are going to operate the business, how we are going to expand it, how we are going to invest in it, or how we are going to dis-invest in it. But when government gets involved in the act, and government makes decisions as to what will be invested, or what will not be invested, government is usurping that freedom of choice in business matters for us.

Nobel laureate Milton Friedman said that subsidies are really a result of good people trying to do good with other people's money. The problem is that you spend someone else's dollars far less efficiently than you spend your own dollars. And I think we could all agree that so long as government is making decisions, capital investment decisions, whether they be for their waterways, for the highways, or for the railroads, they will not only spend the money less efficiently than we would if we were spending it ourselves, but they will probably spend it on projects that are not as important as if we were making the determinations ourselves, or better yet, if the marketplace was making those determinations on the basis of supply and demand.

Certainly you can say that money spent on the Columbia Snake Rivers has been good. Certainly it has for the people who use the Columbia Snake River and for the people of the Pacific Northwest. Has it been good for the factory worker in Boston, Massachusetts? Has it been good for the farm worker in Southern California? And as we go toward more scarce dollars, as government says, the free-wheeling days are over, we have fewer dollars to spend on everything - is it going to be good when the Pacific Northwest competes against the Mississippi, against the Southeastern waterways in this country, and realizes that most political clout for new waterways projects is in the Southeast? It is not in the Pacific Northwest. Are you prepared to accept a significantly scaled-down public expenditure on navigation facilities in the Pacific Northwest? Or do you want to make these decisions yourself based upon market forces?

If you continue to demand that government make the capital investment without adequate user charge recovery, you are going to be wholly at the mercy of the Congress of the United States that has much more pressing demands than Pacific Northwest waterways. And I'm talking about vets, I'm talking about social programs, the problems of the far more populated cities of the country and other projects that are going to be competing head to head with waterways projects in the Pacific Northwest.

Senator Rabner, while he was on his dog and pony show across the country of field hearings on waterways policy, made it very clear in Great Falls, Montana. He said "OK, I understand your problem that you need more dollars for waterways projects, but I'm telling you that those dollars don't exist. I want you to give me an alternative--where are the dollars going to come from if the government doesn't have them and if you are not willing to accept full recovery user charges? Nobody stepped forward to give Senator Rabner an alternative. We've got several bills before Congress today that talk about user charges in various forms. I'm not going to talk about them, you may have questions about them and I will certainly be happy to tell you where the railroad industry stands on various such projects.

There is a growing realization among a lot of waterways interests that the time has come for full recovery user charges. I'm not talking about recovery beyond navigation expenditures; the railroads have never suggested that waterways interests pay for non-navigation expenditures. We do have some arguments as to what is navigation and what is not navigation; but do not be mistaken, we only suggest that you repay on the basis of navigation expenditures. I noticed that Richard Ford of the Board of Seattle was recently quoted as saying, "I feel the time has come to have people prove the economic viability of a project. The users are simply going to have to pay the cost; if it doesn't pay economically then it shouldn't be done." John Lambert, chairman of Twin City Barge, certainly a very popular figure in waterway circles, told Congress in June, "If you can't pay the bill don't order the goods." Darrel Trent, deputy assistant secretary of transportation, has been quoted as saying that, "Past aid to all of the modes have been legitimate public policy objectives and didn't and shouldn't have anything to do with the principle of full cost recovery over the long run for all modes." Mr. Trent went on to say, "It is not a particularly helpful way to solve the problem to look at someone else's past federal aid." He was also saying that the emphasis must be on what we do in the future.

The last thought I have is that what happens when we use general tax dollars to subsidize waterways or railroads or highways and we move export commodities over those facilities? It means that the rates being paid by those purchasing those commodities (foreign buyers), are being subsidized by the general taxpayers of the United States. Do you know what that means? It means that we are providing foreign aid to the foreign buyers of our products. That is precisely what a subsidy is because we are giving the buyer something at less than cost. And who is financing it? The general taxpayers of the United States.

I have a lot more to say on land grants, railroad retirement, fuel efficiency, legislation. I'll save that. If there are any questions, I've used more of my time. I will say this, if you have a pencil, we have some publications you might be interested in: 1) "Competitive Equity, the Freight Railroad Stake"; 2) a series of publications on specific competitive equity issues (the first available now is--"Railroad Land Grants Paid for in Full"). There will be additional ones on highway grade crossings and railroad retirement. If you are interested in any of these publications, you can write to me at Suite 645, 1920 "L" Street, N.W., Washington, DC 20036. I am going to have to charge you for the Competitive Equity booklet; charge you at cost, no subsidies. We have to charge $5.00 per copy for this as there is an awful lot of research material that you might find helpful. The others are free of charge.

Thank you very much, I look forward to answering any questions. I really appreciate your listening to me.

Impact of User Tax on Agricultural Exports

George W. Staudt, Operational Manager
Coast Trading Company

A barge captain once told me in response to how he liked his job, that being a barge captain is boring, intermingled with moments of stark terror. That's exactly the way the user tax hit the Columbia River system. We have been operating on a public right of way for years and are terrified by the impact of user fees.

U.S. agriculture depends on an efficient, competitive transportation system to move supplies to the farm and move the crop to the market. The Pacific Northwest epitomizes the model of a vital transportation link to a healthy farm economy. We are served by two profitable, efficient railroads that furnish modern equipment and excellent service to the farm area, an expanding and responsive barge system on the Columbia-Snake Rivers, linked with trucks from as far away as Montana and the Dakotas, moves grain to the export terminals in the Columbia River district for shipment overseas. Both modes of transportation are examples of healthy competition at its best.

In 1980, the Pacific Northwest white wheat crop totalled 247 million bushels in Washington, Oregon and Northern Idaho; 61% of it moved by barges, and 39% of it by rail and truck to the export terminals.

Ninety-two percent of our white wheat crop is exported. One hundred percent of it moved through the Columbia district ports. Nothing moved through the Puget Sound last year. This movement is typical of the last several years and illustrates the development of a highly efficient, economical system of marketing grain.

To further explain this system, I'll give you a brief discussion of the makeup of the Pacific Northwest export segment. There are ten exporters, including the so-called big five multi-national corporations, two regional cooperatives, two regional independent corporations with stock controlled by Japanese trading companies, and one regional independently owned company. Seven of these companies operate ten export elevators. The three elevators in the deep water of the Puget Sound are restricted to incoming rail traffic. The remaining seven elevators in the Columbia-Willamette River District have the versatility of receiving grain by boat, barge, rail and truck. All the 1980 Pacific Northwest white wheat crop was handled through these seven elevators. The three elevators in the Puget Sound are dedicated to handling by rail corn and yellow grain sorgums originating from mid-west points. Therefore, the Pacific Northwest grain grower is dependent on the Columbia River District, which will be affected by two separate waterway user charges. This double-whammy comes from the maintenance of a 14 foot channel for barge transportation from Lewiston, Idaho, to the Portland-Vancouver area and maintenance of a 40 foot channel for ocean-going vessels from Astoria to Portland.

On the surface, maintenance of the Columbia-Snake system doesn't sound overwhelming until you consider the new lock construction of an outdated lock and bottleneck at Bonneville. This project is currently estimated at \$138 million and by the time it is actually constructed, it will probably be much higher. Maintenance costs of a 113-mile ship channel and the Columbia River bar contrast with virtually no upkeep costs at Seattle. This terrifies the grain export community with its \$150 million-plus investment in the Columbia River system and a ripple effect through the entire agricultural community in the Pacific Northwest. To replace these export elevators, another location would cost at least 3/4 of a billion dollars. The investment of relocating these export terminals, such as in the Puget Sound, would require handling charges to be raised by \$17.00/ton or \$.57/bushel just to service the debt over and above the present cost. Full recovery of user fees will be at least 5½¢/bushel with approximately half that amount resulting from the increase in the inland waterways and the balance from the deep-draft.

Regardless of how grain arrives at the export terminal, there will still be a significant increase in the cost of moving export grain through the Columbia River ports.

Incoming and upriver hauls of fertilizer and petroleum magnify agriculture's plight. These increased costs will be passed on to the producer since world competition will not allow sales prices to foreign countries to be increased to cover the additional expense. We compete daily with Canadian, Australian, French, Argentine, Gulf, Atlantic and Great Lakes suppliers.

Typically, export sales are determined by a very few cents per ton. Any extra charges added to the sales price simply knocks the seller out of the world-wide tender and gives our exporting competitors the sale. Farm prices go down as a result and the balance of payments are even further reduced. Loss of these export sales hurts everyone in the United States.

The railraod companies will have the enviable choice of raising their rates to the level the barge companies will have to charge to recover the cost, or they can maintain rates at present levels to force the bankruptcy of the barge industry. Either way, the producer will foot the bill and this already weakened segment of the U. S. economy simply cannot afford it.

Unlike the railroads, commercial waterway users must operate on a public right-of-way. While the railroads can make their own decisions on how best to use and maintain their right-of-way, waterway operators have no comparable control. The allocation process should compensate for this inherent disadvantage.

We do not question the overall application of users fees to have the people who use the services pay the fiddler! We do, however, question the proposals that will discriminate against ports such as the Columbia River District by charging fees specifically aimed at individual segments of the U. S. system. The economic upheaval caused by displacing present facilities to other locations could be disastrous.

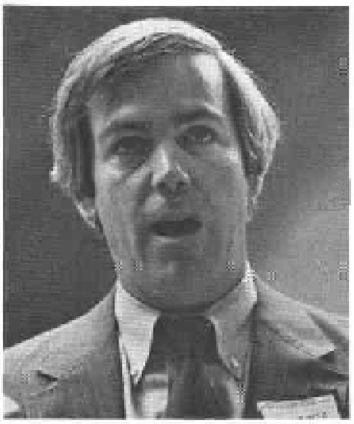
If we must have users fees, we support the cost recovery method of Senator Hatfield's "Waterways Transportation Development and Improvement Act of 1981." It accomplishes our goal of maintaining and operating our inexpensive, efficient grain handling system while achieving the Administration's goal of shifting taxation from the general taxpayer to the overall industry using our waterways.

However, the costs should be allocated equitably among the many users and beneficiaries. Obviously, the system is used for more than just commercial navigation, such as hydro-power, flood control, and recreation. Commercial users should not have to pay an unfair share of the cost of maintaining the system. The Army Corps of Engineers' present accounting procedures costs are not clearly attributable to specific functions such as recreation, flood control, or environmental enhancement, which are lumped in the commercial navigation classification. The Corps has the ability to break down costs in a more equitable manner and should be directed to begin doing so, immediately. Many of the benefits provided by waterway projects serve national interests that may justify some continued federal contribution to their funding.

It took over 50 years to build a viable, efficient, low-cost system for transporting and handling our grain in the PNW. We can not turn our backs on a system that works.

Long Range Water Resource Policies

Ray Jubitz, General Manager
Columbia Marine Lines



After listening to Mr. Wilmer this morning I'm reminded that one of my colleagues described Frank as the railroad's unguided missile. I feel I was hit this morning. The subject I have been asked to address is long-range water resource policies. The term "long-range" to some of us can be confusing. To some it could mean about one week; to others long-range is about 50 years, especially when one is planning a new waterway system. Water resource policies is such a very broad term; not only could it include commercial transportation but also irrigation, recreation, flood control and hydroelectric power generation. For the sake of clarity and consistency, I will talk about commercial waterway transportation and leave it to you to decide whether or not the waterways have a long-range future.

I first plan to discuss the present state of the waterways in the Northwest. I will then talk about the subsidy issue; how it is that the railroads receive practically ten times the operating subsidy per year more than the inland waterways. I will then conclude with a recommended course of action.

The real history of inland waterway transportation in the Pacific Northwest did not begin until 1975 when the last lock and dam was completed on the Columbia-Snake system. Cargo did move on the Columbia in small boats and sternwheelers as early as the mid-1800's, but to me linking Lewiston, Idaho, to the ocean really marks the beginning of the commercial transportation system's ability to move substantial volumes of cargo. We are, therefore, only in the infancy stage of developing cargo movements on the Columbia-Snake system. Growth and cargo volume since 1975 proves my statement for in that year only 4.9 million tons of cargo moved through Bonneville lock, while in 1980, in only six years, 8.9 million tons moved--an increase of 82%. While such an explosion in tonnage will probably not continue during the years to come, I feel that the system has only begun to tap its volume potential. We already know that 1981 will bring about a substantial increase in tonnage because of a record wheat harvest; we could see more than 10 million tons transitted through Bonneville this year. It must be recognized, however, that any growth could be completely negated by the implementation of user taxes. You will note that I say "tax," not "fee," because to me the intent of user-charge advocates is to raise revenue and the term "tax" is certainly more appropriate to use. I am fairly certain that all of you know about the Reagan administration proposal for 100% cost-recovery for inland waterway navigation for operations and maintenance to be paid by the commercial waterways operators. Senator Hatfield has introduced his own bill, which would also recover the cost of operations and maintenance, but the recovery would be through a tax on imports and exports rather than a tax directly on commercial waterway operators. While I understand that neither bill is likely to be acted on by Congress before next spring, it is appropriate that we ask now how the Corps of Engineers and the Coast Guard allocate their budgets. Not only to the commercial users, but to the other users of the waterways. Prior to the passage of any user tax bill, it is important that these budget allocations be altered so that all users will be allocated their appropriate share and so that commercial interests do not wind up paying all the costs.

In 1980, the Corps of Engineers' budget for the operation and maintenance of all waterways was approximately $250 million, of which the Corps has allocated $172 million to navigation. Approximately $110 million is allocated from the Coast Guard budget to inland navigation. Together this adds up to Federal costs of $282.5 million. The waterway industry feels that the allocation of these dollars is too high. Studies are now underway to correctly identify all the programs that should be allocated part of the waterway user costs. These programs include:

1) National defense--the Department of Transportation in 1971 recognized that national defense was one of the most basic functions of the inland waterways system. In case of national emergency, the country will rely heavily on a fast, efficient tug and barge industry to transport vital commodities and manufactured goods to ports.

2) Regional development--it is clear that one of the primary beneficiaries of an improved waterway is state and local regional development. Certainly the forest products producers, grain farmers, aluminum manufacturers and hundreds of other industries have been able to expand production because of the Columbia-Snake waterway system. This growth has created opportunities for rail as well as water transportation.

3) Power, flood-control and irrigation--some people have argued that all the waterways costs in the Northwest should be born by these users. Certainly the revenues from power generation could pay the entire cost.

4) Recreation, environmental protection, fish and wildlife protection, water supply, water quality and industrial cooling -- all receive substantial benefits from improved waterways.

Undoubtedly, there are other programs which benefit by having the waterways in place. I anticipate that our industry will be able to identify these programs through intensive, thorough study. Beyond all these considerations, it must be recognized that there are many river segments, at one time served by commercial barge transportation, which no longer attract commercial users. These river segments should not be included in the total commercial cost package at all. Preliminary studies show that defense and regional development should be assigned between 25% and 1/3 of the inland waterways costs. Another 25% to 30% should be assigned to power, flood-control and irrigation and another 20% to other beneficiaries: recreation, environmental protection, water supply, etc. These combined adjustments would reduce the expenditures assigned to commercial transportation to between 17% to 30% of the cost of the waterways. After some more detailed studies, these adjustments will undoubtedly be somewhat different, but certainly will be a very substantial magnitude.

It must be realized that no matter what level of tax is imposed on a commercial waterway transportation industry, that tax will be recovered by the industry through higher transportation charges. In other words, these costs will be passed on to the shipper and ultimately to the consumer. However, this passing on of taxes, here, in the Northwest is not as simple as it seems on the surface. If it is too high, then cargos will divert to other transportation modes, principly the railroads, which continue to enjoy federal subsidies. It is imperative that the railroads also bear the burden of paying for the subsidies that they enjoy and that we examine these programs that benefit the railroads: the railroad retirement program, Conrail, land grants and other programs. I will now address each of these programs in turn.

The railroad retirement program. In 1935, Congress created a federally-administered retirement program for railroad workers. At the time, Congress felt that the program would accomplish three things: 1) encourage older railroad workers to retire, thereby creating employment opportunities for others; 2) enable retirees to receive benefits sooner than under the Social Security program with benefits beginning in 1937 instead of 1940; and 3) contribute to efficiency and promote safety in inter-state commerce. The program was a resounding success. Without drastic changes, the General Accounting Office has predicted that the program will be out of money in 1982 even with large inputs of federal monies. There are now over 1 million retired railroad workers drawing benefits of between $4 billion and $5 billion per year, being supported by employer and employee contributions from only 500,000 railroad workers with assistance from Social Security interchanges and general revenue appropriations. In 1979, Social Security funds amounting to approximately $1.4 billion were transferred to the railroad retirement program. In fiscal year 1980, $313 million in general treasury funds were paid to the program. For the years 1957 through 1978, approximately $14.9 billion was paid into the program by Social Security and from 1976 to 1980 another $1.4 billion was contributed by the taxpayer. According to a GAO Report dated March 9, 1981, which was prepared at the request of the Chairman, House Committee of Government Operations, the railroad retirement program has now evolved to the point where it is probably the nation's most complex pension program. Personally, after reading the report, I will label the program one heck of a mess with the point being that the increase and liberalized railroad retirement benefits are not being funded at a high enough level to prevent insolvency without continued input of Treasury dollars. This year this subsidy alone will amount to over $1.5 billion.

Conrail. A second major subsidy of the railroad system is Conrail, which serves a region of the country which accounts for over 40% of the country's manufacturing activity. I have heard the representative from the railroad association say that they are opposed to continuing subsidies for Conrail. But the facts are that Conrail exists and in 1981 is being subsidized by $510 million in Federal monies for operating assistance. Conrail and its predecessors have already spent approximately $6.5 billion in Treasury funds for which there is no realistic hope for repayment. Even if the system were abandoned today, the liability for payments to employees would range from a minimum of $1.5 billion, which would not totally do away with the system and would still require Federal monies, to as much as $9.7 billion in the event of total liquidation. For many reasons, abandonment is clearly not realistic. Certainly, I cannot blame the great railroads of the South and the West if they do not want to take over many of the lines which the government now subsidizes because the low rates they would be forced to charge would certainly impact their over-all system profits.

Land grants. Of course, the major subsidy the railroads have received has been land grants. In bringing up this issue, I feel somewhat like an old preacher giving a sermon for the 500th time on the evils of sin. Certainly, we know all about it--but there are some points that need to be stated again. Approximately 128 million acres of Federal land were given to the railroads to further the public interest and open up the West. Income today to the railroads from the natural resources found on these lands, such as coal, oil and gas, and timber, in some cases substantially exceeds the railroads' income from transportation. It is clear that these lands were granted for railroad purposes, but three of the major land grant lines have transferred these assets out of the railroads to subsidiaries without adequate or, in some cases, without any compensation to the railroad itself. Such transfers may have breached the original contract with the government. In any event, income from these assets is no longer available to the railroads, meaning that freight rates have been distorted. Congressman John D. Dingle, Democrat from Michigan, has stated "It is unacceptable to have government aid diverted from its main objective of benefitting the ultimate public which the railroad served." Arguments have been heard from the railroad that they paid back the government for the land grants by providing low rates on government travelling. However, if these rate concessions on government traffic were matched by rate increases on commercial traffic, it is no wonder that commercial shippers were the prime movers behind the decision to end rate discrimination at the end of World War II. It suffices to say that a great number of people are questioning why revenues from the land grant assets should not be returned to the railroads and counted as part of the revenues and earnings used to determine the rates railroads charge consumers in the nation. I think all of us in the Northwest can wonder what happens when the railroads abandon certain line segments when the traffic seemingly does not warrant continued service. Has that land been returned to the government? Other subsidies to the railroad include the sale of preferred stock by some railroads to the government, improvements or eliminations of railroad-highway grade crossings, and special tax benefits and railroad safety programs.

It seems to me then that after reviewing the levels and types of subsidies that both the inland waterway transportation industry and the railroads receive, that it is appropriate to ask why the administration has singled out only the commercial waterway transportation industry to pay a user tax. If we become the only transportation mode to have to pay increased taxes, I would say that the long-range outlook for the industry is not favorable. What is required then? The Department of Transportation is now in the process of preparing its Section 205 Report which is supposed to be a comprehensive study of the effects of user taxes on commercial waterway users. We asked that the Administration and Congress not proceed with any legislation until the results of that study are known and can be commented on by the entire transportation industry. I can assure you that the inland waterway carriers are not against paying their fair share -- I repeat, fair share -- for the use of the waterways provided other transportation modes are required to repay their fair share for the subsidies they receive. This country cannot afford to thoroughly disrupt the transportation infrastructure. We are asking that any changes to the infrastructure be made in a well-thought out, thoroughly-analyzed manner. It is very important to realize that all of us are dependent on an integrated transportation system and if any part of that system is put in jeopardy the effects will be felt throughout the nation. As you all know, ours is a finite world and the consequences of moving quickly on evidence that is not borne out by thorough testing will have an effect not only on the commercial inland waterway transportation system but also on the nation's entire transportation system and on the economic base of the United States and the economic systems of the rest of the countries of the world.

QUESTIONS AND ANSWERS

1. Directed to Mr. Wilner...What is the railroad's position on Senator Hatfield's bill?

WILNER: We do not have, at this time, an official industry position. The Association's Board of Directors, made up of the presidents of the major railroads, have not considered the specifics of the bill. I can say this, however, that it is going to be my recommendation and I know there is a lot of support that the Hatfield bill is not a proper solution for two reasons: 1) It would require customs duties to cross-subsidize the inland waterways operation. In other words there would be no user charges on the inland system. There would be traffic through the ports that would totally subsidize the inland system. We believe that is both wrong and inefficient. 2) There would be a significant problem in getting State Department approval of such legislation as well as Administration approval because we have already heard very specific concerns on the part of the State Department that if you start using customs duties as a means of revenue collection, you will have to open every trade agreement that now exists with foreign nations and the Administration and State Department will have no part of re-opening those trade agreements.

2. Directed to Mr. Wilner...My name is Leonard Kuell and I work for Continental Grain Company. As I understood the thrust of your remarks, which were quite eloquent, you were pleading that waterway users join the railroads in their attitude toward subsidies. My question is why should the waterway users, particularly the grain industry, join the railroads, particularly any association with the AAR, which has taken a rather backward approach towards grain transportation over the years and I site the fact that the grain industries is having vast investments in hopper cars, their rate making histories, kindly described as a disaster, and particularly the AAR's administration of the barges, all have impacted adversely on the grain industry--the question again, why should the grain industry support railroads in this approach toward subsidies?

WILNER: Continental Grain, one of 5 of the major grain families that dominate the grain trading industry in the world...

Mr. Kuell: (breaking in) ...so did General Motors and Ford in the auto industry and that's not bad.

WILNER: Sir, can I finish?

Mr. Kuell: Sure you can, but don't start by attacking individual companies.

WILNER: The grain industry not only owns grain elevators, they own barges, they own tow boats, they own milling facilities, they own export facilities, they are probably one of the most vertically integrated of all our conglomerates in this country today. The one thing they do not control is the railroads. We think it is absolute sophistry charges that the farmer himself will bear the full cust of user charges. We believe that the farmer will probably not bear any of the cost of user charges and I have a publication that will be out in about five weeks that will detail that and it would take too long to do it right now and I encourage you to write in for a copy of that when it is available. But there is only one reason that the grain industry, that the barge industry, that Americans in general should support full-recovery user charges, and that is simply that we will have a more efficient transportation system. Why are the railroads in such bad condition today? Because the railroads have been unable to compete against the Federal government. From 1945 to 1975, Federal expenditures on inland waterways topped $13 billion. They topped $82 billion for the highways. They were somewhere around $1 billion to the railroads. The railroads couldn't compete and if you plot a line showing Federal aid to the competing modes vs. railroad financial performance between 1945 and 1975 you will see a very close correlation. I will tell you right now that if we do not get competitive equity within five to ten years we will not have a private sector railroad system in this country any longer. As labor does not work when wages are not sufficient to cover costs, as capital moves out of industries when either interest or profits are not sufficient, so do various industries when the return is not there. Where are the railroads going to get dollars for the renewal of track, maintenance and expansion? There are only two sources: 1) profit and 2) borrowing. If we borrow it, we have exceedingly high interest rates. Where are we going to find the money to repay those interest rates? The railroads cannot compete against the Federal government and that is the whole thrust of our competitive equity argument.

Moderator: Do other members of the panel have any comments?

RAY JUBITZ: It sounds like as far as the farmer footing the bill on this, be it a rail increase or a user tax on the river, the farmer is going to get the brunt of the increase due to us having to compete in a worldwide market. I would also suggest that there is some indication that the Burlington-Northern is probably doing a better job at maintaining profits in the railroad industry in their railroad segment. One of the reasons they are able to do this is that their profits from the natural resources that they have are not being channeled into other uses but are being plowed back into the railroad industry and it seems that the Burlington-Northern believes that this has been a fairly good way of maintaining their track and maintaining their profits and an interest in the company.

3. Directed to Mr. Wilner...Ray Jubitz mentioned earlier a subsidy in 1981 that the railroads received ten times as much as the waterways. What comment does Mr. Wilner have on that?

WILNER: The figures Mr. Jubitz gave, I don't quarrel with them, I quarrel with his conclusion. If you replace the word Social Security in his statement everywhere he said railroad retirement, I think we'd come up with the exact same answer. Railroad retirement is a horrendous situation but the railroads did not create it, Congress created it and it gave us a system similar, but separate, from Social Security. Social Security is facing the exact same problems as is railroad retirement. If you put money in an annuity 30 years ago with an insurance company, let's say, you would receive at the end of the annuity period precisely what you put in plus interest that you had earned on that annuity. Social Security and railroad retirement have never worked that way. Congress has, on an annual basis, tried to keep the payment equal with inflation. There in absolutely no relationship between benefits being paid under railroad retirement and benefits being paid under Social Security with the contributions being made by employer and employee under both railroad retirement and Social

Security. As I said before, if you think that railroad retirement is a private-pension plan for railroad workers, then you are saying that Social Security is a private-pension plan for water transport workers, you'll be wrong on both counts. We are perfectly willing to march up to the hill with you and talk about an end to these problems under railroad retirement if you will agree to walk up with us and talk about an end to these problems under Social Security. But, they are not subsidies to the railroad industry. We do not receive any benefit because of these inflated payments that are being made to railroad workers or water transport workers. It is just part of that social insurance program that grew out of New Deal legislation in the 1930's and it has come home to haunt us.

4. Directed to Mr. Wilner...If one were to subtract railroad retirement, how would that affect the present railroad subsidy?

WILNER: We're looking at Conrail; that is probably the largest component and we agree that that just has to end. We do not oppose an end to that Conrail aid. We do say that the massive subsidies on the water side and the highway side between 1945 and 1975 had a great deal to do with the failure of the system in the Northeast. I am one economist and I know there are several that agree with me that the proper solution when we had the bankruptcy in the Northeast was just to shut down the whole system and let the marketplace decide what would be retained and what would be operated. Congress said it would just be too great a burden on the Northeast and Congress, in its wisdom, said that we're going to create Conrail and pour dollars in there until it becomes profitable. Well, Conrail never did become profitable, as they thought it would be, and there are a lot of questions today as to whether or not it will ever become profitable. I am not going to deny that it is a subsidy to the railroad industry; indeed it is, not only is it a subsidy to Conrail it is a subsidy to every railroad that connects with Conrail because they are taking advantage of the Conrail facilities and they are earning revenues off of it. What I am saying is that I believe Conrail came about because of bad public policy between 1945 and 1975 and I am saying that we have got to end it. Just because we are trying to prop up Conrail and find a private-sector solution is no reason that we cannot move forward for a new public policy towards full recovery of all of the modes. I was very interested in a comment that young Teddy Roosevelt made in his first year in the New York State Legislature, when he was talking about subsidies to the New York City's transit system and he was trying to get some of these subsidies ended. He said, "Just because we can't stop the big one is no reason to open up all of the little ones." In other words we have got to work to shut all of these subsidies off, including the railroad subsidies. Conrail is probably the next major one under railroad's retirement subsidy; the land grant we disagree with entirely, we have a host of Federal studies that says the railroads have repaid, in full, the value of the land grant. A lot of people are saying, let's look at the value of minerals in today's market. If your heirs bought from my heirs, Texas range land in the 1800's and oil and gas was subsequently discovered, should I be heard today to demand that the contract that our heirs entered into be re-opened today to take into account these subsequent findings of natural gas and oil. We'd be laughed out of the courts in pursuing something like that. I would also like to mention that any attempt at legislation that would require the railroads to today either give back the land or consider the value of resources in a railroad rate making would impact similarly on farmers who are the recipients of untold numbers of quarter sections under similar land grant programs. Farmers, today, who are earning very significant returns from oil and gas that was subsequently discovered on their land. If we are going to go after something like that, let's apply it equally. Again, we believe that the railroads have more than repaid the value of the Federal grants. Again, that is a past subsidy. How about all of the past subsidies to the highway and the waterway modes--we're not talking about recovering those and as far as that $280 million figure, we think it is a little bit low for operations and maintenance. I prefer the $325 million figure that OMB has come up with; but even giving the $280 million for operations and maintenance--how about the other almost $500 million for construction; that is a subsidy as well. We could debate these numbers all day long. All I'm trying to say is that we have got to focus on what we are going to do tomorrow and tomorrow we have got to end all of the subsidies, the subsidies to the railroads included.

5. Directed to Ray Jubitz...We've heard a great deal, Ray, particularly about the numbers that Frank talked about. In order to over-simplify the situation, I wonder if you could tell us the national position in terms of dollars and then the Columbia River-Snake River system in terms of waterway user charges?

JUBITZ: I think the one figure that was used here in operation maintenance in the range of $280 or $290 million per year to a little over $300 million per year would be what it is costing nationally for the maintenance of the waterway system. As far as money being spent on new construction in the waterway system, there have been no new projects of any major significance in the United States over the last four or five years. There has been no money available for that purpose. In the Columbia system itself, the cost of the maintenance of the channel between here and the mouth is in the neighborhood of $9,000,000 per year. The cost upstream, the numbers there escape me a little bit, but you're looking at probably that and more for a charge there and if you include any charges imposed by the construction of the Bonneville lock, if you're looking at a cost per ton charge, I think our estimates range from $1.00/ton to $1.50/ton in order to finance the system. That is both the operation and any new construction. Just the operation from here to the mouth would be about $.30 to $.40 per ton on cargo being exported out of the Columbia River system.

6. Directed to Mr. Wilner...What is your opinion of Amtrak?

WILNER: When the railroads were finally able to get out of the passenger business we had lost in that year about 1/4 billion dollars. Again, we would not oppose the elimination of Amtrak. The freight railroads are not getting any benefit of the operation of passenger services. The Southern Pacific, I think, would make a very good argument that having to run passenger trains over their freight system is actually costing them money. Passenger and freight operations are just not compatible, they probably never were. The money that is being spent on Amtrak is not benefitting the freight railroads in any way.

7. Directed to Mr. Wilner...Can't the government keep the track up?

WILNER: No, in fact, we wind up we have to spend even more money, again getting back to the compatibility of the two, when you run unit trains over lines they absolutely beat the hell out of your rail bed and rail structure and you have to spend even more money to try to keep the rail bed up to conditions that are necessary to run passenger operations.

You have to do different things with the curvature, rail and rail bed. An engineer could better describe those things than I could. No, we are not making any money off Amtrak. We wanted to get out of it. Again this is something where Congress said that they believe it is absolutely essential--Congress's wisdom for the population of the United States. I do not think you'll find very many railroad people that agree with that.

8. Directed to Mr. Wilner...Is it fair for a 5 to 6 year old system like the Columbia-Snake to compete with an industry that has been around for 100 years?

WILNER: You're probably talking about special subsidies for emerging industries. I guess you will have economists that will differ widely on whether any concessions should be given to emerging industries; but, if concessions should be given, I would question should they be given at the expense of the railroad industry, or should they be given in some other means? The way the concessions are given today is at the expense of the rail industry and this is what we say is inequitable. I won't argue with you on the merits of helping an emerging industry.

9. Directed to Mr. Wilner...Would the railroads oppose subsidies to deepwater ports?

WILNER: AAR has taken the position that we are in support with the concept of full recovery user charges at the deep water ports. We would be inconsistent if we said we are in favor of it on the inland system and not the deep-water system. The railroads deliver freight to the deep-water ports, we take freight from the deep-water ports. We are not in competition with the deep-water ports, we are in competition with the barge industry and that is where we believe we have been hurt in trying to compete with a barge industry that operates on a public right of way.

10. Directed to Mr. Jubitz...Who is doing studies on cost-allocation predictions?

JUBITZ: That is being done by Steve Marwick of Boos-Allen for American Waterways Operators and if you have any interest in getting the results of that study I would be more than happy to put you in touch with the correct people. That report deals with the shallow draft or inland waterway system of the United States. In the legislation that was under consideration, there was a proposal to expand it to the deep draft waterways and a memorandum has come out recently using Baltimore as a selected example as a basis for judging whether there should be a deep draft waterway charge on the system. That, I think, would be accurate to say is under heavy attack by the Association of Port Authorities now as one that is not comprehensive enough from which to draw any conclusions. The shallow draft part of it, I'm not sure if that is expected to come out. I think they talked about it coming out this last June or July and I don't believe it is out yet--but I'm not sure about that. The memorandum is out of Congress and went to the Department of Transportation and they then contracted with Boos-Allen and others to complete different segments of that work to get it out this year. This is part of the Section 205 study.

11. Directed to Mr. Staudt?...How much of a user charge would force a relocation of grain elevators to Puget Sound?

ANSWER: The figure on that right now is that we have estimated the cost at 5½¢ per bushel. When competing with the foreign countries it comes down to pennies per ton sometimes and, of course, the problem here on the Columbia system is a steep draft user charge which has put us uncompetitively against, say Seattle, where they have no charge. With foreign countries, it is somewhere around $1.50 to $1.75 per ton--this advantage where trades are made we are competing within pennies it would be a direct disadvantage. The problem here is that the consistency that Mr. Wilner was talking about is one of the things we are trying to deal with. We are talking about user fees this year, and what is it going to be next year? I think what is required by all of us is to ask our congressmen, especially for business relocation, what is going to be consistent policy of the Federal government so that we can make long-range decisions. If we have to build a new grain elevator in Puget Sound to replace what is happening down here, is the businessman really convinced that government policy will continue to justify that investment?

12. Directed to Mr. Anderson...Is alternative legislation being submitted at the national level?

ANDERSON: At the national level in addition to that submitted by the Administration and that submitted by Senator Hatfield? The answer is yes, Senator Abner has indicated that within the next week to ten days it is their intent to have a modified form of the legislation under consideration which would have some partial cost recovery and again some administration of that possibly done locally. As a matter of background for the audience here, it might be useful to say that Administration proposals and some other proposals that have been considered involve saying that rather than the Federal government continuing to administer a waterway program in the United States, that administration and the revenue-raising aspects of it would be administered locally. By locally I mean state or local government would have some responsibility for doing that and that perhaps is an area where you have some discussion as well as the question as to how much those charges should be. The administration proposal, again, is one in which the recommendation is that there be a segmented tow on both the shallow and deep draft waterways of the United States so that the charges would be imposed in the areas where the costs occur. You would then have a segmented tow charge on the deep draft part of the waterway in the Columbia River. Since you have no dredging or other maintenance of the channel in the Puget Sound area, you would have no charges or very little charges in that area.

13. Directed to Mr. Anderson...Does any of the legislation that is proposed recommend, among other things, that before any action takes place that the 205 studies be complete?

ANDERSON: The Administration legislation does not. I am uncertain on some of the stuff that Senator Abner's committee is working on now. What it contains perhaps someone on the panel will know.....I think it's the sense of the Senate Committee that it is essential that they await the completion of the 205 study. We certainly do not argue with that--we have waited so long now, I think we should get all of the studies in and make not only an equitable decision but also try to get some consistent public policy out of Washington as well, something that we can all bank on in the future....I think one needs to see in perspective the pressure at Congressional level now goes like this: The attitude reflected here, let's wait until next year for the Section 205 study in order to determine what kind of charges should be imposed on the shallow draft segment of the waterway system. That will probably occur. Now you have unusual and much greater pressure on the deep draft waterway system because of the interest in coal where you have four or five ports in the United States; Hampton Roads, New York--to some degree, New Orleans and Mobile, as ports that have a strong interest in having something occur this year in the way of funding that will allow the dredging of those channels to 50 feet or more in order to handle the larger ships. Therefore, there is the feeling that deep draft legislation has a greater possibility of occurring this year than the shallow draft segments of it. There are a variety of views being expressed--ones for full cost recovery for operation and maintenance to partial cost recovery for capital construction and local and national administration of the system. In the Hatfield legislation there is a very strong position that the waterway system is a national waterway system and therefore should be administered as a national system and not as he called it "Balkanized" by having individual states or local governmental units administer the waterways and the financing of the waterways.

14. Directed to panel in general...How do cargo percentages coming by rail and barge on the Columbia compare?

ANSWER: A higher percentage by rail. I think even in the grain than...and the percentages you'd change to other kinds of commodities would increase...

15. Directed to Mr. Wilner...Which is more energy efficient, rail or barge?

WILNER: There are false facts and there are facts...I suppose, but you would hear different arguments depending on what you want to use in the way of measurements. I would say that in general it would be said that the barge uses less energy than the rail. If you begin to look at the movement of cargo from point A to point B where you have to use trucks, coming out of the farm area to the barge terminal and then moved down, you have some compensating balances...I'd say it is fairly close--we do point out that "barge" really means "barge-truck." There are very few movements that are only by barge....

Comment from audience....there are very few rail movements too there are also a lot of trucks for rail, so let's be fair Mr. Wilner...

WILNER: but, the one thing that I would look at...the big energy difference is that if we compare either moving grain by rail or by barge down the Mississippi to New Orleans vs. moving that same grain either by rail or by truck-barge to the Pacific Northwest, you come up with quite a difference and that is because the steaming time from New Orleans to Yokohama is 10,500 miles and at 15.5 knots per day, it comes to like 30 days steaming time from New Orleans vs. about 4800 to 4900 miles from Portland to Yokohama. A considerable reduction in not only steaming time but in fuel consumption and as fuel costs get higher and higher I think there is a comparative advantage for grain, coal and other products that are moving to Japan and the Pacific ring countries, moving through Northwest ports vs. moving through the Gulf ports.

16. Question: I am wondering whether any of the panelists have any comments on slurry as a prospective competitive alternative to the rail and barge that we have been talking about today...

ANSWER: Occasionally, it seems that we, in the barge industry, do move grain by slurry because we get water in the barges. But what we're interested in, basically here, is the present movement of grain. Coal is going to be addressed this afternoon and possibly that is the time to bring up the slurry issue.

17. Directed to Mr. Wilner: Does the Hatfield bill apply against the airplanes that Boeing sells to the Orient and Tektronixs sells electronics to the foreign countries?

WILNER: As I read it, and that is just a couple of quick readings and I have not had the time to discuss it very much with Senator Hatfield's staff. I think it is just going to impact on cargos that move into and out of the deep water ports. So that if airplane parts move through the deep water ports, then yes, they would be assessed a cargo tax. I do not believe that it would apply to the airports--I think it is just deep-water ports. I am not sufficiently familiar with all of the intents of the bill to say any more at this point.

Panelist unidentified: I think the railroads, as a matter of fact, everyone is saying "Let's do everything we can to have a strong transportation system in the Northwest." The place where you get some concern is in the business of diversion of cargo out of the Columbia River system where Administration or Stockman proposal goes into effect. There is the expectation you will have about a 20% or more diversion out of the Columbia River at the beginning and if you are talking about full-cost recovery by the user you will have a gradual increase in charges as the amount of cargo diminishes in the system. This is why you have the struggle going back and forth between the rail and barge service as to which one should pick up the cost.

WILNER: Just to sum it up, what I am saying and what the rail industry is saying, is that we need a market place solution to our problems rather than a solution via government fiat and government subsidies. An economist always looks at a proposal and asks who are the winners going to be and who are the losers going to be? There are always trade offs. We need a healthy barge industry, rail industry and motor carrier industry. The railroads do not propose strengthening themselves at the expense of their competitors. Neither do the railroads want to be damaged through programs that strengthen their competitors. I guess the really big winners are the American people when we have the ability to just sit and express our views as we have done today and we have the ability to express these views before Congress in their field hearings and in Washington. I don't have all of the answers, I don't think any of us have all of the answers. We do have the ability to sit down and argue and try to mold a meaningful program out of all of the facts we are able to put together and if we can depend more upon the market place rather than upon government I think we will have an efficient solution. There are going to be losers and there are going to be winners but I think the market place can better make the efficient determinations than any single individual or any single committee. Competitive equity means letting the market place make the determination and then winners and losers will be the result of a most efficient determination.

18. Directed to all panelists...We need strong railroad and barge industries in the Northwest. Do they both have to lose?

Panelist unidentified: We do definitely need both modes of transportation. We have a two-fold problem with the user tax situation because of putting the Columbia River system at a disadvantage to the Puget Sound and then the problem with the user taxes on the river vs. a rail operation. Currently your rail rate and your truck-barge rate are about equal coming out of Montana and the Dakotas, so the system cannot stand any further increases in costs as far as the truck-rail operation goes. The company that I am involved with is currently contemplating building an export terminal out here, joint-partnership with someone in the mid-West and an equal amount of money is going to be spent to handle both modes of transportation, both unit trains and barges. We would like to think that both of them are compatible and very much needed in this area.

JUBITZ: My final comments to all of you would be to write to Congress and to let them know about your feelings, particularly those of you who are in Oregon. To Senators Hatfield and Packwood and Congressman Wyden is a very impressive Congressman in our area. I think that all of those gentlemen would like to hear from you that you want to see competitive equity if that is the term that could be used between all of the transportation modes. As I have said before, we are not against our paying our fair share and I would also urge you to be aware of the situation and hope that we are all here next year to hear the next conference because if user fees go in 100% cost recovery and they are region specific, we may not be here.

PANEL: REDUCED LINER SERVICE IN PORTLAND AND THE COLUMBIA RIVER--FACT OR FICTION?

INTRODUCTORY REMARKS

Jim McGraw, District Manager
General Steamship Company, Moderator

We think we have an interesting topic for you this morning. It poses the question "Reduced liner service in Portland and the Columbia River--fact or fiction?" I hate to take some of the suspense out of the discussion, but the panel has already decided that it is a fact. Over the last few years quite a few lines have left the Columbia River; some still call Seattle and Vancouver, others have left the Northwest altogether, calling only in California. We have no great antagonists on this panel as there were on the previous panel, railroad vs. water carriers, so where Lloyd Anderson was desperately trying to remain neutral I have no such problem. Instead, we all agree that there are basic problems we face and we all want to work together to try to find solutions to those problems and increase liner service again in the Columbia River. Our panel members will give you their views on why liner service has decreased, what problems have been created by less liner service and how these problems affect the shipping industry and the economy of the whole region. They will also discuss possible solutions to the problem.

Columbia River and West Coast Traffic Analysis

Del Pearson, Manager of Marketing Projects
Port of Portland

It is a fact, not fiction, that Portland and the Columbia River have lost liner service in recent years. The fiction lies in some of the misinformation that one hears as to what the causes of this are. It is common to point the finger at the Port as being responsible and in a way, I actually wish it was something that we had done. Then the solution would lie in simply changing our own way of doing things. Unfortunately, the real cause lies in factors we cannot totally control and that makes solving the problem a particularly difficult task.

I would like to give you a brief explanation of some of the causes that we see and some of the proposed solutions that we see for correcting this problem. In the past five years we have lost approximately 14 steamship lines at the Port of Portland. Four of those lines have totally gone out of business. Two of those lines have totally ceased all operations in the Pacific Northwest. Six of those lines left because of lack of sufficient cargo in Portland and two of those lines left because of operating reasons--labor shortages, productivity and so forth. Some think we've lost this service to Seattle--that is not true. Only two of the lines that left Portland went to Seattle and consolidated service there. In fact, Seattle is facing the same problem of loss of steamship service that we are. Since 1978, Seattle has lost seven trans-Pacific container carriers while we lost only three. APL has recently reduced sailings into the Port of Seattle. If the consortium of Neptune-Orient Lines, Korea Shipping Corporation and OOCL is approved by the FMC, that will mean reduced sailings into the Port of Seattle. The Port of Seattle is reporting this year that the container tonnage is down approximately 25%. In Portland, ours by comparison is down about 10%. Right now Seattle is in the process of actually laying off employees and selling off some of the container equipment. The Seattle situation points out the real problem. The entire Pacific Northwest is losing steamship service, not just Portland. If you compare Pacific Northwest market shares of all West Coast liner sailings, you will find that since 1978 the Pacific Northwest market share of trans-Pacific sailings has gone from 30% down to 20%. Since 1978 the Pacific Northwest market share of South America vessel sailings has gone from 50% down to 25% and since 1978 the Pacific Northwest market share of European liner service has dropped from 25% to 15%.

This situation results from one single factor--cargo availability. It is not port costs, productivity, sailing time up and down the Columbia River; it is simply a question of having enough cargo to support service. What are the causes? There are several. As vessels have grown in size and cost and as their operating costs have risen, ships now demand more cargo for a profitable call. Ships used to wander up the Columbia River for as little as 500 tons of cargo. Today the minimum requirements may be for 2,000 or 3,000 tons to make a call. In some trade routes, like the

Mediterranean or the east coast of South America, the cargo available in this local area simply has not grown at a pace to keep up with the minimum booking requirements of the lines. There simply is not enough business here to support steamship service to some of these destinations.

Also, vessel costs have risen much faster than rates, primarily due to intense competition during a period of economic recession. Trans-Pacific container carriers tell us that their costs have risen as much as 30% while rates are at 1974 levels. This has forced some lines out of business. The remaining lines are seeking maximum efficiency by reducing ports of call. This has resulted in the load-center concept with vessels only calling at a few ports. Now they are bringing the cargo to the ships rather than bringing the ships to the cargo. The primary beneficiary of the load-center concept has been the California ports due to population and geographical considerations.

Let's look first at population. The ships will always go to California simply because there are 20,000,000 consumers and producers importing and exporting products to fill those ships. By contrast, the Pacific-Northwest lacks this population of consumers to fill the ships with the imports and while we have a lot of exports, they are forest products and food stuffs that are not attractive to steamship lines because the rates are too low. Geography is also a consideration. California's proximity to the large producing and consuming area in the Gulf makes them a natural for handling cargo in and out of that area. Seattle has a similar geographic advantage related to Canada. In fact, two of the lines that call at Seattle consider the Canadian cargo to be more important for their call in Seattle than the cargo for the Seattle region itself.

In addition to geography and population, some additional market factors are making it more difficult to keep ships in Portland and the Pacific-Northwest. To supplement our smaller base of local cargo, we need cargo moving to and from the major markets in the Mid-West and the East in order to support service by the larger lines. Rail and truck de-regulation puts us at the mercy of inland carriers in attracting this business. If they give us good rates to compete, we can get the Mid-West shipments. If they don't, we can be out of the inter-modal business overnight. Also, with containerization, cargo from our backyards that used to be captive now can be diverted to other ports under concepts like the European mini-land bridge or the absorption of drayage charges by the steamship lines, etc. So, at the very time that we need all of the cargo that we can get to attract steamship service we have seen more erosion of this cargo to other ports largely as a result of the actions of the steamship lines themselves. What is the answer? What will it take to raise the level of steamship service to meet local needs?

We believe we have some of the solutions. First, we have to identify those trade routes where enough cargo can be secured to actually support service. If the cargo potential isn't there, we may have to simply accept the fact that we can't support service into some markets. Our Port staff has research underway on South America, the Mediterranean and Australian services at this time to make such a determination. And we have to focus our sales efforts where the service actually can be supported, not waste time looking for service to destinations where only a small amount of cargo is available. For trade routes where there is enough cargo to support service, we need the market intelligence to determine which lines are looking at changes or expansion of their service which signal an opportunity to get them into Portland or the Columbia River. Marketing efforts have to focus on lines that are actually looking to change their service in a way that could benefit us. In today's economy, we simply can't get lines that are satisfied with their current status quo or the present operation of their service.

This type of ongoing market intelligence and followup has recently brought lines to Portland like Star, East Asiatic Knudsen, the China Ocean Shipping Co., and so forth. And we're constantly seeking information from other potential lines. I just returned from a five-country swing through the Far East to try to find out what lines are doing that might identify opportunities for us here in Portland. This week we have another group of people departing for Europe with the very same mission. Most importantly, we need to get the entire marine community in the Columbia River and Portland behind the effort to attract new service and to keep what we have now. If the local shippers do not demand direct service and if they're satisfied to see their cargo moving through other ports, there's nothing the Port staff can do in terms of rates, facilities and services to attract new service or even keep what we have now. By contrast, if local shippers and the marine trade organizations here will get behind the effort to attract new lines, and will give preference to vessels calling directly in the Columbia River, we can reverse this trend of the loss of steamship service.

Stevedore Outlook on Reduced Liner Service

Peter Beckett, President
Jones Oregon Stevedoring Company

There are many opinions regarding why the reduction of liner service on the Columbia River and possible solutions to correct this. We feel that we should point out the services performed by stevedores in this area which tend to encourage or entice business into the area.

First, and I feel foremost, is the innovative and consistent cargo handling methods and techniques that must be used. This would include providing and maintaining the proper stevedore gear, superior gear and equipment, both for use on board ship and on dock. Also providing routine and spot maintenance for this gear and new gear for the area. There's recently been constructed a marine lake to discharge grain in emergency cases from vessels and barges that have problems.

We must provide other special equipment. We've recently built some new hydraulic lift trucks, tow trucks, to tow damage free automobiles from vessels. Also we must work with the Port in providing new equipment, such as the new crane at the Port of Vancouver and the new bulk loading facilities being constructed at the Port of Longview.

Secondly, we provide advice, assistance, expertise in cargo stowage methods and refining cargo movements in general. In connection with this, the stevedore must advise and work closely with the ship owners and agents in connection with stowage and handling of cargo. Also they must plan and execute stowage under the regulations required. An example of this is the planning of stowage on a grain ship which must be coordinated with the National Cargo Bureau and the Master of the vessel, of course.

We provide special discharge assistance, such as recently an innovative system for discharging automobiles in Portland. Another planning project that was recently performed in Portland was the 42-inch gas pipe where 40,000 tons of pipe was moved through the terminal. The cooperation between the Port, the stevedore and the longshoreman's union was exceptional in this project. Additionally, the stevedore must provide damage control on all cargos, provide well-established safety programs and the staff to implement these safety programs in order to maintain a safe working place for the men, but also to establish a reasonable cost level in the area. We also provide a full-time labor relations staff to mitigate labor disputes, advise stevedoring companies of their rights under the coast contract and provide full-time representation in coast negotiations which just completed. These services are provided not only to companies but to the ports also.

Finally, and perhaps the most important to all of you here is to provide competitive rates which will apply at all ports in the area when possible. The point here is that the stevedore must always be competitive with other areas outside the Columbia River and we believe we are able to do this in most cases. With all these services and efforts, why do some of the lines leave the Columbia River? I think you have heard some of the reasons from Mr. Pearson. I would like to remark on just two others.

A change in base-cargo contracts seems to have a big effect on our business. Over the past years, we have seen three different carriers have a plywood contract in the Columbia River area. My opinion is that we did not lose these other two carriers when they lost the contract. We did not lose them for any reason that can be blamed on the business community or the ports in the Columbia River area. It was strictly a matter that was out of our hands. Secondly, we have found that many of the lines have moved out of the Columbia River due to the fact that they have decided more lucrative cargos can be carried out of other areas or that more cargos that are better paying are carried out of the other areas. How can we approve this situation? As a stevedore, I believe that a few things can be done.

I would like to see the elimination of competition between the ports in the Columbia River. That is easier said than done, I admit. Full cooperation between the ports, agents, freight porters, stevedores and unions can make service in the Columbia River so good that cargo owners will want to bring their cargo here and have it handled here. We need more emphasis by the ports on attracting cargo to the area. The past emphasis in my opinion has been on reducing costs to the steamship company and this, of course, has importance. But, if only 50 or 60 tons are loaded to a vessel or discharged from a vessel and we do the business completely free and the port charges are nothing, the vessel would still not call in the Columbia River. If the cargo was booked in or out of the Columbia River in volume, the economics would be correct for the steamship company. To me, the key is cargo--if there is cargo here, it will bring the ships.

My last point for all of you to think about--the Pacific-Northwest is practically the only area where the ports operate the terminals and in some cases perform the stevedoring. Some changes are taking place in the Puget Sound to bring private enterprise into operating the terminals with the support of the ports. The most successful ports in the world are operated by private industry. We, perhaps, should take a very hard look on changing our system to see if that can be accomplished here.

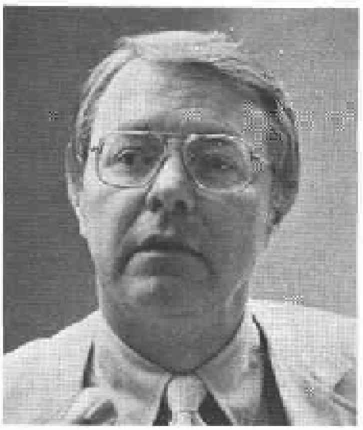
Liner Service Attitude Toward the Port of Portland and the Columbia River

Roland Cornelius, District Manager
U. S. Navigation (Pacific), Inc.

When Karen Hilton asked me initially if I would speak before this group, she was, I believe, thinking in terms of the fact that we were one of those operators that had left the Columbia River and the Port of Portland. While this was correct in late 1980 and the last quarter, the good news is that we are back, and my comments will therefore relate to one particular liner operator and some of the reasons behind our departure and return.

Since earlier this year, nine of the last twenty-two sailings that we have had in the line we represent, called Euro Pacific, have called directly at Portland, or approximately 45%. As the peak season of the export industry increases, starting this month and into October, we anticipate additional calls direct at the Port of Portland and believe that that relates to the relatively increasing and strong position of the American consumer which will expand, we think, into the balance of this year approaching the holiday season and into 1982. Interestingly enough, the import segment of this particular service has already rather dramatically increased and started possibly three to four months ago. This is true in the European trade, as it is much more so, because of the volume, in the Pacific Rim trades. The line that we represent in the Pacific Rim trades, along with our competitors, has increased rather dramatically and numbers are difficult to truly assess, but I would guess that in this Pacific Rim trade the lines serving the West Coast and, of course, Portland, Columbia River, probably cannot today handle more than 70% of the available cargo. A lot of us are involved with special charters to take care of some of that excess cargo, which will show you the dramatic change of events that has occurred over the last six months.

While our decision to withdraw from Portland was initially concluded by some as a weak market condition in the late 80's, and while it was true to some degree, the specific reasons behind our departure and more recent return were more basic and quite simple. They involved the attempt on the part of this particular owner, who is one of three in a partnership involving Intercontinental Transport, the French Line, and Hapag-Lloyd, the latter we represent--in an attempt with six ships to make the round voyage in 60 to 63 days, to and from the West Coast and Europe. The specific reasons behind our inability to make that round involved a couple of things. One, the difficult labor problems in the UK. Secondly, the difficulty, you may recall, again occurring in the late era of the Carter Administration when he was having talks involving the future of the Panama Canal operation. During that period of time, the number of vessels were delayed rather dramatically, including ourselves. Sometimes up to three, four and five days.



That particular problem has turned around, again, rather dramatically and quicker than anticipated. Right now, we are experiencing relatively short delays. Some of that relates, of course, to the daylight passage of ships through the canal that exceed 103 feet beam, which requires daylight transit. The specifics involved in the departure, then, of Euro-Pacific from Portland really then were not totally due to Carter only. In this attempt to maintain a 10 day frequency on the particular service, it demanded a rather quick solution on the part of these three partners. That decision amounted to a departure from four ports, three in Europe and one in this coast, specifically Portland. The result of these earlier than anticipated changes allows us now to maintain a 65-day round on this particular service and the partners are now discussing the feasibility of officially reinstating Portland as a regular direct port of call.

Slightly contrary to our moderator's comment at the outset, one liner carrier can say, then, to the question of reduced liner service to Portland and the Columbia River that it is fiction, not fact. All operators, of course, of liner services to and from Portland differ by trade route. We talked earlier about the Pacific Rim trade routes. Each, of course, has its own reasoning behind increased or reduced service to the Columbia River and Portland. Particularly so are these specific Rim trade route carriers, many of whom have not only eliminated service to the Columbia River, but to Puget Sound, Canada and, in some cases, Northern California, as well. Others, as Del pointed out, have completely gone out of the business or redeployed their vessels in other North American trade routes.

To the present dilemma, which Lloyd Anderson and his group discussed--to the water way user charge which if enacted, could eliminate a great deal of all shallow and deep draft service on the Columbia and Snake River complex. We believe a maximum effort of each person in this audience is necessary in order to continue the livelihood of a great number of industries and jobs related to the maritime industry. I am certain that this major effort headed by Lloyd will, in fact, lead to continued and prosperous use of all Columbia and Snake River ports. I hope that each one of you will meet today's challenge where, I'm convinced, that the result will be increased liner service to Portland and all the Columbia and Snake River ports. Thank you.

<u>Problems of the General Cargo Shipper</u>
<u>Steve Newman</u>, President
Newman Wilson & Company

Let me tell you first, for those of you who don't know, what a foreign freight forwarder is. We are generally small, independent businesses licensed by the Federal Maritime Commission to arrange for the international

transportation of goods. As forwarders, we handle 90 - 95% of all of the general cargo that moves in international trade. We handle clients from the size of the Georgia-Pacifics and the Omarks to the one-man lumber exporters. We act, in fact, as the traffic department and, in some cases, as the export department for moving their products as expeditiously and as cheaply as possible in international trade.

Now, while general cargo represents a small percentage of the total ocean-going commerce from this area, its economical ripple effects are much larger than its tonnage would indicate. This is simply because there are a lot more people involved in handling and selling a container of toys or a piece of machinery than there is in a whole shipment of lumber or grain. But the problems of the general cargo shipper here are two-fold. The first is the real lack of service. We can't get to West Africa from here. Service to the Mediterranean is very spotty. It is getting tougher and tougher to get to Australia and New Zealand out of the Columbia River. Another problem is the fact that many of our general cargos are low revenue cargos: agricultural and paper products, hay cubes, lumber, things which don't provide the ocean carriers with the same kind of revenue that manufactured goods and can goods produce.

The lack of service and the low revenue cargos result in a certain amount of discrimination against Oregon, Southern Washington and Idaho shippers. For example, a container of lumber can be shipped from Puget Sound to Kobe for $1,080.00; from the Columbia River, $1,500.00. Or on a board footage basis from Puget Sound to Kobe at $28.50/1000 feet and from the Columbia River at $40.00. Peas to Taiwan are $5.00/ton cheaper to ship from Puget Sound than from Portland. And when you are dealing with these kinds of cargo with very little profit margins, that can put you entirely out of a market. So, obviously the lumber exporter and the mill in the Puget Sound area have a very real and definite advantage.

What about the service we do have? As I say, we have low revenue cargos, much of it. They are the last cargos to get space on the vessels. They are the first cargos to get bunked when better cargos come along. That leads to problems with filling credit and contract obligations.

Del mentioned the fact that many of the carriers will equalize inland freight between the Puget Sound and Columbia River area and a lot of shippers and importers don't seem to care much whether the cargo physically arrives at the Port of Portland, Port of Vancouver, or the Port of Longview as long as it's not their responsibility to get it here. But the fact is, and we've seen it happen in the past, that when there is no need for the carriers to equalize the cargo, when there is no other competitive service to force them to equalize the cargo, they will stop doing it. This is going to put us at an even greater competitive disadvantage.

How do we attract more vessels into Portland? The Port of Portland has recently adopted year 2000 programs. They made a very real committment to the development of general cargo, to improve the facilities and to improve their marketing efforts. We, as freight forwarders and the general cargo shipping public with us, intend to hold the Port's feet to the fire with that. We need more inbound cargos. Inbound cargos generally produce greater revenue and they will bring the ships here to take our export cargos.

We need to discuss, I think, the proper role of the ports. Should the ports subsidize general cargos? And if so, to what extent? Should the tax basis be increased? Port of Portland gets a very limited amount of general tax money, far less than the economic impact returned to the community. In order to have a viable international trade community here, we have to have a full service port. We have to find, develop and encourage some central spokesman for the entire Columbia/Snake River system. Even a desire for the ports to cooperate rather than compete would certainly be of paramount importance. We need a concerted effort by everyone whose interests are affected by international trade, and that's just about everybody. We do have a problem, and we need some solutions. Thank you.

1. Directed to Mr. Newman...Why is there a price difference between Portland and Seattle for shipping various commodities?

NEWMAN: The differences that I had mentioned are due to the fact that the carriers don't equalize the freight between the Columbia River and Puget Sound. They simply add it to their freight bill. So, in effect, we are paying inland transportation in the ocean freight rate because the vessels are calling in.

2. Directed to Pearson...Does the Port of Seattle or the carrier pay the extra freight cost to Puget Sound?

PEARSON: Cargo in Portland, if we don't have the service, has to be trucked or railed to Seattle, so that adds the extra cost on, I think, was what Steve was talking about. I'll give you a reply because I think it helps answer the other questions over here. As the steamship lines have looked for the load center concept, they have looked for those particular markets where they felt they could get the biggest base of cargo with a minimum of risk. And APL and Sea-Land, the two particular carriers that you have mentioned, have both elected to load center a portion of the cargo in Seattle partially because of existing terminal leases and partially because of the existing market in Canada because they both tend to serve the Canadian market through Seattle, which gives them a competitive geographic advantage. So what APL and Sea-Land tend to do, then, is to handle the Portland cargo by equalizing the charges over the road to Seattle figuring that that is a cheaper way to do business than to bring the vessels here to get the cargo. The problem arises when we get to the situation discussed by the other gentlemen here. Because as long as the lines are eager or looking for business, they are willing to equalize over the road. But, if you take the lumber situation which Steve has discussed, what's happened on lumber is two things. First of all, the traffic managers that are shipping lumber have managed to drive the rates on lumber down to a level where the steamship lines don't want it; they don't want to carry it. That has happened at the same time that our dollar has strengthened to such a point that exports from this country have been very heavy within the past year. So the steamship lines do not need the lumber to fill their ships. What do they do then? They stop absorbing the cost of the lumber over the road to Seattle, which produces the very situation that Steve Newman was talking about. I think what you are looking at here is the difference between a short term benefit and a long term benefit. The shipper will look and he will say, today I have a short term benefit in using APL and Sea-Land through Seattle as opposed to a carrier that is calling directly to Portland. My cargo may get to Taiwan two days faster or it may be $10.00 cheaper. What they are not doing though, is looking at the long term impact, because if the cargo from this area goes through other ports, we eventually then lose the steamship service here and as soon as the steamship service is gone from here, then all of the over-the-road absorbtions cease and the mini land bridges go up in cost and the long term benefit is it's going to cost all the shippers in the Portland area more money than they are saving by trying to save 5 or 10 dollars now or pick-up one or two days. So, it comes back to kind of a question of loyalty in support of the service that's here.

3. Directed to panel in general...Is the decline in shipping limited to the Northwest, or is it down elsewhere in the United States, too?

Panelist Unidentified: We've done some research on market shares of West Coast vs. East Coast and one of the things we're seeing which is a departure from what we thought we were going to see. There was a lot of speculation four or five years ago on the tremendous impact of the Panama Canal congestion problem and a feeling it was going to bring a reduction in the vessels transiting the Panama Canal and bring a greater increase in the concepts of mini land bridges of moving the cargo, say, into the West Coast from the Orient and then on to the East Coast by rail. What we are noticing is that exactly the opposite is true. The East Coast liner services from the Orient, for example, are increasing in terms of markets there. The Gulf area is remaining fairly stable, the West Coast is staying about the same in marketshare, but there is a concentration that is going on California because a lot of the vessel owners looking for the very highest revenue cargo now operate a service which is a combined California/ East Coast service. There are about four or five lines in the Pacific that are doing that, and two or three more have switched to that concept. So the East Coast liner service is still very healthy because that is the major manufacturing area in our country and it is still the major consuming area in our country in terms of population. I don't know if that directly addresses the question. I think another part of it is just some of the bad economic times that we are in now. It goes through cycles, and if the economy should make a rapid recovery, I think that out of the woodwork you would see, like we did in 1975, some additional lines wanting to get into the service. You know, I was out in (unintelligible), for example, and talked to (unintelligible) and international shipping corporations who have all kinds of government money to spend on new ships, and they are looking at the possibility of West Coast service. There are others in that category, but what they are really waiting for is for the economy to change because the other part of this equation has been their poor profit situation. The steamship lines simply have not been able to operate at a profit, and as much as you want to move lumber, the steamship lines cannot keep carrying it at 1974 rates. Once stability is reached in the Pacific Ocean, and I think the same thing is going to happen in the European trade, you are going to see rate increases and the rates have to go up and they have to go up some substantial percentages. You know the answer to the lumber problem is to pay the steamship line an amount of money that makes it worth his while carrying your cargo and then he will come and knock on your door asking for your business.

4. Directed to Pearson...Why doesn't the Port of Portland slash its tariff by 50 percent?

PEARSON: Basically, what we've done is we've made tariff reductions where we were selectively able to do it and keep our books halfway in balance. For example, a year ago in order to try and attract additional business of the type that Steve was talking about of imports, we reduced the wharfage rate on import containers moving to Midwest destinations so that we have the lowest rates on the West Coast. We've made other adjustments in terms of the rates that we charge for handling truck unloading, car unloading, container stuffing and so forth. I think that where we see an opportunity on the market where a rate change can have a significant impact, we've done it. But unfortunately for your steamship operator, the percentage of the total costs that are involved with what they pay ports is quite small. You know the vessel operating costs are $30,000 to $40,000 per day and the total cost for calling at Port of Portland may be approximately that amount for an entire call so the real expense they have is in the operational side of the vessels. It comes back then to can they generate sufficient cargo to warrant spending $50,000 a day to come up the river? There is no way we can give them a tariff decrease that tremendously offsets that expense they have. The importer who is most able to do that is the one who is still having his inland freight charges equalized. The lumber shipper and the wastepaper shipper don't have that luxury. They can't do it and that's why I said in my remarks that we need a unified cohesive unit of some kind that can bring these people together and convince the shipper of high revenue commodities. That will bring the vessels in and then we will be able to move the lumber and the paper and the other products that we can't do now.

5. Directed to panelists in general...What about the cost of the trip from Astoria to Portland and back?

Panelist Unidentified: I have always felt that the hundred miles up the river to Vancouver or Portland, and even the lesser distance of Longview, has a tremendous bearing on the cost of the vessel, and I feel that we have to do something special. We do have to do something special in the upper Columbia River ports of Portland, Vancouver and Longview especially to be competitive with the Puget Sound or any place. What can we do? What we can do, I think, is altogether make the effort to show that the service is better. I feel that the unions have a very good attitude now in all these ports. They know they must do a better job. We brought the steel pipe up the river. A lot of it went to Everett, yes, but we did get some of it and we got it mainly because our service was better. As to costs, we have many, many contracts that cover both Columbia River and Puget Sound and the vast majority, I would say 90-95%, of those contracts offer the same rates. So we know we have to keep the costs down even though we have a little heavier manning here on the river than they have in the Sound. So, therefore, to give an equal rate in the river and the Sound to someone, we have to do a little better at productivity than than we've been able to do.

6. Directed to Mr. Cornelius...What are the economics of container-on-barge to Astoria versus bringing ships upriver?

CORNELIUS: We happen to be that carrier that looked at that alternative. The economies involved were better than the present partial mode of trucking to Seattle. The problem encountered related more to the lack of container crane or cranes at the port of storage. This, of course, refers to the expansion of other ports on the Columbia River system that in years to come will likely change that point. But in terms of the economy of barge vs. truck to Seattle, if those are the two parameters, it's a little cheaper when you look at all the costs, inclusive of the vessel not transiting the Columbia River to port. That would not necessarily eliminate the Port of Portland. Theoretically, that cargo would continue to move through the Port of Portland facility, assuming we're talking about containers, at Terminal 6, down the river, on to the mother vessel, which does not come to Portland but comes to Astoria. I think the bottom line is that those smaller ports do not have the facilities to accommodate that operation at this point, as one owner's position.

Panelist Unidentified: I would like to respond to that just briefly because we have also looked at the same thing. As I look at it, I might even ask one of our shippers out in the audience who I know, if you take a container of grass seed, for example, and let's say that you have a ship that is calling on Seattle and you have a ship that is calling at Astoria later, and you load a container of grass seed onto a truck at Halsey, Oregon, and you bring it North on I-5, and then you have two options: continuing north to Seattle or off-loading that container, putting it into a container yard in the Portland area, subsequently loading it onto a barge and having the situation of getting it down river, which is probably the more likely option that you would choose? I'm not sure that I know the answer, but I predict that given those two options, the majority of the containers in that situation would continue to move by truck up to Seattle where the transit time is faster and you know that you are going to departure date of the vessel. But I might ask one of our shippers, Glen, you know.

Respondent Unidentified: Well, what you say is true. The transit time usually is quite critical and I don't know if the grass industry is not typical, but it seems like all of our containers are usually delivered the last day that the vessel is available. The distance from Salem to Seattle and the distance from Salem to Astoria, even if it were to move by truck under one of those two options is close enough to being the same, but there would not be any real advantage to that person in the Astoria option given the state of the highways and so on. He's almost just as well off to run the container on into Seattle as he is to take it to Astoria. Cargo originating on the Columbia River system itself could be a totally different story.

7. Directed to Mr. Beckett...What about the charge that the Port of Portland has the lowest productivity on the West Coast?

BECKETT: Well, I think that productivity is the easy excuse to give. We do a lot of steel in Portland. Our productivity on steel is equal or better in Portland and Vancouver to Seattle. I think Del has done some recent research that we have talked about and he may be able to answer this on container much better than I can, and if that's what you're looking at -- containers -- but generally, the productivity in the Columbia River area is not that much different from Puget Sound. There are some differences in California, but almost all those can be directly attributed to volume. It goes back again -- if you load a couple tons of cargo, you have a lot of time on the ship and time spent loading a very small amount. • If you load 2,000 tons, you are going to do better. Here again, it gets down to, in my opinion, the more volume the more equal productivity it would be. Dell, can you speak about the containers?

PEARSON: In the container area, what we find is that the productivity of Puget Sound and the Columbia River tends to be just about on a par. The California ports seem to get much higher productivity because of the volume of containers that they are discharging plus some other labor considerations that take place in California. We have recently seen some Japanese figures that they themselves put together, and they are the only ones we have ever seen, by the way, by vessel owners on containers. What those figures show is that the productivity in Seattle and the productivity in Portland is just about on a par. The important part of it is also their total costs of doing business in Seattle and their total of doing business in Portland. This includes piloting, tugs, charges at the terminal, wharfage and so on. At Portland and Seattle, it is within $5 a container and that's just the same as saying that it is just about equal.

CORNELIUS (?): May I answer one operator's experience with respect to productivity in related containers? We pretty much share what generalities have come about here. Seattle, Portland and Vancouver, were about the same and we run anywhere between 15 and 18 containers an hour. The dramatic change comes when you move South. In the Bay area, specifically, Oakland, we regularly achieve 23 to 25 containers an hour. We do not load that much more cargo on any given ship, certainly there is more, but not to the degree of that difference. It moves south into Long Beach where we operate and we regularly achieve 30 an hour. We've gone as high as 40. So speaking to Chuck's point earlier, the productivity matter is of importance and I think can be used as a tool to help the Columbia River and the Port of Portland specifically in attempting to better our position.

8. Directed to Beckett...How would the Port of Portland be different if it were operated by private industry?

BECKETT: Primarily in the Port's support of private industry. The various ports here do certain things, they use tax money, they use their base money, to perform certain functions. In other ports where the terminals are run by private industry, the ports provide the facilities, they provide financing, they do things that give the private stevedore or terminal operator the opportunity to get started mostly, that's the main thing. And I believe that private enterprise is always going to do a better job because you always have the competitive factor. It is interesting to point out what Roland said. The California ports are carrying the Eastern states. They are carrying approximately the same number of containers, but they are doing it productively. I think a lot of that is that they are all privately operated. If I don't do good for a customer, or my competitor doesn't do good for a customer, then they go some place else. If somebody wants to call on the Port of Portland or the Port of Vancouver or any port and they are going to call there, there is no other place to go. In other words if they want to be in Portland, they have to work with the Port, but I believe that we would have a more competitive attitude in the Pacific Northwest and in Portland especially, and in any of the ports, not just Portland, if it could be worked out between the ports and the stevedores and terminal operators to operate on a more competitive basis. In other words, we would have to produce and we would have to be competitive or the business isn't there, and if we don't have the business we close our doors.

Maritime Policy and the Reagan Administration

Bruce Carlton, Special Assistant to Maritime Administrator
U. S. Department of Transportation

I will give you some of my thoughts on where we might be headed with the new national maritime policy. I think the health of the national maritime industry is certainly going to have a direct correlation and direct influence on the health of the maritime industry in the Pacific Northwest. I don't think you can separate the two and when we speak of the maritime industry at the Maritime Administration, we do like to think of all of its various segments, the Blue Water, deep ocean shipping, the stevedores, the port operators, the terminal operators, the ship building firms, the ship repair, etc. It's a big industry.

We've been closely aligned and associated with it for many years and even though we have just made a move into the Department of Transportation, I don't think it's going to change that relationship at all. Just last month, President Reagan signed a bill that moved the Maritime Administration from its old home, the Department of Commerce, to the Department of Transportation. The move has received a tremendous amount of support, in particular, from everybody in the Administration and in the industry generally. I have to say that without the support of a few individuals, such as Senator Gordon and Senator Packwood, it probably would not have happened nearly as fast as it did. But both in the Senate, Merchant Marine Subcommittee, in particular, and in the House Merchant Marine Committee we had terrific support. Everybody thought it was the right move at the right time and that the right people were in charge to take over and do that. I think they set a record on it. I don't think you could get a declaration of war through any faster than what these people accomplished in this transfer bill; something like five or six weeks. They wrote the bill, had it introduced, had two hearings on it in the House and Senate, got it to the President and had it signed. I don't think I've ever seen anything move quite that fast and don't expect the user fee legislation to move along that same track.

Back in 1967 when President Lyndon Johnson tried to do the same thing, he was met head-on by both the management and the unions in the maritime industry who said, "You're not going to do it, we're not going to let you get away with it, we're not going to be held up by the rest of the modal constituencies in the Department of Transportation, we're comfortable at Commerce and we know how to play the game and it's best you leave us alone." It did not happen this time. Some of us sitting back there kept waiting for the phone to ring saying, "What are you trying to do to us?" There were no phone calls. It's rare when you see such unanimity for this kind of a move and I take it as a very good sign that we're going to try to turn things around.

I've got to give credit -- he's my boss, but I've got to give credit to one person in particular who has laid the ground work for this move and who was primarily responsible within the Administration for getting the kind of support for this move, and that's Transportation Secretary Drew Lewis. He's a strong, powerful individual within that Cabinet and I think from his own conversations with other members of the Cabinet, in particular, Malcolm Baldrige, Secretary of Commerce, he was able to really sway the day and he deserves a lot of credit for this move. When he signed the Maritime Act of 1981, President Reagan noted that he had designated Secretary Lewis as the Administration's spokesman on maritime affairs. The President said he considered this designation not only essential to addressing effectively the problems of the maritime industry, but also to resolving the frequently expressed desire of both the Congress and the industry for a single focal point for maritime matters within the Executive Branch.

He also noted that the move will assist bringing the maritime industry into part of the national transportation planning process -- something that has perhaps been ignored over time -- which I think was touched on in the first panel group this morning in some of the expressed opinions from the audience -- for a more cohesive intermodal transportation network where the various transportation modes are all doing well and making money.

Beyond this paper change and organizational change, which in itself won't turn the world around, there was a very strong positive statement issued by the President on the signing of the bill wherein he really reiterated various campaign tour pledges that were made last year -- Sun Shipyard is one in particular, also in St. Louis -- where he pledged that this Administration was going to do something to revitalize the American Merchant Marine, the American maritime industry. And if you go back, and I'd be happy to send you a copy of this (I've got a couple thousand of them in my desk) if you go back and take a look at what the President said, it does bode well, I think, for the industry at large. Secretary Lewis has made it clear to industry officials and to the Congress when he was testifying on this transfer bill, that he is fully committed to strengthening the Merchant Marine and maritime industry at large and he was going to personally be involved in carrying out the President's charge to the Department of Transportation -- that is, do something positive to make the Merchant Marine economically viable.

So just think back as one week ago today we moved the first 100 bodies out of the Commerce Building and put them in the DOT building; I was telling Frank Wilner last night that I get lost coming out of the elevator still and it'll take a little while for us to get our bearings, but it's moving pretty smoothly.

While we undertook this move, we had another bit of news at the same time and that is that retired Navy Admiral Harold Sheer, Hal Sheer, has been nominated by the President to be the new Maritime Administrator. Just to mention very briefly, I've been talking with Hal for a few weeks now and he's been a consultant to Secretary Lewis and he is a tough fellow. You know where he's coming from and it didn't take me long to figure out how he earned four stars in the Navy. He'll let you know what he feels about what you're saying, he'll let you know exactly what he's thinking as well. Most of his actual Navy command experience is in the submarine forces, and he was associated with Al Haig in Europe. He had the command of the Southern European ATO forces; he was also the Vice-Chief of Naval Operations.

He's also no rookie in the Washington business; he had seven or eight tours of duty in Washington, and in particular he did a lot of work on the Navy budget, and that's where it all boils down to the dollars and cents that you get to operate with.

I would like to quote just one brief item from the President's statement. When he signed the Marad Transfer Bill, he said,

> The process of correcting the problem of the maritime industry will be difficult and will take time. There are no quick fixes. The vision and innovation accompanied by a spirit of cooperation, sacrifice and compromise by all segments of the industry, labor and government are essential if we are to succeed.

Where are we on National Maritime policy? I guess I have to tell you at the very beginning, I don't have the final answer, I don't have a crystal ball, no one that I have spoken to either on Congressional staffs or in other executive departments seems to say, "Look, I've got the answer, this is all you do." Right now, the senior people in the Martime Administration and at that the Department of Transportation are taking a hard and fast look at a lot of options that they can recommend to the Secretary. And Harold Sheer has told me on more than one occasion that his number one priority is to put together a new maritime program and get it to the President for action as soon as possible. I don't want to put a deadline on it because then they'll hold me to it, but he said as soon as possible.

Some of the things being considered, I guess it's a shopping list, and the mention of one and not mentioning another really shouldn't be a signal or hint to anyone. We're looking at cargo preference, we're looking at regulatory changes, various ways of trying to get cargo on vessels. I didn't have to come all the way from Washington to talk to you this afternoon to tell you that the Federal budget process is undergoing some fundamental changes. We were just talking at lunch about the so-called Reagan honeymoon with the Congress, and I think that the honeymoon may be over. The budget process has been difficult, it really took its toll on a lot of people in the Government, both on the Hill and in the Executive Departments, and as we continue to find ways to squeeze more savings out of the budget, it's going to get tougher and tougher on all the players. I don't think that the maritime industry or any other interest in the states can really expect that in these times we are going to throw a lot of money at anything and make all the problems go away.

Certainly the President is looking to the Navy shipbuilding program to be a major economic benefit to the shipbuilding industry. The numbers aren't all in yet, but we're talking about a 600 ship Navy, a tremendous amount of building. It takes awhile to lay a keel and start cutting steel for the ships, but there will be a major boost to the American shipbuilding industry.

One thing I do know for sure is that nobody in this Administration has the patience for another long study. They kind of feel that the maritime business is studied out. The previous administration did go through a rather long study process. The previous Congress had the Maritime Omnibus Bill in Congressman Murphy's Committee. I think there was something like

26 hearings on that one Bill, and nothing came out of it. I don't think anybody is in the mood for that kind of treatment anymore. It takes up time and time is a little too valuable at the moment.

We are faced with the situation where, on the one hand, and this is sort of like preaching to the choir, I think, after listening to some of the things that went on this morning. But on the one hand, we have in the United States today a terrific intermodal fleet, technologically advanced, doing reasonably well in some trades, not too well in other trades. I noted with considerable interest your discussions of the liner business moving out of this Port in particular. I think one of the things that the new maritime policy is going to focus on, though, is the dry bulk fleet, if you can call it that. I think you're being charitable to say we have a dry bulk fleet in the United States. There have only been a few new ships built in the last decade. Most of the ships that are out there still afloat in that fleet are older than I am, and that's old enough. It's a rather horrendous situation -- over 40, I think it's maybe 45% of the import, export trade of the United States is dry bulk commodoties and we carry in the vicinity of one or two percent of that in U.S. flag ships. Not a very stellar performance by any standard.

The other thing I think this Administration will be focusing on quite a lot is the whole national defense posture of the United States. It certainly was the big news over the weekend with the budget cuts, I guess, in Defense. I know somehow a couple billion dollars out of a trillion dollar three-year budget may be a bit of tokenism. I don't think that one is done yet. But we are talking about a lot of materials in this dry bulk trade that are really critical to the national defense. Again we are moving almost all those on foreign ships and I think as a matter of public policy, the Reagan Administration is going to want to take a very close, hard look at that fact and see if something can't be turned around.

I think that one of the things that's going to start that off is the whole coal trade. You simply can't pick up any trade journal or newspaper in the business that we are all in without reading about coal. I happened to stick one in my notebook from last week in the Journal of Commerce talking about an announcement of a new coal facility here in Portland. But just about everybody who is looking at new business prospects is looking at coal. I don't think everybody is going to be a winner, but we are looking at modest projections for next year, even this year, of over one hundred million tons of coal being exported out of the United States. It's great business, we have terrific competition from South Africa, from other countries. They are all going to the same place, they are all going to Europe, they are all going to Japan, the Pacific Rim countries and a lot of the difference between who gets the contract and who doesn't is in the ocean freight and landside terminal costs. Again, as one of the panel people pointed out this morning, pennies per ton can swing the difference between a long-term contract and no contract at all. It doesn't do a lot of good to have all that coal -- to be called the Saudia Arabia of the coal business -- if you can't get it to the buyers competitively.

As a total aside, my wife and I took a vacation in the Caribbean back in February and on the way back we were flying over the Hampton Roads area in Virginia and she looked out the window and felt we were being invaded. We counted very quickly 120 colliers sitting out there waiting to get in. Just at Hampton Roads. That didn't include the Baltimore traffic at all.

This Administration, I think, has got some pretty good ideas. I think they're moving in the right direction, and basically that's get out of the way. The President told Secretary Baldridge of Commerce to put together a group of high level -- not the juniors in town, but the high levels, the real policy makers, the people who have the authority to make the decisions. Get them together in a room, find out what the problem is, figure out what to do about it and do it, and you've got about four or five months to get it done. It started, the process has started. I was at the kick-off meeting, and Secretary Baldrige gave us a pretty good pep talk and we got down into the brass tacks. They do have a few things specifically in mind that I think are going to get a lot of play in the next few months.

I would encourage, you and your various associations to get in touch with the group. If you have some particular problem or some particular notions about what would be good for the Pacific Northwest in this business, they are going to be a receptive crowd.

Again, they are not going to study it. The previous Administration actually did a fantastic job of studying this thing. We had an enormous interagency group that got together. I wish I had copies of it to bring, but I didn't have a steamer trunk and the study is a couple inches thick. Probably anything you want to know about the coal business is in that study. They are not going to do that over again.

They are going to be looking at a lot of the regulations, various federal agencies, part of that as you know is already taking off in the Vice-President's office. It's time to stop, take a look and turn some of that to benefit of American businesses. They are going to be doing that in the coal business, in particular the mining and leasing area. They will be looking at what the rails need in terms of a competitive and regulatory environment for long-term contracts and good rates. They will be putting on their dog and pony shows all over the country, telling the people who are new to the market, and there are new exporters to the market, how you do the business, who you have to see and what you have to do to get the job done.

We also are going to be looking to foreign investment in the various pieces of the transportation network. Basically what Secretary Baldrige told us at this meeting was the Government's job, Federal Government's job, is not to subsidize the whole export business, but to expedite it. Find ways to make the job easier and cheaper to get the coal out of the country so that you can earn the foreign trade currencies and be a profitable operation.

These demands that have been placed on the cabinet, really on Secretary Baldrige and Secretary Lewis as well. We have a group of about 12 different federal agencies working right now trying to come up with a shopping list of bottlenecks in the system, the problems. Low and behold and at no great surprise, one of the items that comes up to the top of the list is dredging and the depth alongside major U.S. ports. I don't have the answer, sorry. I've seen some numbers on what it takes to dredge a port, a port like New Orleans has got a nasty problem with the river that carries a tremendous amount of siltation every day and dumps it right in the ship channel. You have ports like New York City saying, "Frankly, we don't really care what you do; just tell us what the rules of the new game are and spell it out and we will raise our own money, independently through bonds or whatever other means a port of our size can do, but don't do anything that harms our competitive position vis-a-vis other East Coast ports." The people in Baltimore say they can't raise money on the same scale as New York, but they need to know as much as New York what the rules of the game are going to be.

There is no question that there is a tremendous economic advantage to a port that can bring in a large draft ship and load coal. The numbers on the East Coast where that armada has been and really still is sitting off shore, Hampton Road, the numbers there if you could bring in a ship of around 150,000 to 170,000 dead weight tons and take that ship to Europe you would lower the required freight weight enough to probably pay the demurrage that they are running up sitting out there now. I think it is somewhere in the neighborhood of $15,000 or $20,000 per day demurrage that these people have on the meter. The problem is that we don't have any ports that are that size.

We have been looking at a few other options in the Maritime Administration. Somebody mentioned slurry pipelines this morning and seemed to get a good laugh from the audience, but this one thing that we have been looking at as a possibility of moving coal to an off-shore site; maybe it works and maybe it doesn't. I think if it happens, it will only happen if the private interests get in there and do it. Another thing that some of my naval architect friends have been telling me is that there is no problem at all--just go into the ports and tell them to take the loading booms and add 30 to 40 feet onto them and then get everyone to building a wide-beam, shallow-draft ship that can take 150,000 tons at about 35 to 40 feet of draft. Sounds simple enough until you find out how much one of those ships cost to build and you begin to recalculate the economics all over again. There is no easy answer to this thing.

The real $64,000 question in this whole thing, and it was addressed this morning and I am sure it will come up again this afternoon and in virtually every type of seminar or conference like this, is who is going to pay for it, how much is it going to cost and when are you going to do it? The answers to all three of those questions have not been brought upon us yet. The Administration's position has been very simply stated and very forthrightly put out in the two Senate bills that were introduced on behalf of the Administration, Senate Bills 809 and 810; one for the inland waterways and the other is for deep draft operations. The basic principal there is 100% cost recovery with the pay-back through user fees, or user taxes, as you wish. I don't think David Stockman would object to the word "user taxes" because he has testified in the Senate hearings back in July that one of the basic reasons the Administration was going after this is the President's economic recovery program demands that Federal expenditures go down. If they don't go down, at least that they go up as fast as they have been going up.

To digress for a moment; I read a very frightening article in Business Week on the way out here yesterday afternoon talking about the Treasury going back into the debt market, the bond market, this fall at probably unprecedented levels of activity. Business Week is sometimes a little doom and gloom, but they were talking about interest rates staying as high as they are and perhaps going up another couple notches, and this is for the medium term. This is the kind of thing that is driving OMB, David Stockman, the Treasury Department and the majority in the Senate and, I think, it is working its way on the House too, if the vote on the budget reconciliation bill is any indicator. It is, I think, the #1 or #2 concern in Washington today and that is the size of the Federal budget, which translates to the size of the Federal deficit. The only thing that could push it out of first place is the whole national defense argument and there is going to be a lot of that going on right now.

One of the panelists this morning and some of the questions from the floor were about the Inland Waterways Revenue Act of 1978 and specifically Section 205 of that act, which is a demand by the Congress on the Commerce Department and the Department of Transportation to do a thorough and detailed assessment of the economic impact of that tax on all potential groups, including not only the inland tug and barge operators but the shippers and the farmers and the localized industry groups, etc. It is coming along. I have seen a rather enormous amount of computer output and the stacks of numbers can bewilder and amaze, but I would say that in the next several weeks the staff at the Department of Transportation will be putting that together, wrapping that into a very good draft study that will be sent up to the Hill, probably in October. Perhaps that answered a few questions that some people had as to the status of that study. It is very clear that the results of the study will be out, discussed and well-publicized long before the Congress gets around to taking action on a user fee either for the inland waterways and/or deep water port operations.

Since S809 and S810 came out I don't think a few days went by before there was considerable reaction. Everybody is beginning to understand that that is going to be a reality. The question really is how much? and who is going to pay it? The difference between these bills for the most part is the cost-sharing formula. Your guess is as good as anybody's at this point as to who is going to win. It is strictly up to the political process. The action is on the House side as well. Congressman Biaggi, who chairs the House Merchant Marine Subcommittee, is writing a bill right now--it has not been introduced. They are going to write it and introduce it as a so-called clean bill, already marked up. I think they had about 10 hearings around the country on this bill and they have heard just about every possible position that this industry and its various segments could offer up and we are just going to have to find out where it all ends up.

I think the Pacific Northwest has perhaps an unfair advantage in that you have more than a representative share on the Hill with Slade Gordon, Bob Packwood, Mr. Hatfield , Punch Green; it's like you shipped everybody out and said, "OK, do maritime stuff." They are a powerful group and it will be interesting to see who sways the day.

One interesting thing has come out of the hearings. All of a sudden, people have hit on the idea of fast tracking these development projects. The amazing thing is that everybody is getting behind us and saying that it actually would be a good thing to do. I mentioned this coal task force that Baldrige is chairing; I think one of the main things they're going to be looking at is how do you fast track? What about Section 404 permits and studies and years of delay? The best example they always throw up is the Port of Baltimore--they have been waiting 21 years now for a dredging project that was authorized that long ago and they are still waiting to dig a bucket. I think fast tracking is going to end up in any final legislation that comes out. I would take that as a very positive sign that at least for a while, people are interested in moving developmental projects quickly.

There are a lot of things going on in the maritime industry and one of the things that we like to point to in the Pacific Northwest from our little corner of the world in the Maritime Administration is the really outstanding job that various groups and organizations have done here in the area of comprehensive and regional port planning. We have been very happy to be a participant, at times even a minor participant, in that process for both the states of Washington and Oregon. We like that approach and the studies that have come out and we hope they were well-received here. It is a nice way to do business and I think it is important to involve the entire region in these types of studies where the economic impact is definitely felt throughout the region as to whether or not the plans that are in the studies bear any fruit.

It is really a little bit too soon to say what is going to happen. If you had this conference about 6 or 7 months from now, I think we might have a much clearer idea. There is one thing that occurs to me that I think will be worth paying very close attention to--next week, Senator Gordon is going to be having three days of hearings on his maritime bill, which is essentially a regulatory reform bill which involves mostly the functions of the Federal Maritime Commission and really strikes out at the fundamental way the United States does ocean shipping. I think you should pay close attention to the Administration position that comes out on that bill. Secretary Lewis will be testifying on it, as the President's spokesman on Maritime Affairs. It is frankly something that we are very pleased about. We tried for quite a few years to have a cabinet level officer get involved in maritime industry business and we have finally succeeded. If we look very carefully at what the Secretary says on things like the structure of ocean shipping conferences, whether or not this Administration is going to go with closed conferences, open conferences, rights of independent action, shipper's councils, that whole litany of things that we have seen before, we'll get a good indication of which way the arrow is pointing on the new maritime policy. The hearing is also going to look at Senator Inouye's bill, S.125, which in fact passed the Senate last year as a regulatory reform bill. He reintroduced it this year because no action went on in the House. The hearing is going to look at both of those bills.

Maybe the best message I can bring from my home in Washington is that you have more than just a good set of ears there. You have some people who are vitally concerned about the health of the maritime industry. That starts with Secretary Lewis and Deputy Secretary Darrell Trent, both of whom were supposed to try to get here to speak, but had things that just got in the way. It's having that type of exposure, that type of high level "listener," that can only be good for this industry and we're definitely going to give it a try. We'd like to hear from you, of course, not only on the coal, but on anything else. And as I said, you've got some figures on Capitol Hill with Gordon and Packwood and Hatfield and the rest -- it's nice to have that regional representation.

QUESTIONS AND ANSWERS

1. It occurs to me that with this Administration, that is a "free market" Administration, that this could be at first sight something they would be very hesitant to get involved with. On the other hand, because of the budget constraints, their desire to minimize expenditures through construction and subsidies, I wonder if they might very well find themselves boxed into taking a look at cargo preference. Have you seen any indication of this?

CARLETON: Nothing directly. There is a very strong commitment from Secretary Lewis to use and enforce the preference statutes that are on the books right now. There have been a few things going on even in the last fews weeks. The one that we have been spending a lot of time on recently is that there is a whole bunch of frozen butter sitting in warehouses all over the country and the Agriculture Department sold it to New Zealand, mostly likely for resale. The way we look at things, the cargo preference statutes apply; the way the Department of Agriculture looks at things, they say "no, it is a commercial sale and it will just go with whoever offers the ship." Secretary Lewis has come down pretty hard in favor of the cargo preference argument as has Congressman Jones of the House Merchant Marine Committee. I don't think there is really any hesitation on the Administration's part right now to enforce the statutes on the book. What does that mean for cargo preference in the future? I wish I could answer that question, but I really don't know. I think it is part of the litany and part of a whole legal pad full of items that are going to be examined; i.e. bi-lateral maritime agreements, cargo sharing, cargo pooling, equal access agreements, etc. I think what the Administration is going to do is look at the realities of each one of them and go forward with the legislative program. I know that doesn't answer your question, but I really don't have a final answer as to the specific elements of their approach.

2. Is the transfer of maritime affairs from Commerce to Transportation really significant?

CARLETON: It is more than just the transfer, the transfer is kind of a paper operation you publish in the organization charts and nobody knows your phone number for a few months and that kind of stuff and you throw a little confusion at it and make it go away. (Being a little facetious.)
I think the thing that matters in this particular case is that we have a very very strong Presidential statement on his commitment to the revitalization of the Merchant Marine -- it was not specific as to how it is going to happen -- and the designation of Drew Lewis as the President's spokesman on maritime affairs. If you remember a couple years ago, there was a rather strong industry push to get a single spokesman or, alternatively, a cabinet level officer appointed for maritime affairs. We got half of a loaf, the spokesman designated as an Assistant Secretary for Maritime Affairs at the time was Sam Nemero. I think the success in this instance is that we got it elevated to a cabinet level Secretary and I would put Drew Lewis up against any of the other cabinet Secretaries in being able to hold his ground. He has had some difficult weeks and that is putting it mildly. Having him in there...let me tell stories out of school. People I work with have been trying to figure out what we're going to say about Senator Gordon's and Senator Inouye's bills on regulatory reform and they get on the telephone and call the Secretary's office and he says come up and we'll talk about that. You walk in, sit down and he does a very very

quick study and he picks up on the nuances very quickly and I think that having him in our corner instead of having him against us is really going to be a strong force as this thing goes through. He has access and tremendous relations with the Congress. He has a little breakfast thing he does with various Congressman and Senators every couple weeks and the man is really something and great to watch--a real study in politics and he has a tremendous rapport with the Hill and that will help as well.

OSU Sea Grant Program -- Review and Outlook

William Wick, Director
OSU Sea Grant Program

I couldn't help but think back to December of 1973, and I know that a number of the folks here were there then for the first conference of this kind. I believe there were six or seven tables at lunch over in the old Sheraton and I think about Ed Condon and he's up there looking down with a pleasant smile on his face, to see what's happened to this conference with all of your help. This was really important to him and I know he'd be pleased.

Sea Grant is under siege, if you will. That's our review and that's our outlook. This has been an interesting six months. Since President Reagan and his budget message number one in early February suggested very strongly that Sea Grant should phase out on September 30 this year (only about 15 days from now), this sort of got our attention. We didn't take it kindly at all! We went racing into Washington and said, look we've been doing good work, and they said, we know that. But that's irrelevant. The question is, why do you need federal dollars to match with state and local and industry funds to do all your good work? So we had to caucus and develop some methods and ideas and reasons. Many of you helped us on this and we appreciate it.

On March 13 at 2:00 on a Friday afternoon, Senator Packwood's office called and said, we need an indication by tomorrow morning that somebody cares about Sea Grant. A number of you in this room responded, in fact 300 Oregonians sent telegrams that night which he had on his desk the next morning. This happened all over the U.S. The result was that even with a small program like Sea Grant, and it is a very small program, about $40 million federal dollars for the entire national program, there are some people that are concerned and using the system, so we're happy about that.

We have, here in Oregon and the Northwest, certainly support from both our Senators in Oregon, from Congressman Wyden, AuCoin, Congressman Bonker in Washington. We're climbing slowly back. The House reported out the other day a level of about $21 million which is 50% of our previous budget. Afterall zero is worse than 50%. We're trying to move up from there.

Sea Grant is cooperatively funded. Some of you probably don't know that. For every $2 federal dollars, there must be at least one non-federal dollar -- it does not say state. It happens that in Oregon we have state support, we have local support and we have industrial support. We'd like to have more industrial support, frankly. We've used Sea Grant as a wealth producing program -- counter inflationary -- we try to increase production, get rid of road blocks and so forth.

The Oregon program is the oldest in the country. It began in 1968 when the first three Sea Grant programs began. We are the second largest in the country. We are a Sea Grant college program, which is the most mature element. We do three things: hopefully we do them with some production in mind. We conduct problem oriented research, mainly aimed at futures. The problems of today are really yesterday's problems. We're trying to solve problems out ahead wherever we can. We train students for today's and tomorrow's marine opportunities. And we try to extend knowledge to whoever may be interested; this conference is an example of that.

Our Oregon program for this year is about 55% focused on "Food from the Sea." We're really trying to put the ocean to work, if you will, to harvest some of the animals we have neglected for so long, and to understand those that we have taken. About 30% of our program is in an area called coastal environment. This includes a lot of work on ports, harbor developments, understanding coastal sand transports and so forth. We view the Columbia to Lewiston as an arm of the sea and part of our program occurs at Washington State University and the University of Idaho, as well as three or four other colleges and universities besides Oregon State. We have a very small international program, mainly in Central and South America, concentrating frankly in Chile because Chile is the flip-flop of the hemisphere. Many of the things that we learn there we can apply here, and vice versa.

We've been told that to survive we must concentrate on being essentially national problem oriented. I contend that we already are, regardless of what we call our projects. We must become more regional; and we are already regional in effort. We solicit increased coordinated research with industries such as those represented here. And if you're interested in this kind of an idea, I'd sure like to talk with you. Recently there have been some changes in the patent laws that make it possible for industries to assume more of a proprietary stance in cooperative research with public universities. You might be interested in that.

Now we're going to talk about ocean activities other than ships. (Slide Show). Our interest in the Columbia once again is that we consider it to be an arm of the sea, all the way to Lewiston, Idaho. We're concerned about the shipping problems, the fisheries problems, the multi-use problems of this river.

Let's turn to the sea. There are a lot of fish out there. Unfortunately those of us in the Pacific Northwest only have one fish in mind, and that's the salmon. We spend more time arguing about salmon -- not that they aren't important; they're perhaps the most wonderful fish of all -- but we're doing a lot of counterproductive work in my opinion, spending a lot of time in courts, when we do have other resources. But let's give the salmon its blessing. With the help of two actions lately on the Columbia River, the so-called Boldt II Decision and the Northwest Power Bill, I think there are some opportunities to increase this. But in the meantime, let's go after some other things.

We have an active pink shrimp industry off the coast. It began in 1957, even though we've known about it since about 1895. A good healthy industry. Our Dungeness crab industry goes up and down depending on the fluctuations and upwelling oceanic conditions, but still is a healthy industry. We're involved right now with some very exciting joint venturing with some of our foreign -- not necessary colleagues, they might be enemies -- but at least we're in an economic situation with them. The small ship is a boat called the Excaliber. It's based out of Newport delivering hake to a Russian vessel in this case.

In 1967 we began the current research work on ocean ranching which has become a very controversial turmoil-ridden subject, but is one that will provide economic dividends in the Northwest. Our main effort goes on here at Whiskey Creek on Netarts Bay, working principally with the chum salmon, which was the forgotten salmon of the five. But it has lead onto ocean ranching with coho, chinooks and some others. We have been able to extend this technology into the southern hemisphere on an island called Curaco De Velez in Southern Chile at about 42° south. I was very happy to visit this place last December and have the hatchery manager bring out one of our little blue bulletins explaining how you build a fish hatchery. It was covered with grease and so forth, but he had used it to build his hatchery.

We are fortunate in Oregon and the Northwest to have an excellent research center, it happens to be at Newport and if you haven't been there recently, it is growing. There are a number of buildings and lots of activities going on. About 350,000 people per year visit the OSU Marine Science Center to learn about the ocean. We conduct all kinds of research activities. People from three African states visited the aquaculture wind last month; we're developing training programs for them also. The shipworm has been an enemy of shippers for a long time. We are doing research on how to better control these wood-boring insects as well as fungus that destroys docks and pilings. I think all of us realize that this is more than a billion dollar a year problem in the United States.

Our work in Chile has given us some advantages in sharing animals. This happens to be a clam that we don't have here which is called a Taka. It is one that is a cross between a razor clam and a Pismo clam, if you will. We have been doing a lot of work on learning how to raise clams and oysters and how to produce them in hatcheries so that we can genetically change them, hybridize and finally try to domesticate them. We are also working on some of the predators of oysters. This happens to be a ghost shrimp, not very good to eat as it is very watery but loves dig burrows and bury the oysters.

There are a lot of used tires around and one of our recent research projects off of Reedsport related to building tire reefs for fish habitat. A biological oceanographer and an engineer working on it, put down some test modules, you can see the insides of these are filled with concrete but the Reeds Port is looking at putting several hundred thousand tires down off shore. We had to find out whether the tires would all wash back onto the beaches; this would not be socially acceptable.

Since 1940, Oregon has had a seafoods laboratory at Astoria, one of the very few in the country. It is university-related, but it is supported by the fishing industry and the county as well. We are trying to get more fish out of each animal that we get and also working on specialties such as scallops. We are taking a hard look at a lot of things that are excellent to eat but which have not been eaten very much. This is a large squid. Much of the squid we get are much smaller than this but all of them are equally good to eat. We are also taking a look at things like octopus which are quite abundunt. They are lovely little animals and are actually very friendly and are good to eat.

We have a fleet, too. This is our flag ship called the Wecoma, 177 feet long and capable of going all over the world's oceans, very expensive to handle ships like that, as you well know. We have engineers who work with fishing boat manufacturers on stabilization, fuel efficiency, etc.

We do a lot of work on whales. Forty-one sperm whales washed ashore at Florence 1½ years ago and we don't know why they did that; they came ashore, suffocated and died. In the meantime, we began work on radio-tagging whales. A projectile is placed on the whale, it is actually a radio tag with which we can trace whales virtually all over the world's oceans. Soon we will be able to trace these by satellite. Fisherman have been having trouble with harbor seals, alleging that they take large quantities of fish. We have been radio-tagging them also. We also do work on weather, the most recent of which is trying to predict conditions under which fog forms so that even before the fog forms we can use these as forecasts.

We work closely with many of the port districts in Oregon, up the coast and on up the Columbia River. This happens to be Newport, you're familiar with the crowding of the docks there and with the new marina that has been developed.

That is just a quick look at part of what Oregon Sea Grant is involved in. Nationally, Sea Grant is active in 30 coastal and Great Lake states, including Puerto Rico, Guam, Hawaii and American Samoa and we look on it as a partnership between industry, government and education. Once again, if you are interested in talking about things that we might do together to further this partnership, I'd be glad to talk to you.

PANEL: COLUMBIA RIVER AND COAL

INTRODUCTORY REMARKS

John Fratt, Manager
Port of Kalama, Moderator

Frankly I think that the Columbia River is going to have coal facilities, is going to export coal. The number of coal facilities on the Columbia is yet to be determined. I think the question is analagous to the number of grain facilities on the Columbia, and in that spirit, the President of my Port Commission (incidentally I serve an elected board of three officials -- I serve at their pleasure; my constituency is very limited -- their constituency is rather limited too; there are probably more people in this room than will vote in the primary election in Kalama) stated that he welcomes the Port of Portland effort in locating a coal facility here. He feels it will actually increase the activity on the river, and that helps us.

There are a number of questions about coal facilities. I note that Port of Portland has a facility planned and the clients signed up. I note that the Columbia River is the only logical place for coal shipment, and then I also note that a recent Northwest study says that coal is a poor place to go for the Northwest. Well, so much for that. I think what is going to happen is that the marketplace is going to determine where the coal will be shipped out of. The marketplace is going to determine where and how the coal will move.

In looking at our system then, we must realize several things. First of all, the Columbia River is a very young system. We still have room. We still have places to move where there aren't 125 ships waiting. In any locational logistical problem, it seems to boil down to the factors involved. When I attended the University of Arizona School for Basic Industrial Development, one of the professors stood up and said there are three factors that you must face: location, location and location. These three factors put the Columbia River system ahead of others in the locating of a coal facility or facilities.

What you need in a coal facility seems to be at least 100 acres. And there are acreages available; not just my port, at Portland, Vancouver, Longview, Astoria, St. Helens, Woodland. You need rail to the site. And you need the site and the river. You need to have the site designated industrial or heavy industrial, whether through a county comprehensive plan system, which is what we do in the state of Washington; the State or Oregon has its own land use laws. And you need it far enough away from a detainment area so that some of the people who aren't getting in the way don't get in your way.

You need a long term commitment from a company. I think both Portland's experience and Kalama's experience in contracts indicates that we are looking toward the private sector to make a long term commitment to us. You need enough land for a loop track; well, maybe that's preferred. As far as detailed engineering, there are many fine engineering firms. Every time a newspaper article comes out in the paper I get somebody on the line saying, we sure would like to build your dock, and they would. One of the things that we're looking for is the investment up front. And again, that gets back to the Portland contract and the Kalama contract. We need the commitment.

And this is the Catch 22 of coal exporting. Everybody looks out and sees a market; how big that market is depends upon their vantage point, depends upon what power of scope they're on, and when. When does the next rebellion occur? and where, to cut off oil supplies, you need a risk analysis from the port's vantage point. Can the company we're doing business with and who is coming and asking to lease that property, can they do what they say they can do? I think in both of our instances, we have satisfied ourselves that they can. And finally, the company needs a customer.

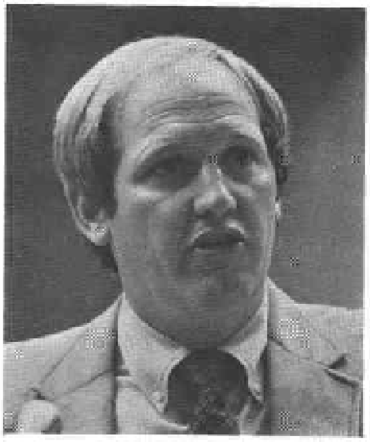
Coal on the Columbia: Constraints and Opportunities

Captain Mitch Boyce
Columbia River Pilots Association

First of all, we should define what we have as constraints on the Columbia River, and that's the physical constraints we have to work with.

The channel is 600 feet wide and stretches from Astoria, Oregon, to the Portland and Vancouver harbors. This is a distance of 85 nautical miles. Our authorized channel depth guaranteed by our Corps of Engineers is 40 feet. However, this depth fluctuates during our spring and winter freshets so we have to continue with maintenance dredging. When working on the 40-foot channel in the late 1960's, the channel was actually dug to 45 feet. This enabled any high areas to slough off into the channel without maintenance dredging. This allowed vessels right in the 40 foot category to transit the Columbia River. But with funds depleted and the natural tendency of the river to fill in the deeper channel, to 40 and sometimes 38 and 39 feet in some specialized areas, it was apparent that the 40 foot channel has not been the case. So what I'm stressing here is that maintenance dredging on the Columbia River is a very important fact.

Addressing the shipping limitations and opportunities, now and in the past, the drafts of vessels that have transitted the Columbia River have been 38 feet. Vessels with drafts exceeding 37 feet have been required to sail to coincide with the most advantageous tides. Vessels of the Panamax class -- this is vessels in the 50 to 60,000 dead weight tons -- and special classes of vessels, the Manhatten, which is a very large tanker (1,000 feet) and also the large bulk carriers in the category of 90,000 dead weight, have been navigated successfully on our river, but at the 38 foot mark.



To accommodate the shipping interests, and I bring to light the Port of Portland's new dry dock, the vessels such as the VLCC, which we had a little publicity about very recently, was the American Spirit -- her dead weight was 260,000 tons. We have transitted this vessel up the Columbia River; her draft was in the neighborhood of 32 feet, and we brought her to the Port of Portland's dry dock.

These vessels, however, the specialized vessels have not gone on; we have made special arrangements for these vessels exceeding the average size. We try to navigate these vessels in the daylight whenever possible. Of course sometimes these vessels have to start in at darkness but end up in the Portland harbor in the daylight. And also have additional pilots aboard the vessel if it warrants it.

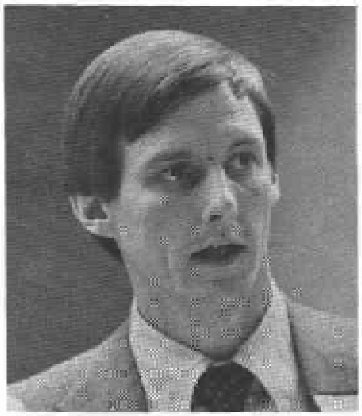
In summary, the Columbia River Pilots Association has and will respond to the needs of the shipping industry. As long as the limitations are recognized and the pilot and master agree to the facts, the vessel seeking the coal will be adequately serviced.

Railroads and Coal on the Columbia

Steve Miller, International Division
Burlington Northern Railroad

Ted Michan, BN's Vice-President of International Trade, was scheduled to speak with you today, but he was detained on his recent trip to the Far East and will not be able to be here. In the Far East, Ted Michan is discussing this topic of coal exports with some the major utilities of the area. With that prelude, I need not point out that coal exports are a timely subject to be in and one of great interest. I think it's safe to say that everyone in this room could probably agree that the coal exports scenario has been on the minds of people in the Pacific Northwest. And while nobody's crystal ball is clear enough maybe to predict exactly when these movements will occur, I think it's safe to say that the word "when" and not "if" is appropriate. Recent announcements by the ports of Kalama and Portland indicate that the "when" may be a little bit sooner than some of us had previously thought. Although many of the details still remain to be worked out, including finding a customer for the coal. Perhaps my biggest contribution today will be to put our involvement into perspective.

We have all witnessed first hand the growth of demand for world steam coal as a means for disarming the economic gun pointed at our heads by the OPEC cartel. What we've learned in the past ten years, we feel will serve us in good stead as we now all seek to penetrate the Far East markets. With the merger of the Burlington Northern and the St. Louis-San Francisco Railroad last year, we became the longest railroad in the United States, over 29,000 miles long. We stretch from the Gulf of Mexico up to the Great Lakes and over to the Pacific Ocean. We cover 25 states and two Canadian provinces.



Much of the low sulfur coal in America is located in the Powder River Basin, in southeastern Montana and Northeastern Wyoming. We distribute this coal to utilities located in 18 different states through the Midwest, the South, up in the Great Lakes region and again off into the Pacific Northwest. The Powder River Basin includes 18 mines presently operating. There is another one scheduled to come on line next year. Ten of the currently operating 18 mines are within the top 20 mines in the Nation. With our partners in the coal mining industry, our system is in place.

Each day, an average of 28 unit trains are loaded with up to 11,000 tons of coal. BN's system allows the unit trains to bypass congestion in the yards and cities and to avoid unnecessary switching. At its destination, the coal is unloaded with equal speed. It can be unloaded either with a rotary dump, which permits the coal car to be turned over 145 degrees without breaking up the train, or it can be discharged even more rapidly through bottom dump cars. Clearly, the technology is there and I think the system we have demonstrated is in place.

As a matter of fact, we are nowhere near our capacity to haul coal. In 1980, over 40 unit trains were sitting idle in storage. In the first half of 1981, that number grew to 59 train sets sitting in storage around the system. Under our company president and CEO, Richard Bressler, BN has made a major commitment to develop international markets. So far we have committed over $700,000 to five different studies to aid in overcoming any of the environmental or engineering problems that might be incurred in developing a port.

BN has four routes to Pacific Northwest ports. The northernmost route is known as the Stevens Route. It goes through the Cascade Tunnel. Further to the South is the Stampede Route, which is characterized by very steep grades and tight turns. The Snoqualmie Route falls in between those two routes and follows the Milwaukie Road's old right-of-way. The fourth route follows along the Columbia River.

While we are strongly in favor of further port development, I want to stress one point to you, and that's that BN will not play favorites among ports. We will use economics and economics only to determine which ports receive what growth. We are not in the position to determine which ports get what import or export traffic. But I can promise you that when the shippers make these decisions, BN will be ready to provide efficient service and competitive rates.

We presently serve all the ports in the Pacific Northwest with the exception of Coos Bay. Regardless of which port or ports is chosen, the upgrading required on our tracks can be handled within the time it takes to bring a port on line. And since we are talking about the exports along the Columbia River, let me bring up one more point. And that is the environmental aspect. Recently, we at BN asked for a breakdown of the number of permits and steps required to bring a port facility on line. And what we found was a bewildering array of requirements. We found 80 steps in total.

I think one of the largest challenges before us today as a group is to try for that middle ground where economic development and environmental concerns can work as partners and not adversaries.

The railroads have been successful in wooing international trade in recent years as evidenced by the fact that we currently handle a lot of the agricultural commodities for export. Inbound, we handle a large share of the autos and containers which are bound for destinations east of the Rockies. But this successful record has a springboard -- BN is working aggressively to develop international markets for coal as evidenced by Ted Michan's current trip to the Far East and numerous other trips taken by BN representatives during the past year or so.

Barge Transportation and Coal

Peter Carlson, Sales Coordinator
Knappton Corporation

The role of barge transportation with regards to coal on the Columbia River has got to be lined out in four phases. The first phase, bringing coal to the Columbia River ports for export, is something that we don't see ourselves taking an active interest in or active part. That's not to say we wouldn't be interested in having a part of it, but we as an industry believe that we've got to get the coal to the ports in the most economic fashion, get it on the ships and get it over to the ultimate customer. And right now that doesn't include rehandling from rail to the barges any place on the Columbia River. I would say that that might be phase 4, and we certainly wouldn't want to put a year, or a time deadline, on the intermodal transportation coordination between the railroads and the marine transportation industry.

We see phase 2 as potentially the industrial development, of mills converting to coal as a means of energy, and in that case, I think we do see ourselves playing a very important role. That is, that most of the mills along the Willamette and Columbia River do not have the space available for the 100,000 ton type of storage that the port facilities do, but that's not what their need is either. Their need is for a much smaller scale tonnage per month type of usage. We might be able to provide an impetus and a standard for which to deliver that coal to the various industrial locations.

In phase 3, we see ourselves involved to a certain extent and although its probably not the most popular issue right now, it may mean the dredging and blasting of the bar in the mouth of the Columbia River so that we can accept the larger than Panamax size ships to come into the ports in question, load them out to about the 3/4 depth or total draft, take them out to the mouth of the Columbia River, go along side them with the barge, very similar to what they do in the Mississippi River system, and top off the load. The economics of getting coal from the Western part of the United States to its ultimate customer in the Pacific Rim right now requires that we get the largest possible ship in the river that we can. You have to move the tonnage in a per trip movement in order to make it economical.

I mentioned phase 4 earlier as the successful cooperation between the railroads and marine transportation in making the best available use of the rail equipment, possibly by transloading to a barge at a place on the upper river at some undetermined location, and then bringing it down to the ports in question; meaning, potentially Portland and Kalama and other ports that are showing interest.

We certainly are not putting a time table on it, but I might say that a couple years ago, the barge transportation of coal was discussed in our industry, probably late at night over a cocktail. But in the last year to two, it has certainly become part of our daily routine with regard to talk, development, and cooperation with the continued growth. We are looking forward to coal coming to the lower Columbia River.

QUESTIONS AND ANSWERS

1. Directed to panelists in general...Do Far Eastern coal buyers have port facilities capable of handling large coal shipments from the United States?

Panelist Unidentified: In 1984, we can start thinking about real years for the actual physical movement of coal off the lower Columbia River. The indication that we have been given is that the Pacific Rim countries are gearing up for U.S. coal primarily because the coal which they are already receiving is coming from a single source in many cases, which is Australia, and they need to have the flexibility; that's the primary interest in U.S. coal as a whole. The available ships in the world today are primarily all those ships that can already navigate the Columbia River. There is a very small percentage of available ships for new commodities at the Panamax ship level and above. But from an economic point of view as to transfer from the western part of the United States to the ultimate user on the Pacific Rim, to be competitive with the Australian costs we probably will have to get it in larger ships in time.

2. Directed to Boyce...What's the largest beam of ship that can brought up the Columbia?

BOYCE: I think to answer that question--all I can go back is historically right now--we have brought a beam of 178 feet up the river successfully. This ship was not loaded to a 38-foot draft, however, though we have brought them up at 34 feet. There are going to be some problems involved in it. We have a 600-foot wide channel and we have a ship that is nearly 200-feet wide. What happens when two of these vessels meet in the water? These are some of the questions I cannot really answer because I have not even experienced them.

What we could address is the specialized vessel. We have specialized vessels that come into the Columbia River now; the auto carrier is a specially-built vessel just to handle automobiles. It comes one way from Japan full of automobiles, discharges its cargo and goes directly back to Japan without any cargo in it. Occasionally it might take cattle back but that is a very small minority of them. Also the chip ship to take the chips out of Portland, Longview, Coosbay -- large ships to handle a large volume of chips. These are specialized ships and they could be built somewhere in the neighborhood of 140, 150, or even 170 feet wide that could possibly be brought up or taken down the river at 38 feet. What I addressed in my speech was that the important thing in our Columbia River system is to keep the major dredging going on. Not to say that Mt. St. Helens was a benefit to us all; it was more of a detriment. It did one thing to this Columbia River system in that it cleaned up all the areas that we have been having problems with over the last ten years since they built the 740-foot channel and this specialized ship may be the way to go as far as the Columbia River is concerned.

3. Directed to panelists in general...Will a channel deeper than 40 feet be needed to move coal on the Columbia?

Panelist Unidentified: The client who has leased the Port of Kalama site is anticipating the current channel depth and not anticipating a greater deepening of the channel.

4. Directed to Miller...Will the railroad be able to handle the volume of coal and grain expected in the future?

MILLER: We have areas through the Midwest that exceed that volume a day now and can be handled with special signaling, through sighting where necessary. We do not foresee that as becoming a congestion problem, at least not the type of clients we're referring to in this case, 10 to 12 million tons.

5. Directed to Miller...It would seem that they would need an awful lot of side track and that side tracking the unit trains would cause some delays in delivery.

MILLER: It doesn't seem to be a problem with us. We have places currently moving as many as 1½ an hour through their region -- Nebraska, for example. There is quite a bit of traffic already moving in areas with similar density.

6. Directed to Boyce...What about congestion caused by coal and grain vessels?

BOYCE: There is a problem on the Columbia River which addresses anchorages. I believe that someone said that at South Hampton there was counted 120 vessels that anchored. I am not quite sure on that figure, but I believe he said something around that. In the Columbia River, we have a limited amount of anchorages in the river system itself. We have 5 in the Vancouver area, 4 in the Longview area and then we have an additional anchorage in Astoria, I believe; we have had 21-30 vessels anchored in the Astoria area. There are two authorized anchorages in the Columbia River, but they are not considered in the 40-foot project. In other words, the Corps Engineers will not dredge them, they are not 40-feet deep. So as far as our taking them into any real consideration, they are not really of use to us. That is one area that has to be addressed; on a 10 million ton facility we figure there will be about 180 additional ships to service that facility per year. If the legistics are not worked out properly then we will have additional vessels having to be anchored or waiting outside their berths.

7. Directed to Fratt...When will the coal export facility at Kalama be finished?

FRATT: Our time frame right now is that we will have a final EIS within 30 days. We will make application for the permits to commence construction with the circulation of that EIS. We anticipate that in mid-1982 we can begin construction and completion somewhere around early 1984.

8. Directed to Fratt...What is the anticipated loading capacity at Kalama?

FRATT: Capacity is rated at 5000 tons per hour.

9. Directed to Miller...Has the low BTU of Powder River coal been incompatible with the market?

MILLER: As we view it, and I think the coal companies will concur with this, there are two problems with the marketing of Powder River Basin coal overseas. The first is that the boilers have to be specially designed for the coal. In this country in the early 1970's our domestic utilities faced the same problem. They were led to believe that the stuff wouldn't burn. There are sliding problems with the coal, heat-related problems, moisture problems, etc., but these have been overcome and currently there are over 100 million tons per year of Powder River Basin coal being used -- in other words generating 25% of the electricity in this country. It has shown to be very effective. The second major obstacle to overcome is the economics. We feel that the way things currently stand, we are very close to the Australian competition, but maybe not quite close enough so that there is some room there. Those are the two big factors that have to be overcome.

10. Directed to Miller...Given these market problems, should we even be talking about exporting coal through the Columbia River?

MILLER: I think it is appropriate, since I was the only one who described any producing region, to point out that Utah, Colorado and southern Wyoming are small candidates to be moved through either the Port of Portland or the Port of Kalama and these coals much more closely fit the boilers which are currently designed for Australian or South African coal in the Far East. At least for the time table that John has brought out here and the time table that the Port of Portland has announced, they're looking at some other good coals from other regions of the country. In the long term, the late 1980's or 1990's, there wil be a Powder River Basin coal to be moved. Again, the boilers have to be designed around the coal and that takes time for the construction and start of the plans--it will still be a few years away.

11. Directed to Miller...How long did it take coal users to convert their plants to burn Powder River coal?

MILLER: The Clean Air Act of 1970 told them that they either burn low-sulfur coal or they put scrubbers on their plants. The scrubber technology is very difficult to handle and they chose low-sulfur coal. It was not a matter of just converting one plant to handle Powder River Basin coal. For the most part I am referring to the construction of new power plants. A new power plant, rough estimate for a lead time in construction would be about 8-10 years. The construction people up here might be able to shed a little bit more light on that, but I think 8-10 years is about right.

12. Directed to Fratt...What is the situation for California ports to export coal?

FRATT: I wish we could do this next week because I'm going to Stockton tonight. There is an American Association of Port Authorities meeting down there and we are going to find out what the status is and who is doing what--that is of great interest. That, of course, would be bringing in mostly Utah and Colorado coal into Southern California. There is also an infamous slurry pipeline which will go into Oxnard, California. I think that one in particular will take a great deal of up-front capital costs. Many, many times the capital costs contemplated in both the facilities talked about right now on the Columbia and other future facilities which may subsequently be announced.

The other question that I guess we haven't addressed and that hasn't been mentioned is that I think that our trading partners would like to see as many people in the coal supply business as is possible so that one country couldn't freeze them out of energy just like they are trying to ween themselves from dependence of oil. I think they have learned their lesson in energy and are looking for additional suppliers--they will pay a higher rate.

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