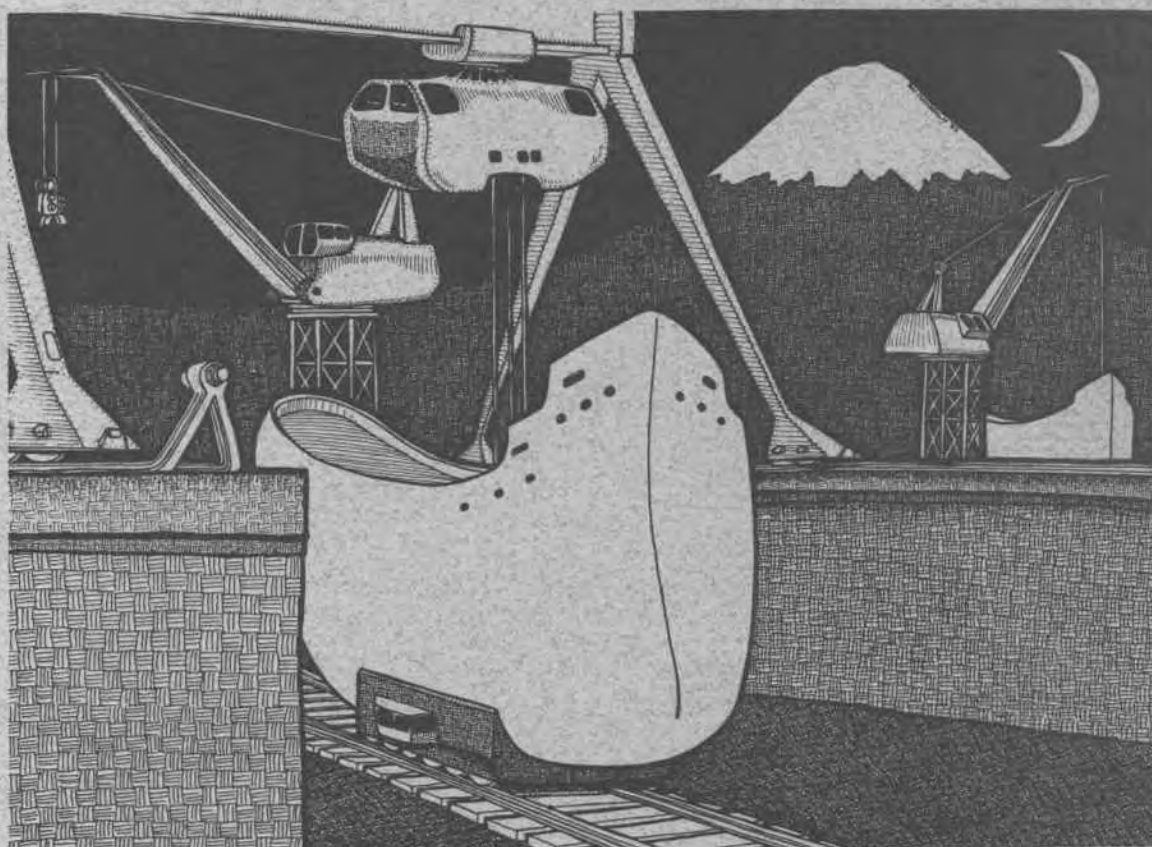


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# *The Future of Northwest Maritime Industries X*

Proceedings of the Conference  
Red Lion – Lloyd Center, Portland, Oregon  
20 September, 1983



**Oregon State University Extension Service**  
**Sea Grant Marine Advisory Program**  
**Special Report 695/December 1983**



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Margery Abbott



Victor Atiyeh



James Beall



David Buffam



Gib Carter



Dick Copeland



Roland Cornelius



Erik Falkenberg

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THE FUTURE OF THE NORTHWEST MARITIME INDUSTRIES X

A Conference Sponsored by

Oregon State University Extension Service  
Sea Grant Marine Advisory Program

Washington State University Extension Service

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Propeller Club

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Portland Steamship Operators

Portland, Oregon  
20 September 1983

Oregon State University Extension Service  
Sea Grant Marine Advisory Program  
Corvallis, Oregon 97331

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Economic Forecast

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COLUMBIA RIVER TRANSPORTATION SYSTEM

Honorable Victor Atiyeh  
Governor of Oregon

Panel

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SHIPBUILDING, REPAIR & MAINTENANCE

Moderator: James A. Beall  
Garvey, Schubert, Adams & Barer

Panel:

Portland Situation	Foreign Competition & Pending Legislation
--George Tuckey	--Dave Neset
NW Marine Iron Works	Port of Portland
Other West Coast Ports	Shipyard Labor in the Northwest
--Scott Fitzwater	--William Slack
Dillingham Ship Repair	Electrical Worker's Union Local 48
Dept. of Defense Position	
--James A. Beall	
Garvey, Schubert, Adams & Barer	

Update

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COLUMBIA RIVER AND NORTHWEST

Maritime Administration Office in Portland	Port of Portland - 20 Year Master Plan
--Capt. John W. Pullen	--Margery P. Abbott
Maritime Development Rep.	Sr. Planner, Port of Portland
Proposed Liner Consortium	Vessel In-Port Locator System
--Roland Cornelius	--Dick Copeland, V.P., Pacific Reg.
Int'l Shipping Co., Inc.	National Assoc. of Marine Exchanges
Columbia River Customs District	
--Steven Newman	
Col. River Customs, Brokers, and Forwarders Assoc.	

Panel Debate

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OCEAN CARRIERS - CONFERENCE VS. NON-CONFERENCE

Moderator: Dr. Mike Martin  
Oregon State University

Panel:

Pro-Conference	Shipper's Perspective
--Michael Uremovich	--David Buffam
American President Lines	Ted L. Rausch & Company
Non-Conference	
--Erik Falkenberg	
Westwood Shipping	

## ECONOMIC DEVELOPMENT AND THE COLUMBIA RIVER TRANSPORTATION SYSTEM

Victor G. Atiyeh  
Governor of Oregon

The Maritime Advisory Committee, which I formed early on in my administration has been very helpful to me as we deal with a variety of issues that relate to the maritime industry. You might be interested in knowing that I have talked to Governors Deukmajon and Spellman and encouraged them both to do the same and they indicated a great deal of interest. So if you have an opportunity to talk to either one of them, you might encourage them to move along that line because it has been useful.

The role the Columbia/Snake River System plays and the role that each of you play has an impact on every Oregonian, although they really seldom realize it. Only 10 years ago, most of the cargo on this river system originated within 75 miles of its banks. Today that sounds impossible. Now the Columbia River Snake River System has extended its influence more than 1000 miles to include 11 states and perhaps a quarter of the nation. Visitors to Oregon like to drive east from Portland to enjoy the natural beauty of the Columbia Gorge. They must return surprised at seeing a waterway that is reminiscent of the Mississippi or the St. Lawrence Seaway. As the second largest river system in the United States, the Columbia/Snake system is a most significant link in the modern day transportation system that has become the substitute for the Northwest Passage sought by our early explorers. The Port of Portland alone serves 500 businesses in this region. Just the importation of automobiles at the Port of Portland is believed to contribute directly or indirectly to 9000 jobs. Although it has been said that water and politics do not mix, I know you have problems that do involve politics. I recognize the critical importance of this waterway to the Northwest Region and I have worked aggressively to explain that importance to our lawmakers in Washington D.C. And let me just take a little aside and tell you that our own Oregon congressional delegation is acutely aware of the value of that waterway. For example, I directed Oregon State agencies to work directly with our congressional delegation to ensure the deepening of the mouth of the Columbia River and the critical work at the Bonneville Locks. This kind of work will be essential as our trading patterns continue to shift, giving greater emphasis to trade with the Orient. We now look forward to the deepening of the Columbia River Bar by next year and the Bonneville bottleneck also is on its way to being solved. And here in a large measure, we need to thank Senator Hatfield.

I find it refreshing to find Ports and shippers along this important river system, ports and shippers that some might consider to be competition, working together on your common goals, not trying to determine who in fact is superior. Those of you who are here this morning and who were former military personnel know about the endless arguments that go on over which service branch is superior. The story that the Marines like to tell concerns a group of Marines who were sent to an Army base for airborne training. An Army lieutenant told them they would be expected to jump from an airplane at 800 feet, regroup on the ground and head north. After the briefing several of the Marines asked the lieutenant if the plane could be lowered to say 500 feet. The lieutenant patiently explained that at such a low altitude the parachutes would not even open. To which one of the surprised marines replied, "You mean we will be wearing parachutes." The point is that any competition that the ports and the shippers on this system have felt has not softened your common resolve to provide the best transportation system anywhere. It has not softened your resolve to work together in partnership to plan your joint future. And I sincerely thank you for that.

As Governor of Oregon, I know the value of the system. I consider it a vital component in Oregon's economic development efforts. Oregon needs the Columbia/Snake River system to promote itself aggressively as an international trading partner. Oregon's unparalleled efforts to secure new international trade will contribute to an even greater growth of traffic on this system - a system that has seen a tripling of cargo tonnage through the Port in only 10 years and for all of our Oregon ports as well.

The Germans have a saying about Americans that illustrates Oregon's commitment to international trade. In America they say "an hour is 40 minutes." Oregon is pursuing its international economic development efforts with that kind of energy, without the mistakes that come with careless haste. I must admit we recognize that our state was late in actively promoting international trade. But we are making up for lost time. We are providing assistance to companies interested in expanding their export business. We published an exporter's handbook to show Oregon companies the mechanics of exporting. We are conducting overseas promotions, four in 1982 alone. We invite trade delegations from other nations to visit Oregon, to talk with our industrial and agricultural leaders and suppliers. We have established sister-state relationships with the Pacific Rim nations to further business and cultural ties and I personally led a trade delegation to Japan, Korea, and Taiwan.

Capt. Robert Gray named the Columbia River after his own ship in 1792. He was obviously impressed with the waterway. He would be equally impressed today if he could see what you

and people like you are doing with this important river system, all the way from the Pacific Ocean to Lewiston, Idaho, on the Snake River. I've been aware of the aggressive nature of our trying to reach for uses of the Columbia River and the Snake River as a transportation system. Earlier I had indicated we were drawing from as far away as the Midwest. You know and I know there is keen competition between the Mississippi and the Columbia systems. Where we thought of ourselves in small terms, we are today in fact into the entire market of the United States. Linking transportation, then, is important to Oregon as an economic development effort. As you have tried to talk to your colleagues about coming into our state, among the things they talk about is the availability of transportation. And you make that system better. And, of course, as you are able to service the fleet of barges or tugs or ships, that makes us stand out even more. So that is why I am here this morning. Not only to kickoff your meeting, but to thank you as a governor for your contribution to our economy. And to give you my renewed pledge to the Columbia/Snake River System battles as Oregon's battles.



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## INTRODUCTION

Capt. W. Gibson Carter  
Marine Extension Agent, Portland Area  
OSU Sea Grant Extension

After this, the tenth annual conference of The Future of the Northwest Maritime Industries, I believe we have created an instrument of value with characteristics of permanence. Its strength perhaps lies in the mutual support of the (a) cooperating organizations:

OSU Extension Sea Grant  
Portland Shipping Club  
Portland Steamship Operators  
Propeller Club of the Port of the Columbia River  
Women's Shipping Club  
WSU Cooperative Extension - Sea Grant

(b) the commitment of the membership of the sponsoring organizations, (c) the industrious individuals from these organizations who steer the conference, and (d) the flexibility of the conference topics and agenda.

It has been pointed out to me repeatedly that one of the special features of this conference is that each is different in subject matter and to some degree those in attendance. This overall industry support and conference flexibility is probably our greatest strength. The steering committee tries very hard to plan topics six months ahead and provide a program which is timely, educational and of immediate benefit to a majority of those associated with the Columbia/Snake River maritime trade.

I take this opportunity to remind you, this is your conference, dedicated to the Columbia River Basin and its supporting industries. I am always searching for agenda items, methods of presentation, criticism of previous programs and ways to better serve those in maritime commerce. I want to hear from you.

Sincerely,



Gib Carter

PANEL: SHIPBUILDING, REPAIR AND MAINTENANCE

The Portland Situation

George Tuckey, Vice President and General Manager  
Northwest Marine Iron Works

The title of this section is "Shipbuilding, Repair and Maintenance," so I think we should say a word about shipbuilding. Let's say three words: there isn't any, unless we consider the barge building that is going on at FMC and Zidell. And Northwest Marine Iron Works builds a barge once in a while. But there is the capability in town for shipbuilding if we ever have that opportunity.

The major thrust of our business is ship repair and we are very fortunate to have probably the best ship repair yard on the West Coast and as good as anything that I know of on the East Coast. Everything is modern, everything is accessible. Most of you people know all about the yard. But for those who don't, the Port of Portland yard is a publicly-owned yard. Anyone can set up business there. Anyone who feels they want to get into this business can do so at the yard and I am sure David would be happy to rent you some space.

When congress determined the Alaskan oil would be confined to domestic use, the Port asked the people to back a bond issue so they could modernize the yard and the people did. We put about \$65 million into the yard to build Drydock #4, the largest floating space there is, and generally upgraded the yard to a point where I think we can do anything. Basically, we try to confine Drydock No. 4 to the tankers; however, it is available for anything. The crane capacities: we have 16 cranes from 45 tons to 200 tons, very modern cranes. We have piped in gas, oxygen is piped around, we have a water treatment facility that takes the bilge water and the slops off the tankers or whatever ship, separates the harmful chemicals and oil out of it, cleans it up and puts it back into the river.

We had an opportunity to tour the Newport News Shipyard. They say their shipyard is the most modern in the world. They were bragging that pretty soon they were going to put in a water treatment facility. We are about 15 years ahead of them.

As I said, the new drydock was basically designed for the Alaskan tankers. There are about 36 tankers on the Alaskan run right now and between six and nine of them can only be docked in Portland because it is the only drydock big enough to handle those particular ships. We think that this same number of tankers will continue to run, and if the oil production gets

bigger in Alaska we are going to probably see more tankers. The tanker work is almost 100 percent of the work we do in the yard. My company, Northwest Marine, is active in Navy repair and overhaul. This yard is ideally suited for Navy work. We recently modernized one berth and we are going to modernize another one, especially for Navy ships. It requires a little more than the normal. We have to have sewage for it, 400 cycle power, and a few specialized things for Navy ships. Portland is a good Navy town, the sailors like it; they used to tell me it's like they are on leave all the time. It is hard to get Navy in here though because we are not a home port. We are in competition with the West Coast for Navy business. Frankly, there is very little Navy business now. With No. 4 drydock we can drydock anything that the Navy has, except we haven't figured out a way to get a carrier through that railroad bridge. The drydock is capable of battleships on down. We do most of our docking of Navy destroyers on what we call No. 1 dock, which is a 15 thousand ton dock, ideally suited for that sort of thing. (By the way, there are four drydocks at the Port of Portland, for those of you who don't know it. One, three and four are excellent docks. David Neset is trying to sell No. 2. It is a wooden pontoon dock. It is getting old, but it is a good dock. Anybody who wants to buy a dock, I would recommend you see David.)

The bidding practice for Navy work has changed considerably in the last few years. In the past, we had an allocation system. The West Coast is divided up into three Navy Districts. The 13th District includes Portland and Seattle. Then there is the 12th and 11th Districts as you work south. And in years past, the Navy would allocate a ship to a particular district and then the shipyards in that district would compete for that overhaul. That was nice because we were all competing, we all had the same wage rate, we all knew each other and there seemed to be plenty of work. It was always on an IFB, Invitation for Bid. Low bid gets the job, regardless. Well, now things have changed. The largest portion of competition is on the total West Coast. When the Navy decides they want to overhaul a ship they will request proposals, known in the business as an RFP. Now with the proposal, the low bidder does not necessarily get the job. The shipyards up and down the West Coast each will prepare a proposal and they get voluminous. We have to tell them our background, exactly how we will do the job, work up the schedules, get into the finest detail, and resumes of all the people who will work on the job, and this happens over and over and over. Every job we have to do the same thing. We have to explain the same thing. You would think they would catch on after awhile, but that's how it goes.

Most of the work we are doing now and in the past, is with auxiliaries and amphibious ships. We now are also overhauling ships of the line -- the destroyers and cruisers,

frigates especially, we have done a number of frigates. These are considerably more complex than the auxiliaries but we have been quite successful. We completed a job last year on a guided missile destroyer, a highly complex job. When the ship came in the yard, it looked like a garbage dump. There wasn't anything on it working properly. We had a year's work, which we completed in 11 months. The ship has been back in service and we haven't had the first guarantee item. Everybody's very happy with it and I think this speaks well, not only for our company and our management, but also our labor force. We do have an excellent labor force in town.

Presently, we are not bidding anything, although we hope to shortly. One thing about what we have done in the past. In the last 10 years we overhauled nine Navy ships and the total value of those nine overhauls was \$140 million. Translated into 1983 dollars, that is \$178 million. So that is a significant industry in itself. I would guess that about 65 percent of that is direct wages. Probably 85-90 percent of the total is spent right here in town: for wages, parts, material, and so forth. The destroyers and frigates that we are doing now are more complicated, so the cost and the value of the work is considerably higher. We expect a rising graph of cost for Navy work. The Navy has gone to a system of 5 years between overhauls, which, as a naval architect, I think is dangerous as hell. In that 5th year you have a ship that isn't any good to you. When we see them after 5 years, there is nothing working on them. I don't know what good a ship of the line is when you can't fire the guns. However, this is the Navy's way of trying to save some money, and I assume they are doing it.

Let me explain a little bit about another market in town, the foreign work that comes in. We service the foreign merchantmen that come into town, usually on the waterfront. Very rarely, unless it is an emergency, will we see them in the shipyard. They will not be drydocked, they will go back to the Orient, or wherever they came from because the price is lower. When they absolutely have to have something done to load or unload cargo or get back home, they will call on us.

We service between 500-600 ships a year. The total gross value of those 500 service calls is about \$3 million, so you can see that each one is quite small. I would expect this market to continue. I don't really think it is going to grow any, but who knows?

What can we expect in the future? Well, the Navy wants a 600 ship Navy. I don't know whether they are every going to get it or not, but they are certainly trying. As far as overhaul work, this is good. The more ships there are, the more opportunity to overhaul. The largest number of ships that the Navy will have will be destroyers, cruisers, frigates in that class, which again we applaud because that is our stock in

trade. We like them, we like to overhaul that type of ship. We will not ever see nuclear ships in here, but we really don't care. There are a few nuclear cruisers around. They are always serviced in the public yards, the Navy yards. I would expect that it will be two years before we see the overhaul period start for the ships they are now building. The FFG program and 963 class program will be coming up about that time and there will be a continual run of overhauls. As I say, we expect to see this in about two years.

The tanker fleet, as I mentioned, I think will not diminish. It may not grow to any more ships than there are. In fact, some of the larger ships may be going on that line. However, those ships will continue to be available to us. There is drilling in the Gulf of Alaska. Maybe the production will step up in the Gulf of Alaska, although I heard a disquieting note yesterday that ARCO abandoned one well. It was the most expensive drilling they had ever done and it was in the Gulf of Alaska and they were in a dry hole. So we don't like to hear that. I expect they will move their gear and try again. I hope so.

As for the dry cargo fleet, we will continue to see wheat exported. This is usually exported on foreign bottoms. A little work is available there. As for breakbulk cargo, again, I think that all we will see is container ships. I think that the old days of ships with masts and booms are about gone. However, there is some pending legislation known as the Lindy/Boggs Bill that, if passed, would lead to a building program for cargo ships in the U.S.

When I was flying back from Washington last week, I was reading an article in Atlantic magazine about nuclear energy. There was a very interesting section in there about a poll taken by the Research Institute of International Awareness at Columbia University. This poll was taken of scientists, industrial leaders, and government leaders and the amazing thing to me was that 84 percent of these people think that by the year 2000 coal will be our major source of energy. Now it was followed by oil, natural gas, nuclear fission and solar heat, in that order. I think we are going to have a coal facility in town. If there is anything to this poll, if these people know what they are talking about, we should expect to see coalers in town. As a matter of fact, we should expect to see a great number of them. So, it is a possibility for future work.

#### QUESTIONS AND ANSWERS

QUESTION: You said you didn't do any new ship construction. Would you consider doing any?

Tuckey: The only facility right now for new ship construction is at FMC, who are friends of ours and we are exploring new construction with FMC. They would like to build the hull itself; they would like us to take it from there and do the outfitting and finish the ship. Yes, we are pursuing this, but there just isn't any available right now.

Eltzwater: I can add to that that Dillingham Corporation routinely solicits bids to build its tugs and barges and we are offered that opportunity. As a matter of fact, I know Northwest Is. But as a practical matter there is so much capacity available throughout the U.S. that it's just not realistic for us to start up that business here at this time. To say that we would never do that, we couldn't say that. There is a good shipbuilding tradition in this area. But again it is a matter of economics that is holding us back at this time.

QUESTION: George, what portion of your business is slanted toward MSC, Military Sealift?

Tuckey: Well, when the Military Sealift Command has work available, we bid it. Over the past 10 years, probably 15 percent of our work was MSC.

Beall: One comment that I might make is, George touched on the favorable treatment that the Navy personnel receive when a ship like the U.S.S. Wilson comes into the Port of Portland. I just want to reemphasize what George said. When I am back in Washington D.C. talking to Navy personnel, I hear that every single trip. "You are the people that really put on a show for our people out there." Well, we do, we treat those people very, very well. It is partly attributable to the Governor, to our congressional delegation, the City Club, the Navy League, the Chamber of Commerce, the Mayor and the entire northern part of the state turns out for those people, and we really do put on a show for them and they remember it. I had one other comment. George touched on the amount of work at the Newport News yard we saw last week. You might also elaborate on the difference in working conditions at Newport News. We have approximately, at Swan Island, 1000-2500 workers; it goes up and down, obviously with the amount of work. They have almost 29,000 in the Newport News yard, but I'll tell you when you go out here to Swan Island, those people are humming. They are really working hard. At the Newport News yard, we started counting to see if, in any one area, at least a third of the workers were working or looked like they were doing something other than talking to the person beside them.

Tuckey: I think about 10 percent was the best count we got. There was a group of people lifting up a little kingpost and there were 15 people standing around that kingpost. Now you are talking about a two man job. I don't know where the money

is coming from.....I know where the money is coming from, the government. It is an indication that Scott and I, of course, always complain we are not getting enough production out of our people, but when we see something like that it makes me feel a whole lot better.

Beall: We also received very good marks from the Navy on the housing, the module housing that we had out at Swan Island during the overhaul of the U.S.S. Wilson. Some of you may know that it is under new ownership and I might ask George to elaborate on that.

Tuckey: What you read in the paper wasn't true. Those units were under lease, the lessors sold the units to the Rajneesh, not Northwest Marine Iron Works. They are dismantling the units. Going to take them to Antelope, I guess. But if we ever have a need again, we can lease some more units and put them on the same site. Northwest Marine Iron Works was not dealing with the Rajneesh.

QUESTION: Do you have any information on the subject of 70/30 versus 50/50 splits in private yards versus Navy yards? What do you know about that?

Beall: We have some tentative information on that. That is one of several issues that Congressman AuCoin has been working on with his new position over at the Defense Subcommittee of the House Appropriations Committee. They held an executive session last week, executive meaning private, the public was not allowed to attend. But we spoke with several of the key staffers that work for Chairman Adabo afterwards and in the middle of a number of other issues that I'll discuss later, they said that the 70/30 split was addressed and there is still a possibility that there will be some adjustment. By the way, the 70/30 split refers to a Navy administrative policy of overhauling 70 percent of the ships in Navy yards, 30 percent in private yards. We will not know the outcome of that until they go to the full committee.

### The Situation in Other West Coast Ports

Scott Fitzwater, President  
Dillingham Ship Repair

This is a very tight lipped industry, as you might expect, because it is also a depressed one. So when I talk about what is going on in other ports, I am really expressing an opinion. I might also preface my comments by stating I



believe our interest in other ports is in a comparative sense. We are not particularly interested in what they are doing that we can't do, or never would be able to do because of the different markets, but in the sense that we actually compete for the same types of work.

Some other general comments: As I mentioned, the industry, worldwide, is depressed. That is primarily a market problem. In the U.S. it's worse off; not only is it a market problem, but it is a competitive problem. As George alluded to, we have costs that, by the world's standards, are simply too high. It is primarily a factor of labor and there is no way our labor rates will ever come down to the point where they are competitive on a worldwide standard. So we are not asking our unions to try to come in line with international competition. Our purpose in getting any kind of wage freeze or wage break is to get ourselves on a more or less equal footing, at least within this country. Right now the Pacific Northwest is a little higher in its wages.

The West Coast shipbuilding and ship repair industry essentially was built in World War II and obviously the demands on the industry were much greater then. Since then the market has shrunk and the facilities have remained essentially static with the notable exception of Portland. Outmoded facilities and excess capacity make for a very competitive situation. I guess you would have to say that a house cleaning is underway. Management is trying to get some relief on wages. Some of the shipyards have closed. There are examples in every port where there is a squeeze on. In spite of that, the shipyard in Portland has flourished. During the last two years the economy has been bad, but this shipyard has probably enjoyed its greatest success. That is not the case in 1983, but I have every reason to believe that we can return to prosperity. I do not believe for a moment that the kinds of disputes we are having with labor are the things that will cause us problems in the long run.

We are a mature industry. You could call us a smokestack industry. You could call us a sunset industry. And that is one of our political problems: does the community really need us? We feel they do; we certainly need your support. You are going to need shipyards in every port if you want to sustain shipping. The adjustment to the market is going to be painful for all of us. But I believe the people on this panel are up to the task. We have certainly shown that we can compete in the last two years and I believe we are the envy of the industry, particularly on the West Coast.

With that let's start going down each individual port on the West Coast and I will try to make some comments as to where we stand relative to each.

Starting with Vancouver, which is not a domestic yard, but a foreign yard. It is also an excellent one. There are actually a couple of yards there, one in the City of Vancouver and one on Victoria. The one we are interested in is the one on Victoria. It is a facility designed to compete for the large ocean going vessels. They have facilities that are at least comparable to ours in quality and in general efficiency. I would not say in any fashion that we enjoy a competitive advantage over the Canadians in this regard. We do have a larger drydock and that has again given us some advantage on the larger tankers, although it is only a few ships we are talking about. But they have a graving dock and we do not. A graving dock offers some advantages to ship owners during repairs for the type of alignment work that might be required on some ships. Most notably this seems to be a factor giving a lot of Sealand work, U.S. flag ships, to the Canadians.

They tell me the work ethic up there is quite good. That the wage rates are in fact a little higher now, in an absolute dollar sense. But when you devalue the Canadian dollar, they are comparable or even a little lower. They compete with us primarily for foreign flag work, for barges, that sort of thing that might be driving by. And unfortunately, recently, they have been given an opportunity to compete for Military Sealift Command vessels. Though they haven't been successful, they have put in very credible bids and they have been higher than what we would have been able to respond with. I think they also enjoy some advantages in not being restricted in how they compete internationally. The U.S. has set up its own code of ethics and I don't want to knock it in any great sense. But certainly our standards of how one competes are not the same as the world's. I don't know, by the way, the estimated employment in that area. There is some new construction going on as well as ship repair. I believe employment is certainly steady and probably will increase because they have a strong hold on any demands the Canadian Navy has for work. They have a brand new floating drydock, about 150 feet wide. Dillingham Corporation graciously dredged the hole for them. Anyway, they are going to be around for awhile and they are going to be a factor in our business. If the MSC continues to allow them to bid on their contracts, it is only a matter of time until they succeed. I view them as our equals at this time.

Seattle is a very large ship repair market and there is a large ship repair base there. The primary yards are Tacoma Boat, which is mostly new construction, Lockheed Ship Building and Drydock (they are primarily new construction) and Todd Shipyards. The other notable one is probably Marine Power and Equipment. Employment is around 8,000 people in the area. Again, most of them are focused on new construction, they are not competing with us. However, Todd is. Todd has a nice facility, a large drydock. They are kind of getting out of the

new construction business and presumably will get their costs in line. To date they haven't been that successful in competing head on with us for the tanker business. They are very successful, however, in the Navy overhaul market. Tacoma Boat is an interesting company, perhaps Bill Slack would like to talk about them a little bit. They are the only ones openly bucking the strike situation at this time, probably because they are under some severe cash flow problems. But they certainly have grown in the last few years. Again, they focused on new construction, although they have ordered a new drydock and they may be a competitor with us also. Overall, I would say that the quality of competition from the North is a little grade below us on the commercial side and certainly our equal of the Navy side.

George talked about Portland. We are two different companies, we both hold master ship repair contracts with the Navy. George is competing, we are not. But that is a matter of choice at this time.

San Francisco and the Bay Area is a smaller market and a smaller base. I believe there are probably no more than two or three thousand shipyard workers in that area. The largest employer would be Todd, which now occupies the former Bethlehem Ship Yard. The other notable shipyard is Triple A, which occupies a beautiful facility, the Hunter's Point Naval Shipyard. Both of those, in terms of facilities, are probably very competitive. Portland has a slightly larger drydock, but Hunter's Point has a graving dock which is an advantage. Both Seattle and San Francisco have battle groups, or will have battle groups stationed there. That is, Navy ships that weren't there before, which obviously is a market advantage. Both ports also have an advantage in the sense that the liner trade which we are no longer getting is still calling in those ports. I have heard of a concept of superports where as the ships become more sophisticated, more expensive, it makes more sense to use a few ports than a lot. Bring the cargo to the ship rather than the ship to the cargo. That probably doesn't speak well for Portland and would also not speak well for our industry.

So there are quite a number of competitors in the San Francisco area in addition to Triple A and Todd. Most of them are dedicated to Navy business. They don't have drydocks. Although there are a couple of facilities still there and presumably for sale if you would like to buy them. One is the former Todd yard in Alameda, and the Port of Richmond has taken control of a former Willamette Iron and Steel shipyard in the Richmond area. But there are companies called San Francisco Welding, Pacific Drydock Service Engineering, Southwest Marine (non-union), and a number of other small ones. It is a highly competitive area. I would hate to be in business down there at this point. I think they suffer from much too much capacity.

Again, they are very credible in the Navy contracting bidding area, a little less credible in the commercial area. They don't enjoy quite the reputation they should have with some of our customers. And I could also say in all honesty that even though we have the same labor agreement, the same wage rates, that the work ethic in Portland, in this case, is far superior to down there. Our work ethic relative to Seattle is much the same. Although the larger the yards, generally the more difficulty you have in getting good production. So by being relatively small here in Portland, we do have an advantage.

In Los Angeles, Long Beach is the largest port area on the West Coast. Surprisingly, there are very few viable competitors for the ship repair business. We have another Todd yard down there which is focused on new construction, but it does have a ship repair capability, although they are not competitive in price. They are getting a marine railway, which presumably will be used to attract larger Navy overhaul contracts. Southwest Marine is a non-union company that has taken over an old Bethlehem shipyard there. They are having some problems getting a good identity with our customer base. And there are a number of small topside contractors. I am estimating the employment in the area of about 7,000 and probably it will be declining unless the Todd yard can obtain new construction contracts. They are the primary employer.

But L.A./Long Beach again has that advantage of all the primary liner ships calling there. Lots of Navy ships are home-ported there or in San Diego. Many of our ship owners have offices in the L.A. area. It is very convenient for them to use those people and they have a very strong political voice in Congress and locally. The disadvantage is that, at least in terms of tankers, that's an offloading, discharge port and most repairs have to be accomplished in a gas free condition. So tankers, if they want to get repaired in L.A., have to sit around for awhile while they get cleaned. Whereas if they want to use Portland, they can steam in the general direction of their next cargo while they are cleaning and divert at the last second. So we have some cost advantage for that trade.

Last but not least, San Diego is a hotbed of naval activity. There is one major employer, National Steel and Shipbuilding Company. I think they are employing about 6,000 people. I estimate among the 11 other smaller yards, there are about 2,000 employees. There is far too much capacity of a certain type for what the Navy really needs down there and it has resulted in a lot of cutthroat bidding, and perhaps some unethical practices. As a result, the Navy business in that town has gone down significantly. Perhaps it has helped get some battle group stations up and down the coast, but again the political process probably favors some support for the industry in that area. There is a non-union outfit down there that was very successful in getting a new drydock. But there are many

examples of shipyards that are not of any great quality. They are a desk and a phone, a lot of subcontractors, that sort of operation. And the Navy is particularly upset with that process. Of course, they are the only ones that have the power to do anything about it. I believe George and Jim have mentioned this and we will probably mention it some more; we are trying to make this point with the government to see if we can't get more favorable treatment from the standpoint of the quality that we offer.

The advantage they have, other than the proximity to the Navy market is that labor rates in the San Diego area are significantly lower than anywhere else on the West Coast. Probably offsetting that is a lower work ethic. There are some radicals in the unions, some wild-cat stoppages, that sort of thing. And again many of the competitors are really not qualified, by our definition, to do the work. From a performance standpoint, National Steel is a very strong competitor, whether it be new construction or ship repair. I think they are in the business for good and our strategy there would probably be to keep them happy with new construction so they will leave us alone.

I might add, I think I totalled up about 25,000 shipyard workers on the West Coast. I am probably grossly off, let Bill Slack talk about it, but I made a stab at it anyway. In addition, there are three public shipyards on the West Coast employing what I believe to be about 30,000 people. So we have a number of private contractors employing small groups and we have three huge public yards -- inefficient yards that are employing even more people. That is one of the ironies of this business that we need to deal with.

#### QUESTIONS AND ANSWERS

QUESTION: Have you heard a rumor that Lockheed is about ready to move out of Seattle?

Fitzwater: I haven't heard that one. George, have you heard that one? (No. We will add that one to our list.) That is a good rumor, repeat it often. Shipyards don't move very easily and I find that hard to believe. But I would never say no.

QUESTION: Recently at National Steel in San Diego I saw 1600-3000 people working. We are not working up here. Can you comment on that?

Fitzwater: The labor situation, why we are on strike and they are not, is that what you question was? The contract with labor that we have encompasses just the major shipyards in San Francisco, Seattle and Portland, with the exception of Lockheed. Lockheed is not on strike and the rest of us are.

As far as L.A., I believe the contract expired there also with Todd and I don't think they are on strike. I think they are negotiating. The eight smaller yards are on strike and so there are quite a few yards on strike and that is a separate labor agreement. In San Diego, each yard has a separate labor agreement with a particular union. They are what we call vertical agreements where one union is affiliated with one shipyard and, of course, some are non-union. National Steel, I believe, is under the Iron Workers of America, and probably some of the others have a separate agreement down there. So I really don't know at this point if any of those yards are renegotiating their contracts or whether they are not on strike. The lack of work probably means they are not doing much regardless. We have not heard of any strike situation down in that area. Our contract only affects the major employers in the Pacific Northwest.

#### The Department of Defense Perspective

James Beall, Attorney  
Garvey, Schubert, Adams and Barer

It has been said that if our congressional delegation was just a little bit more supportive of the votes on the defense budget that we would have more ship overhaul work in Portland, Oregon. Well, if anybody here believes that getting overhaul work in Portland is as easy as getting one of our senators or congressman to vote yes the next time the D.O.D. Defense Appropriations Bill comes up, I have a little property down in the Everglades we might talk about over coffee. For decades, agencies have attempted to protect their programs and increase their budgets by putting pressure on the congressional delegations through their constituencies. But if you look up and down the West Coast at San Francisco, you will find very little relationship between their votes on defense spending and the amount of work that they have. There are historical reasons why our defense people are located where they are. And in many cases, we have seen where those who oppose the D.O.D. the strongest and give them the most trouble are having some relative success in landing overhaul contracts.

On the other hand, I do think it is important for our delegation to develop a very keen understanding of the defense contracting process, how the bidding process works, and how the schedule of overhauls and other procurement programs affect us here in this state. I think that it is very important for them to understand how certain key actors in various branches of the government can make or break a contractor here in this state.

But as one who works very closely with our congressional delegation, I would like to point out that our two Republican senators and our two Democratic congressmen from the city are doing a heck of a job in developing that understanding and developing the key relationships with the people over at the Department of Defense.

I would like to spend a few minutes just touching on a few of the subjects that are coming down the pike. We have mentioned a number of them and I will try to skim over them very lightly.

First, the schedule of Navy work, the schedule of overhauls, or what we call the planning matrix. In the short term it is an absolute disaster, even though we just completed the overhaul of the U.S.S. Wilson, which pulled out in May. There is only one contract for a Navy overhaul that Portland is even eligible to bid on through fiscal year '84, and it is going to go out under the IFB, the low bid process that George is talking about. Unless we get that bidding process under control, the Northwest ports are going to have a very difficult time in landing that contract. But again, there is only one contract. The problem is nationwide. I believe the planning matrix for fiscal year '84 has only 49 overhauls on it, nationwide, whereas last year there were 61 and in fiscal year '85 there is a plan for 65 overhauls.

My personal view is that the only chance we have of landing additional bidding opportunities, additional opportunities to compete in other words, is the action being taken right now by the Appropriations Subcommittee on Defense over on the House side. Les AuCoin, I have got to admit, has been a real tiger for us on a number of these areas. He is dealing with the 70/30 split and he is attempting to shake out some additional overhauls.

There was a rule that all Navy overhauls be restricted to the home port except where there was not adequate competition, or for some other reason the local superintendent of shipbuilding was allowed to throw the bidding open on a coastwide basis. About a year ago, due to the efforts of our congressional delegation, the Navy changed that rule quite significantly and now the rule reads that the Navy is allowed to open up to two-thirds of their major overhauls for coastwide bid and restrict one-third of their major overhauls for the home port area. But of course, they still restrict all of the SRA's, the two and three month jobs that can only be done in the home port. Currently, it is my understanding there are over a hundred vessels home-ported in San Diego, approximately 20 in San Francisco and, although this figure changes from time to time and is not reflected in current Navy documents, I believe there are only seven now home-ported in the Puget Sound area.

As I mentioned, Portland is not within the home port of Puget Sound. Senator Hatfield is toying with an idea that would change that definition to basically define Puget Sound as including the Port of the Metropolitan Area. So one way to handle it is to join them. Scott touched on the battle group that is scheduled to go into Seattle. We talked one time about writing to the logistical planning group for that battle group to see what we could do down here in Oregon. They told me they had started out with a game plan of one carrier and 16 surface combatants from Puget Sound. They are now down to a carrier and either four or five surface combatants and that decision will be made in a couple of months. The decision on where in Puget Sound to home port those vessels will be made by the end of the year. Their current game plan is to conduct an environmental impact statement study throughout 1984. Then, assuming that the study justifies their preferred site selection, go into site preparation for 1985/86 and finally, in 1987/88 actually locate the ships there. So whenever we talk about home-porting we all get pretty excited. You have to remember how long it takes to study these things, prepare sites, and put facilities in place, even in a place like Puget Sound where they have the Navy crawling all over. I, of course, am discussing with numerous people back there what the Portland situation is and it is not good. Neither the strategic planning group nor the logistical planning group are considering any Oregon ports at this time.

Both of our senators have had some preliminary discussions with Secretary Lehman. I might add that Secretary Lehman and recently retired Assistant Secretary George Sawyer started this big push to geographically diversify the fleet. Obviously to get away from the Pearl Harbor syndrome. They have been very pleased with the Northwest ports, both Portland and around the Puget Sound. (Many of you may remember George Sawyer when he was out with a private consulting firm, before being Assistant Secretary. He was head of the planning team that was making the determination on whether or not Portland ought to invest in that large new drydock.) But in any case, currently the outlook is bleak. There is no study on the boards. As I mentioned, both of our senators are doing some preliminary talking to people. If we can get a study in place, it is going to be very important for the northern Oregon community to get involved -- through the Navy League, the City Club, the Chamber of Commerce, things of that nature. The Governor has offered to put together a planning team from this end to work with the Navy to ensure that there are adequate facilities -- health care facilities, housing, things of that nature. Again, I see that as a very long term effort.

We touched on the Military Sealift Command. There is one vessel called the Observation Island. It is a six-month job to start in January. Both Oregon contractors are bidding



on it. The bid process through the Military Sealift Command was a two-step process. Basically, they looked at proposals from all the yards. I believe there were 11 that submitted proposals up and down the West Coast. They weeded out more than half of them because they are very concerned that they get this ship back on time. It is actually owned by the Air Force, loaned to the Navy, operated by the MSC and everybody has a piece in it. But the one thing that everybody agrees on is that it has absolutely got to be back on some date in early July. Obviously Portland has a little advantage there. They just returned the U.S.S. Wilson, supposedly a twelve month job, in 11 months. The Navy was very, very impressed with that. That may give us at least some slight leg-up. It reflects well on our work force and everybody here in the community. But as I say, both Portland yards are competing for that job. It would put a lot of people back to work for at least six months and we are keeping our fingers crossed. I believe the announcement will be made October 7.

Now we have all talked a lot about this bidding process. Scott talked about the over-capacity in San Diego and he is absolutely correct. Competition down there is just unbelievably cutthroat. My concerns are a little different on that. My concerns are that somebody is making up an awful lot of money after the bids have been opened and the job has been awarded. I don't know if that's exactly what the supervisor of shipbuilding in the Navy is doing down there, but we have been collecting data on bids in both the commercial areas and the Navy area. If you could see those figures, it is absolutely remarkable. When we are competing for a job with Exxon, or Mobil, or ARCO, or somebody like that, Scott will pick one off and the next time George will pick one off, next time Todd Seattle will pick one off, and maybe San Diego will pick one off. But it is incredibly fair and more often than not, our bids are lower than San Diego's. And then I can show you the last four Navy ships and it will just shock you that they are all coming in at about 50 percent of what we are coming in at. There is something very unfair going on here.

Again, I mentioned that Les AuCoin is looking at it on the House side, Senator Hatfield is looking at it on the Senate side. One idea that some people have been floating is going to an RFP, request for proposal, for all major overhauls and just dumping the IFP process altogether. So you have got to submit a proposal and be able to justify exactly what you are going to do with that ship; what are you going to open up; if this is wrong, what are you going to do; who is going to work on it; how much it is going to cost. Those proposals are often five and six volumes, but the Navy is always ensured of getting a contractor who knows what he or she is doing.

Coast Guard overhauls. Senator Packwood is going to take up this bidding problem with the Coast Guard to ensure

that the difficulty we are now having with the Navy does not happen when the Coast Guard cutters are put out for the overhaul schedule, I believe beginning late next year. Senator Packwood has been a real tiger for us on that and I am marginally optimistic that we have a shot at it. If we can get the first one, there is about eight years worth of work there. He is chairman of the Senate Commerce Committee, a very important committee that has jurisdiction over the Coast Guard.

A couple of miscellaneous items. We are working on a number of smaller government contracting programs, but we won't go into those. We are watching very closely who will become the next Assistant Secretary for the Navy for shipbuilding and logistics. As I mentioned, George Sawyer has recently resigned and taken a position in private industry. We are very close to a career officer in that branch of the Navy named Everett Plet. Plet is very impressed with Portland. He is particularly impressed with the job Portland did on the U.S.S. Henry B. Wilson. We are, of course, pulling very strongly for him. He was proposed by the Navy and by some circles in the White House as the next Assistant Secretary. The Navy wanted one of their own for the first time ever. It was held up because he had received some promotion during the Carter Administration and it's being used against him. It is still up in the air. We are hoping that he gets it.

There is a new Deputy Commander over at Naval Sea Systems Command. Again, this is a very key position. Commodore Platt has held that job. He is a very good friend of Northwest Marine's and the Portland area. He is very impressed with the facility. We have had him out a couple of times. He has gone on and taken a new position that has never existed before. He is working with us a couple of proposals. But his replacement is a gentleman named Captain Bill Hallinsteel, who I know some people in the room have worked with on Navy projects in the past. We are hoping to develop a very close relationship with the captain as well.

In summary, I think it's a competitive market out there with a commercial market just absolutely going to pot. Everybody has put additional pressure on the Navy. You can hardly get in to see anybody back there anymore. Lobbyists, lawyers, representatives are lined up down the hall. Everybody is trying to get a piece of the Navy action and it is going to be very difficult. But I think we have a pretty good team here in Portland and I think one way or another we are going to get a piece of the action.

#### QUESTIONS AND ANSWERS

QUESTION: The question dealt with private versus public shipyards on the West Coast.

Beall: There are Navy yards -- public yards -- up and down the coast. Bremerton recently announced they were adding 800 new employees to take them over 13,000 in their Bremerton yard. Of course, at a time when our people are out of work, we just couldn't believe it. We immediately were in contact with the Navy and they said that at that time about 80 percent of their work up there was nuclear. None of the private yards were eligible to touch it. But they did say that the percentage, which at that time was 80 percent goes up and down, depending on what's in port. There is work up there that should be thrown out. One way to do it is through the 70/30 split that the gentleman down here was referring to. Another is just to take specific overhaul contracts and kick them out for coastwide bidding. We are trying to work a two-pronged approach.

Comment from Audience: I think there is an important part gained that needs to be discussed in seeing more Navy work available to non-Navy shipyards on the West Coast. And that is, a study was done by the National Shipbuilders Council which indicated the cost of performing this work in a privately operated shipyard where a price was given or the estimate that was given was considerably less than the ongoing costs of doing business in a publicly operated yard where they did not actually track the cost as accurately for their own region.

Beall: That is a good point, my understanding is that the Shipbuilders Council of America is attempting to do a study comparable to the one that was done several years ago and I know that both Capt. Bondi and Lt. Cdr. Marchetti over at NAVSEA both believe that it is more expensive in the public yard.

### Foreign Competition and Pending Legislation

David Neset, Director, Marine Services  
Port of Portland

The topic of my particular section is foreign competition and pending legislation. I would like to approach that in the context of Portland's recent ship repair expansion effort. As you are well aware, in November of 1976 the voters of the Port District approved an \$84 million bond issue. The largest ever to receive voter approval in the State of Oregon. The purpose was to expand our unique ship repair facilities.

And I use the word unique in the sense that our yard is owned by the Port, a public agency, and the facilities are leased to private operators to compete for work in a variety of different markets. The reasons we needed to expand the yard were two in number. First of all to keep what we had; and second of all, to take advantage of the new tanker market which we foresaw.

Let me explain just a bit further. Our studies indicated that the traditional market on which we depended, U.S. flag vessels and scheduled service, was in decline. Also, the ships that would be available were getting larger and our facilities would become progressively less adequate to service the market. Our studies also indicated that the only real growth opportunity would come in the tanker trade as a result of the discovery of oil at Prudhoe Bay in Alaska. These two factors, one a threat and the other an opportunity, led to our ship repair yard expansion program.

We can report today that the program has been quite successful. The industry has been preserved in Portland and some 2,000 jobs have been saved or created, depending on your point of view and the timing. And the tanker repair business has been on the order of \$140 million per year. But we must also report that the future is uncertain today as it was in 1975/76 when these planning studies were done. It is true that we have in excess of 80 percent of the Alaska crude oil tanker business. It is true that we have the best physical plant on the West Coast and it is true that we have a reputation for quality work from a skilled work force. But it is also true that the U.S. liner fleet has been reduced through bankruptcies (reference States Line and PFEL), that very few U.S. cargo vessels call on Portland, that many U.S. vessels repair overseas, that our traditional share of Navy work has been eroded, and that all of our business is threatened by potential changes in federal policy or law.

It would be helpful if we all understood some of the basic competitive facts about ship repair. Based on some surveys that we have conducted, to the ship owner, quality work and fast turnaround are as important if not more important than price. Secondly, we have the facilities, the firms, and the qualified work force to give the vessel owner a fast, high quality job. Third, others have similar capability and have lower costs in what is a very labor intensive industry. Some examples of hourly wages as reported recently by Lockheed are as follows: In the Pacific Northwest an hourly wage, not including fringes, is \$13.49, in Japan an hourly wage of \$6.77, in Taiwan \$1.86, and in Korea \$1.72.

With these wage differentials, you may well ask how it is that we get any business at all. There are basically two reasons. There is a federal ban on the export of Alaskan crude oil and, second, there is a 50 percent ad valorem duty on the

cost of repairs when a U.S. vessel receives non-emergency repairs in a foreign yard. These two laws, working in combination, and let me stress that, the combined effects of these laws are what cause the tankers to come to Portland. Both of these laws are being challenged in Congress as we sit here this morning. The Export Administration Act, which contains the crude oil export ban, expires on September 30, 1983. This is about 11 days from now. The administration is promoting its renewal without the ban on the export of oil. I should also add there appears a very substantial sentiment in Congress in support of the ban on the export of Alaskan crude. But we could very well get to the end of the month and see the expiration of the Export Administration Act without a renewal on the ban. If that should occur, I am no lawyer, but it may be possible to initiate the export of oil from Alaska. The administration's maritime policy initiative, which is contained in HR 3156, proposes a repeal of the 50 percent ad valorem duty.

Now if one or the other of these changes in law were to be enacted, we would see the disappearance, in my opinion, of the tanker fleet from our shipyard. We fully expect, however, to retain both the ban on crude export and the 50 percent duty. But let us understand very well that failure to do so would bring about the demise of the ship repair industry in Portland.

These legislative initiatives of an administration that maintains it is supportive of the maritime industries in the U.S. -- difficult to understand how they come to that conclusion -- are even more ominous when placed in the context of earlier initiatives. These include the termination of the construction differential subsidy program. U.S. ships were built in U.S. yards with a subsidy from the federal government; that subsidy has not been funded during the duration of the Reagan Administration. There was a temporary grant of authority of U.S. flag-subsidized operators to acquire vessels from foreign yards. A subsidized U.S. operator can buy a ship in Korea and enter it into the operational differential subsidy program and have its costs of operation subsidized by the taxpayer. As mentioned earlier, the extended Navy repair cycles where ships are not going into yards as frequently as some might believe they should and the supposed savings to the taxpayer. These extended availabilities, or reduced availabilities, for repair are having an impact on business. We have also talked about bidding policies, home-porting policies, fixed price bids, RFP's, split bidding, and small business set asides. The cumulative effect of all of these policies, which individually may have substantial merit and justification, is to bring the ship repair and shipbuilding industry to the brink of disaster.

I might add there are other initiatives which have been proposed which also have an ominous ring to them. One being

the CDS payback, the permitting of foreign flag vessels to be reflagged to carry U.S. government impelled cargoes, and allowing the construction and acquisition of foreign vessels with money set aside in tax deferred capital construction accounts. Again, each of these things taken individually doesn't make too much difference, but the cumulative effect is very serious. The effects of all of these changes have been to empty U.S. construction yards, except for naval construction, and force all the yards to pursue repair work in the two available markets: the Navy and U.S. flag cargo ships. The competition for the available work on all coasts has been heightened as a result of the cumulative effect of all these policies.

The best example of this in our own neighborhood is NASCO and it has been discussed earlier. Their forte in the past has been new construction. However, because of the lack of work due to these federal laws and policy changes, they have entered the repair business -- and believe me this is a new development. All they did was build nice big tankers and we got to repair them. But now they have entered the repair trade. They have been rather successful at it, sufficiently so to order the construction of a new floating drydock. And they have been particularly effective in recent competition for Navy work, specifically the Cook, and the Hepburn which were recently awarded to San Diego yards.

I suppose in summary, we have to conclude that the ship repair industry is dependent totally on federal policy and law. As I indicated, the recent actions of the administration have emptied the order books of shipbuilders, and created a situation of excessive and growing competition in a shrinking marketplace. The effect of this has been reduced employment opportunity in Portland. Proposed legislation changes, the lifting of the ban on the export of Alaskan oil and the elimination of the 50 percent duty on foreign repairs would turn a difficult situation in Portland into a disaster. We must continue to work with our congressional delegation to protect our industry and to preserve jobs for our people.

I would, to close off this doom and gloom look at reality, try to conclude a little bit on an upbeat note. We faced a similar situation back in 1975 when we were looking at a declining ship repair market. As I indicated earlier, we had some threats and we did identify an opportunity, and we responded as a community with approval of a very large bond issue, which had the effect of preserving 2,000 jobs. And as I indicated, brought in sales for tanker repair of \$140 million a year. That had an impact in this area estimated at perhaps \$840 million. It is not a bad return on investment. That \$840 million is using an economic multiplier of six which was developed for us by the Maritime Administration. They can take issue with the figure if they wish. But it is a substantial

benefit to the community. We, in this industry, are doing all we can to assure that history will repeat itself and that we will successfully face the challenges of the future.

#### QUESTIONS AND ANSWERS

QUESTION: What can the local maritime industry do to offset the poor ship repair situation?

Neset: That is the \$64 question. Obviously, first of all we have to, as an industry, be as competitive as we can and that has to do with facilities, it has to do with management, it has to do with labor, it has to do with overall costs and work practices. And having got our house in order, we have to make sure that our congressional delegation is well aware of what the facts are, what we have done to warrant their attention, and see that the Feds treat us fairly. And unfortunately, it is a difficult phrase to define. There is a lot of work being done by Dillingham, Northwest Marine, the Port of Portland, certainly the Governor and his staff, and a variety of other folks to work with the congressional delegation and make them aware of the importance of this industry to our economic well-being. And I think, as Jim pointed out earlier, that may not have been as well appreciated in the past as it is currently. I don't know of any other particular actions, obviously within that list there is a broad range of actions, but that is really what we have to do.

QUESTION: The question dealt with Alaskan oil production and its affect on ship repair work in Portland.

Neset: The production, as I understand it, through Prudhoe Bay as early as 85/86 could experience about a 15 percent decline and it could come down fairly quickly for a couple of years and then level off. I haven't heard production levels as low as you talked about. And I hope they don't occur. But the continuation of the tanker market, on which we are very dependent, depends itself on the discovery of additional oil in Alaska and that oil moving rapidly to production and through the pipeline. And although the Prudhoe Bay field had 10 billion barrels of oil in it when they started, I think those were the recoverable reserves. When you are pulling out 1.5, 1.6 million barrels a day, you can eat up billions pretty fast. So we do face a decline and the number of tankers in the trade is in direct relationship to the volume of oil and the distance that they have to travel. On the other hand, there are some bright aspects too. Nobody would be as foolish to forecast what it is they are going to do with the natural gas that exists in those fields up there, but from a price standpoint, the least cost transportation system may very well be LNG tankers. When and if that is ever developed, and it will be, that will be another opportunity area. The only problem is

that these things have very long lead times and I suppose developing an oil field might take 5 to 8 years after you have proven the field before you actually deliver the oil. So we face a decline in the number of tankers that are available.

QUESTION: What is the status of the coal port at this time?

Neset: According to the Daily Journal of Commerce this morning, they are at an impasse and that is as much as I know. I am not part of those negotiations or really privy to their status except that I understand that things are very close to coming together. There are some sticky points but they are a lot closer today than, say, 30 days ago.

QUESTION: The question dealt with the waterway user charges proposed by the Reagan Administration.

Neset: The Administration proposed the imposition of deep-draft user charges which would be segment specific. That means that if you spend a million dollars a year dredging the channel and you have a million tons of cargo, each ton of cargo would be assessed at approximately \$1.00. In other instances where there was no dredging to access your channel, as is the case in Seattle, there would be no segment specific user charges. Needless to say, the maritime interests of ports on the Columbia River viewed this with some alarm. It would certainly have a serious competitive impact on our commerce and it was estimated that we would be talking in terms of 50 cents a ton. That may not be significant if it is a container load of Sonys, but if it's a ton of wheat, it could make a big difference. So the Port, in conjunction with most of the ports in the Pacific Northwest, have been working with Congress and various organizations to oppose segment specific user charges. Today in Congress there are three or four bills which approach this issue from various angles. The one that is the least disruptive to the marketplace is most often referred to as the Hatfield Bill. The one that is supported by the big ports and has segment specific charges is the Moynihan Bill. Then there is the free lunch for everybody Roe Bill, which approves all the deep draft projects but doesn't charge anybody anything for them. There may be a couple of others that I haven't been able to identify. Right now it looks to me as though the whole situation is at an impasse. Our delegation in Congress has absolutely done a fantastic job in keeping us from getting shafted. I don't think there is a bigger task they have tackled more successfully than that one.



## Shipyard Labor in the Northwest

William Slack, Business Representative  
Electrical Worker's Union Local 48

I would like to talk a little about the way labor and management is put together in this bargaining area up and down the coast. I think we have a unique situation in the Pacific Coast Shipbuilders Association and the Pacific Coast Metal Trades Association in that we bargain from Vancouver, or the Canadian border, to San Francisco as a group of labor people and as a group of employers. By a group of labor people, I mean all crafts that work in the shipyard area: boilermakers, electricians, machinists, steamfitters, laborers, carpenters, teamsters, etc. These folks all bargain as a group. They don't independently as electricians, or as boilermakers, but as a group under the auspices of the Pacific Coast Metal Trades Association. I think this has some advantages in that when there is a labor dispute, all of us are in it together, and I think that includes management.

Management also bargains, or has bargained in the past, up and down the coast as a group of employers from the Seattle area to the San Francisco area. In the last couple of sessions a few employers have withdrawn from that bargaining session. One being Lockheed in Seattle, and others that bargain independently. But as a majority, they bargain as a group up and down the coast. I think the excellent cooperation that we have enjoyed in the Portland area as far as labor and management getting along together has been mentioned. Outside of times when we are bargaining about specific labor management problems, I would say the cooperation in the Portland area has been excellent.

The labor unions and management have been able to get down to the nitty-gritty, the basic problems, and solve them without causing work stoppages and added costs. I think that is one of the reasons that all of the speakers have alluded to the productivity in Portland. I think that is one of the reasons we can perhaps demand a little higher wage than some of our competitive ports, such as San Diego and other parts of the U.S. Just yesterday, I had phone calls from the East Coast asking for some specific qualifications in electrical workers that they needed. Possibly we will be able to put four or five people together to go back and help them perform the work that they have to do. So we do have an excellent work force. It is available and I think it is a direct spinoff from World War II when, for instance, in my city of Vancouver, the population doubled in just a short period of time. Most of you in the Portland area are aware that during World War II we were one of the largest shipbuilding areas in the U.S. Our local union was the largest electrical local in the U.S. during World War II.

There have been some changes since that time. Our membership naturally has declined as the shipbuilding industry gave way to the ship repair industry. But the expertise seems to remain. These folks that worked during the World War II era and their children are now available in the Portland area to do those types of work that the shipbuilding industry demands.

I think that cooperation between employer and unions is the key to the success of Portland. I would have to say from labor's standpoint, we view the employers in the Portland area -- Northwest Marine, Dillingham and others -- as being some of the finest employers that you could deal with. We have excellent cooperation. We are able to resolve problems that seem insurmountable for others up and down the coast. The productivity in Portland, as far as labor is concerned, is unsurpassed anywhere in the United States and anywhere in foreign ports. We have a work force that is there, able, willing, and anxious to perform the duties that are put before them. They are excellent craftsmen. I think that is reflected in the fact that those jobs that come to the Port of Portland for repair, especially naval type work, is out on time or ahead of time. We have a good track record. I might argue a little bit about the availability and number of workers that are here in the Portland area. I think I would say it is closer to 3-4,000 workers that are available here in the Portland area to do ship repair work. These people, as I said before, come from a spinoff of World War II and also from those Navy ships that have visited our ports. I don't know how many times I interviewed a young person from other parts of this country who had visited our port as a Navy man, liked the environment, wanted to live here and raise his family in Portland, Oregon, and was an electrician on some naval vessel.

The shipbuilding industry is a very important part of Portland, Oregon. I think it is something we have to keep alive. One of the things I think labor and management could do jointly is to work more closely in our political actions, our lobbying efforts in Washington D.C. and specific lobbying of our individual senators and representatives. I have not seen a good coordinated effort between management and labor in that area. I think labor can probably take a big part of that blame. We are not educated perhaps as well as you in management to address those issues politically, but we need to learn and we need to work together to get that job done.

These are difficult times for labor unions. We are having a tough time surviving under the Reagan Administration. But I think labor unions are important when we need an available work force and special expertise found among union members. We see tough times ahead and if employment continues the way it is, management and labor are going to have a hard time surviving in the shipbuilding industry in Portland.

One of the things I think we need to understand in the area of wages when comparing the private yards and the public yards, is the fact that in the public yards most of the workers work the year round. They are on a permanent salary; they are guaranteed a job. In the private yards that is not a fact. Our workers will work perhaps a month and be off a month. I think the average amount of time that an electrician, at least out of our local union, would work -- I think I could very safely say that if they got nine months a year that would be excellent employment. For the last couple of years most of our workers have worked less than six months. So they have to support a family on a six month income. That is an important consideration to think about when comparing private yards to public yards. I might mention in regards to the strike that we have been on since the 26th of July. Lockheed in Seattle is voting today on a contract proposal that we will probably hear about sometime right after lunch and find out what the vote outcome was. I think there is some headway being made and I am hopeful that in the near future, this strike will be over and we will all be back to business as usual.

#### QUESTIONS AND ANSWERS

QUESTION: We are a little unclear, at least Dillingham is, to the relationship of some of the locals to the national organization. The people here might have more sympathy with the particular economic situation that we face that runs counter perhaps to some national goals within various unions. Is that a problem that you see?

Slack: I think that in the Portland area we are pretty small potato as far as the picture up and down the coast is concerned. I am sure that the Seattle area, with employment of some 4,000 electricians as compared to my local with less than 300, has a bigger influence on the negotiations than the Portland area could. I think that international-wise there are some differences in numbers of people in the different crafts and that also has some influence.

QUESTION: Are you saying that the situation works to our advantage or disadvantage then?

Slack: Well, that is a hard question to answer. I think the advantage as I see in Portland over both San Francisco and Seattle is the cooperation, the togetherness, that we feel at least speaking from the union standpoint and I think I can feel that from a company standpoint. The advantage I see is the close cooperation we have as an industry.

## TRANSPORTATION ON THE COLUMBIA RIVER AND INNOVATIVE TRANSPORTATION IDEAS

Sam C. Guess, Senator  
State of Washington  
Spokane, Washington

It is a pleasure for me to be here today and to talk to you about the Columbia River. My first introduction to the Columbia came 45 years ago last month, because it was on August 8, 1939, that I transferred from work on the Mississippi River to do flood control work on the Columbia and Willamette Rivers.

My first assignment was to locate as many high water marks of the 1880 and 1894 floods as possible. I spent an extremely interesting four months on the task and I uncovered one authentic mark for the 1880 flood and 21 authentic marks for 1894. The intervening 45 years had erased most traces of that flood, but then it had been 44 years since I did that work and I still remember vividly my experience.

The Corps of Engineers set the levy grades based upon the recovery of those high water marks, and we did a successful job with the exception of Vanport, where, because of the limitation of funds, we chose not to rebuild the old railroad grade which was being used as a levy.

Recently, I have been involved in research of another kind, trying to develop alternative methods of transportation of farm products. As the railroads abandon the small spur lines that go to the country grain elevators, we will have to develop alternative means of getting the grain to the main lines or to the grain terminals. In some areas where grain elevators are located on existing rail lines, there are not highways. Our studies will develop the most economical means of getting that grain to market.

In pursuing the subject, I recently ran across a record made back in the 1880's. The story reported that Marcus Whitman was the first recorded grower and shipper of wheat in Washington State. Beginning in the 1840's, the Walla Walla mission, established by Whitman, was the collection point for grain and flour shipments to the mining camps reaching all the way into British Columbia. As the mining boom subsided in the 1870's, the growers began to search for other markets. In an effort to ship wheat to the East Coast, many innovative changes were made. One enterprising rancher constructed a wood pipe chute down the breaks of the Snake River. The length of his chute was 3200 feet and it worked successfully for about 15 years. It was far more economical to unsack the grain, pour it into the chute, than to haul it by wagon the entire distance -

even though it meant resacking it when it arrived at the bottom. The success of that first wooden pipe chute attracted others, but the competitor who chose to use metal pipe in a shorter distance became a cropper. The one who accomplished the task in 1500 feet found that by the time the wheat reached the bottom, much of it was either scorched or pulverized. To follow that wheat from the port on the Snake River, we found that it was carried by shallow draft sternwheelers to Umatilla where it was unloaded, put on a portage railroad around the Falls, then to Celilo - again by shallow draft sternwheelers, and then again portage and loaded onto a boat, taken to The Dalles portage, and finally by boat to Portland. It was stated that by the time the wheat left Portland, half of the value had been consumed by transportation.

This last year, the Washington State Legislature looked at a number of alternative forms of transportation. After a considerable amount of debate, we passed four measures to guide us in the next few years. Two of the measures were actually additions to the transportation laws and two were resolutions which were funded.

The first law was a Benefit Highway District Law. The idea for a Benefit Highway District law was not a new one. A bill was introduced back in 1957, right after the passage of the Federal Interstate Highway Act, then again in the early 70's to help meet the problems in Kitsap County caused by the Trident program. Neither bill passed and so we looked critically at the measure when it was introduced in 1983.

After four major drafting sessions, the bill was accepted by both houses and is now law. It gives the counties authority to float bonds, charge tolls to users, or tax abutting property owners to get in the bonds. It is my personal opinion that few, if any, counties will ever use the law.

The second measure was study resolution. The means we in Washington State use to create this type of study is a floor resolution by the Transportation Committee, or any other committee. In this case, I asked the Transportation staff to include in the work program a study of the sky shuttle. The proposal for a cable system to reach from Bremerton, across Puget Sound to downtown Seattle with a branch to the Jackson International Airport was presented to us by a subsidiary of United States Steel during the session. This type of shuttle system exists in Europe and a number of cities and states in America are looking at the concept. The suspended cars travel on 32 drive wheels which ride on two 1-1/2" steel cables. The cars carry 62 passengers and a ball park figure when a system is constructed over land alone on existing roadway right-of-way is about \$1,000,000 per mile. It is usual to buy one car for each mile in the system, and in the case of the

Bremerton-Seattle operation, the carrying capacity would be approximately 3,000 commuters per hour. Travel time would be 12 minutes as opposed to the one-hour travel time now required.

The third measure was a law to provide for the formation of a County Rail District. The basis of this law came out of a workshop discussion I took part in last August at the Council of State Government at Salt Lake City.

The idea was developed because of the continuing pressure by the railroads as they abandon the branch lines which serve the country elevator. There are some 1700 miles of rail lines in Washington facing abandon.

We selected the county to serve as the local agency to manage the program. Two counties or more may enter into an agreement to own and operate rail lines or other forms of transportation in light-density, essential-service areas. The Rail District is empowered to issue general obligation bonds, receive state or federal grants and to charge tonnage fees to support the operation. Revenue bonds may also be issued. (Chapter 303, Laws of '83).

The final measure is the most exciting measure to me. It was a study resolution, adopted when we ran out of time to pass the bill. It calls for a comprehensive review with recommendations for a materials and products transfer system.

In 1982, the Legislature purchased 217 miles of the abandoned Milwaukee Railroad right-of-way. We believe that the areas lying along this right-of-way will suffer unless some means of moving grain is created. The Department of Natural Resources was given the job of managing the study, and on September 15 a contract was awarded to Swann and Wooster of Portland, Oregon. The main line of the Milwaukee may be the major corridor with branch feeders, or branches could feed large warehouse centers on the Burlington-Northern or the Union Pacific lines, or grain terminals on the Snake or Columbia rivers.

We will keep in close touch with the study as it progresses and we look forward to an exciting report which is to be presented to the Legislature in January 1984.

I will be happy to furnish a copy to any of you who might request it.

## UPDATE, COLUMBIA RIVER AND NORTHWEST

### The U. S. Maritime Administration Office In Portland

John W. Pullen, Maritime Development Representative  
U. S. Maritime Administration, Portland

I want to thank Gib Carter of the Oregon State University Sea Grant Program and the other sponsors of this conference for allowing me a few minutes to tell you about our new Maritime Administration office in Portland.

Before I tell you about our Portland office functions, I have to touch on the basic role of the Maritime Administration. The agency's main function is to carry out the provisions of the Merchant Marine Act of 1936, as amended. This has to do with promoting and developing a competitive U.S. merchant fleet to carry a reasonable share of our waterborne commerce and serve as an auxiliary fleet in time of national emergency. The bulk of the Maritime Administration employees who carry out this basic role are in the Offices of Maritime Aids, Shipbuilding and Ship Operations, Legal Counsel, and Research and Development of MARAD in Washington D.C. The Maritime Administration is in the Department of Transportation. We were transferred over to DOT from the Department of Commerce a couple of years ago. Although the Maritime Administration was separated from the Federal Maritime Commission over 20 years ago, many people still confuse the functions and the names of the two agencies. The Federal Maritime Commission (FMC) is an independent federal regulatory agency and its functions deal with such things as tariffs and agreements concerning ocean carriers, and ports and matters of regulating ocean commerce. On the other hand, the Maritime Administration is a promotional agency and not a regulatory one. When I moved into the Federal Building at 1220 S.W. 3rd Avenue on May 31, the first thing I found was that the General Services Administration had labeled my mail box "Federal Maritime Commission." I have had phone calls from individuals thinking I represent the FMC.

In addition to the basic shipping role of MARAD, the agency is also in the business of promoting ports, domestic shipping, and marketing support for U.S. flag carriers. These are the programs that the Portland office will be involved in. These programs have only a small amount of staff and funding resources compared to MARAD's major ship related programs. The responsibility of the Portland office will be to supplement the efforts of the maritime industry in Oregon and on the Columbia/Snake Rivers by providing information and research and acting as liaison between the industry and other agencies where we may have an interest.

MARAD does conduct a lot of studies, both by staff and outside contractors. We compile maritime data statistics. We perform any demonstration projects with the industry. We make available, either free or at a small cost, all the reports we publish. These are listed in a MARAD catalog published every year. Besides providing the maritime community with information on hand, we welcome industry-sponsored, well thought out proposals to perform studies or demonstration projects that will contribute to the betterment of a maritime region. We have no grant program to do this for the industry, but where there is a serious and genuine interest by a segment of the industry to provide some of their own resources, we will cost-share a project, provided that it is also in our own interest to do so. We write no blank checks.

To best illustrate our capabilities and the maritime community support for our research projects, I would like to point out some examples of projects we have been involved in:

- The Oregon Port Planning study that was done a few years ago in conjunction with the State of Oregon.
- The Washington Public Ports Systems studies that were done in conjunction with the Washington Public Ports Association in 1975 and updated in 1980.
- In 1981, the Maritime Administration, the Port of Oakland, and the Maritime Terminals Corporation developed and demonstrated a computer application program called a Marine Terminal Automated Management System (MTAMS) for control of cargo and equipment at public container terminals. Since then, the Ports of Portland and Tacoma have acquired the baseline computer software tapes and are presently implementing their own systems. Terminal 6 here in Portland is about on line. Both Ports have told us that our initial research did save them time and money in developing their systems. We are happy that this MARAD R and D effort paid off for the industry.
- Another popular project that has interested the large ports is MARAD's joint effort with the City of Tacoma Fire Department to evaluate the capabilities of a multi-purpose hover craft. This hover craft is the first of its kind in the country. The benefits of operating this type of vessel include low operating costs and fast response time in combating fires and oil spills, and in search and rescue. Ports such as Long Beach, Los Angeles, and San Francisco have shown an interest because in some cases their fire boat expenses run \$1 million a year.



- Another project was our nationwide Vessel In-Port Locator System called "VIPLOC." This was another demonstration project but with the San Francisco Marine Exchange.
- Our regional Port Impact Model that was cost-shared with the Port Authority of New York/New Jersey is being adopted by the Ports of Seattle and Long Beach. This project is suitable primarily for the large port with ample resources. The model is designed as a flexible, self-contained analytical planning tool to enable a port to prepare a regional economic impact assessment and to undertake "what if" policy simulations based on changes in port activities or its economic environment.
- A recap of one of our recent in-house studies was published in the August issue of World Ports magazine. This study quantified the economic importance of the U.S. stevedoring-marine terminal industry. It was produced by MARAD and the National Association of Stevedores. This report will be helpful to people who are not fully acquainted with the stevedoring industry.

Now, let me turn to the future! First, we will be revising our port economic impact kit by simplifying its methodology and adapting various sections to standard software programs. The kit is for small and medium-sized ports with limited resources and personnel to make port economic impact assessments. Ports such as Longview and Fraser River, Canada, used our old kit with good results. Secondly, we will be developing a Port Risk Management Manual in conjunction with the Pacific Coast Association of Port Authorities and the American Association of Port Authorities. This effort will be useful for port employees handling insurance matters. Briefly, it will be a guide book for solving common risk management problems and will provide a reference on port risk management techniques. And lastly, we will be promoting the use of our ship simulator located at our Kings Point, New York, Research Center. This computer-aided simulator has been used by the California Coastal Commission for ship traffic in the Santa Barbara Channel in Southern California and also for dredging projects at the Ports of Mobile and Norfolk.

In conclusion, we do believe that we have some resources to assist the maritime industry here in Oregon. We depend on you to make us aware of problems, issues and projects you think should be addressed jointly by MARAD and the industry. We stand ready to work with you and the maritime associations that represent you. You have MARAD representation in Portland now and it is up to you to use our resources.

## Proposed Liner Consortium

Roland Cornelius, Vice President and General Manager  
International Shipping Co., Inc.

I have been asked to say a few words in connection with what is known as the proposed liner consortium. I will try to provide for you today some background on the agreements that have dated back to the 60's and a few comments as to how the agreement might affect the Pacific Northwest and the Portland regional market right here at home.

This August 19, the Federal Maritime Commission granted interim approval of space charter agreements for the Six Line Japanese Consortium on the condition that the lines limit actual capacities in the service in addition to the usual limits on the amount of space which could be cross chartered among the lines. This particular interim agreement is technically good for 60 days and, therefore, runs out at the end of October. If it is not approved, or not agreed to, by the six line consortium, the request by that group for an extension of five years will go down the drain. I don't think that will happen, but that is where we are at this point.

The Japanese Six, or Big Six, are lines that jointly deploy a vast fleet of container vessels between Japan and the U.S. They are operated by the lines on three services to the U.S. West Coast and the East Coast. When containerization started in earnest in the transpacific trades in the latter part of the 1960's, the Japanese lines formed various space charter consortia which have since led to a host of confrontations with both the FMC and the U.S. carriers. The first service to be containerized was the Pacific Southwest operation to California in 1967. Today, we have a grouping of four and two into California. That is, NYK and Showa together and the four include the balance of that group, Mitsui, YS, K-Line and Japan Line. The Pacific Northwest service was the next to be launched when apparently a wiser group of all six came under one umbrella, through a single space charter agreement versus the two that I mentioned in California. Following that, the so-called New York service was then formed with five lines in one consortium with the exception being Showa Line. There are five then to the East Coast.

On each space charter service, the U.S. anti-trust laws required that the joint space charter agreements be approved by the Federal Maritime Commission. Apart from the odd rate war and periodic overtonnaging problems, the Japanese consortia were not hampered in their growth in these trades, nor were there any FMC approval complications except the usual delays

during the latter part of the 1960's and into the 1970's. It was not until 1980 that things began to go wrong to some degree, especially on the highly competitive Pacific Southwest service to California. During August 1980, approval for the three space charter agreements expired and the lines applied for renewal in June of that year. The usual protracted hearings then began and the FMC issued an interim authority at that time to cover the space charter agreements for a limited period while the proceedings continued for the overall and final approval.

The main argument for renewal was that unless their space charter consortia existed, overtonnaging and congestion at port facilities would result. Finally on January 16, 1981, the FMC approved the operation of joint service on all three of the routes to this country with the implementation backdated to August 1980 and running to August 22, 1983. However, for the first time, this approval was conditional upon the TEU limitations within each space charter consortium. These limits were set for the space charter agreements only. So the carriers could take more than the given figure if it was carried outside the charter terms by the vessel owner and not interchanged between the partners. The first problem following this approval was that several U.S. carriers immediately objected on the basis that space charters were not competitive and they claimed that the FMC did not approve them properly.

The space charter service of the Japanese lines has greatly benefited the Portland area shippers and the Port of Portland. It has afforded a needed high level of service to Japan, which accounts for 52 percent of Oregon's trade. The six lines, through their space charter agreements have provided the service every five days for the last ten years. No other carrier, U.S. flag or third flag, can provide service even approaching the consistency or duration of the Japanese lines. The six line space charter agreement has allowed the port to accommodate this high level of service with a minimum level of public investment in terminal facilities. It has also enabled the Port to achieve a high level of facility utilization at Terminal 6. To handle the same level of service by separate lines would require additional berthing space, cranes, and backup area at additional public cost.

The Japanese space charter service and the FMC's decision to limit actual vessel capacities hinge on the central issue of overtonnaging, or excess vessel capacity. The fact is that the four space charter agreements cover three trade routes - that is, the East Coast, California, and the Pacific Northwest, with three different overtonnaging or tonnaging conditions involved in those trades. Yet the FMC has, as of last month, applied a single solution in all cases, based on information applicable at the time they received that data to the California trade alone. While the Japanese line space

utilization in California is low, about 68 percent eastbound and 56 percent westbound, the Pacific Northwest trade utilization rate is virtually 100 percent. In Portland, the Japanese lines have consistently been booked full over the years and average about 700 TEU's per sailing from Portland. This situation has persisted for the last five years and it seems evident that Portland shippers can use added space for the Japanese lines and that the addition of new capacity would be readily absorbed by the Portland market without overtonnaging.

The Portland Far East container market is, therefore, undertonnaged and not overtonnaged. There is simply not enough vessel capacity serving Portland to carry all the available cargo. Conversely, the Seattle market is virtually overtonnaged; there is not enough cargo for all the ships. This point is illustrated by two facts. First, substantial amounts of cargo must be trucked from Oregon to Seattle to find the needed vessel space. Second, there is about three times more local and regional cargo for vessel calls available in the Portland market compared to Seattle. Over 200,000 tons, metric tons, of Oregon cargo moved via Seattle container lines in 1982. With ocean carriers serving Portland during that period of time fully booked. This clearly indicates that Portland is undertonnaged and in need of additional vessel capacity. The amount of leakage to Seattle constitutes about 25 percent of the Portland Far East cargo market.

In Portland we are served by only 144 Far East container sailings per year, of which the Japanese space charter is one half. The approximately 950 thousand revenue tons of Portland cargo market represents 6600 tons per sailing of cargo potential. By contrast Seattle is served by 500 sailings - as compared to our 144 per year - and on their local regional market for the Far East cargo is about 1,090,000 tons, a little more than 100,000 tons additional, with intermodal cargoes excluded from those numbers. The Seattle cargo base represents only about 2200 tons per sailing. That compares with the Portland figure of 6600 tons. Again it is clear that the Portland market is apparently undertonnaged.

This is further demonstrated by the fact that new carriers have begun Portland service in 1983 without diminishing cargo on existing lines. While three new lines have doubled the number of sailings from Portland since May 1982, tonnage on the Japanese lines has remained steady and slightly increased. These new lines have done well in Portland because of the need for more shipping capacity. As a result, Portland's Far East container tonnage is up 67 percent. In spite of new steamship lines serving Portland, the Japanese utilization rate is still almost 100 percent and the lines must frequently turn down bookings. Added capacity is therefore needed. The FMC's conclusion that the Japanese vessel

capacities should be limited to avoid overtonnaging is clearly not justifiable in the Northwest, and particularly not in the Portland market.

The FMC decision also raises a fundamental legal question. Until now the FMC has exercised the rightful authority to limit the amount of space which the lines may cross-charter. Vessel capacity above and beyond the cross-chartered space is only used by the vessel owner. The FMC has not had authority to limit the vessel capacity which an individual owner may operate. In its decision last month, however, the FMC places actual vessel capacity limits on the six lines, thus limiting the capacity of individual lines. It seems highly questionable as to whether the FMC has the authority to do this.

The central issue in the FMC's decision is, of course, overtonnaging. In concluding that the four space charter agreements, that is two in California, one in the Northwest and one on the East Coast, as they are presently structured may not be performing their basic function of preventing overtonnaging, the FMC has failed to recognize the regional differences in the trade conditions.

We think then, at the very least, the Northwest Space Charter Service Agreement No. 835 should be exempted from vessel capacity limitations. The TOKYO MARU, which began Portland service September 12, and the SHINBASHU MARU due in January 1984 and other Northwest replacement vessels should be allowed to enter the trade at full operating capacity.

#### Columbia River Customs District

Steve Newman, President  
Columbia River Customs Brokers and  
Freight Forwarders Association

There are really two parts to our present difficulty with the Customs Service in the river. The first is a fairly new customs plan which would establish a small number of regional appraisement centers around the United States. All of the commodity specialists now located in the various port areas would be centralized into these locations. To my knowledge, there is no support for this program from any importer groups or any brokerage groups. But the second and the more damaging proposal would reduce the number of customs districts nationally from 47 to 35. The ports losing their district

status would become sub-ports of their larger neighbors.

This is not a new program. We last successfully fought the battle to preserve our district in the mid 1960's. During the last year, however, Customs headquarters in Washington has begun an aggressive campaign to institute their plan. The districts closest to us that have already been abolished are Great Falls and San Diego.

Why is the district status important to us? In the customs scheme of things, the country is divided into seven regions, and each region into several districts. Our regional headquarters is Los Angeles and we along with Anchorage, Seattle, San Francisco, Los Angeles, Nogales and Honolulu are the district offices. Within each district are any number of sub-ports reporting to that district. Each district has its own director and staff with wide discretion to act upon matters such as penalty cases, classification decisions, manpower allocations and so on. The sub-ports do not. Should we lose our district status, we would lose not only our district director and his assistants, but also most of our commodity specialists, our fines and penalties officer, and our marine officer. Decisions which are now handled on a local basis would be referred to the new district headquarters, presumably in Seattle. As a sub-port, we would have the same status as the ports of Aberdeen, Great Falls and Nighthawk.

We oppose the efforts to take our district away from us on two grounds. The first is that Oregon, Southwest Washington and Idaho, the whole Columbia/Snake River system, is really a distinct trading area. We have our own cargo mix, our own problems, and we are in no way tributary to the Puget Sound. The second, we are in size of customs collections, the 17th largest district in the U.S. And we had the second largest increase in collections in 1980-81, second only to Houston. We are the largest district in the country scheduled to be abolished. The next largest district which was abolished had collections of \$42 million in fiscal 1982. The Portland District had collections in fiscal 1982 of more than \$154 million. In short, we are a viable growing trade area and in order to maintain and foster that growth, we must have a full range of federal services necessary to support us.

Now what are we doing about it and where do we stand? Last year, prior to congressional action on the appropriations for Treasury, of which Customs is a part, Congressman Wyden and Senator Hatfield introduced amendments that forbade Treasury to use any of the money appropriated to change in any way, the status of the Portland District. Districts that were unprotected by legislation were almost immediately abolished, like San Diego. We have it on very good authority that customs is as anxious as ever to abolish this district and our feeling is that we will once again need congressional action to avoid

It. Last week in Washington we received the personal assurances of both Representative Wyden and Senator Packwood that amendments similar to last year's will be attached to either the Treasury Appropriations Bill, or more likely, given the speed at which Congress is now working, the continuing resolution that will provide funds to Treasury for fiscal 1984.

Every member of the congressional delegation as well as Congressman Bonker from Washington's 3rd district have offered their support of these amendments. Given the fact that Senator Hatfield is Chairman of the Senate Appropriations Committee and Senator Packwood is Chairman of the Senate Commerce Committee, I don't think that we will fail this year. However, we have to show popular support and we ask that each of you write to your senators and your congressmen expressing your support for the maintenance of the district. Congressmen do, in fact, pay attention to what they hear from their constituents. Ron Wyden made a comment to a Town Hall meeting that the most mail he had received on any single issue since being in Congress was on this issue last year. And he has become very interested and very supportive. So we ask that you take the few minutes necessary to get a letter off and ask that they do in fact support us.

In an effort to find a long term solution to the problem, an ad hoc committee has been formed with representatives from all the ports, Importers and brokers. The committee is chaired by Tom Zelenka of the Port of Portland. If any of you have any ideas for a long term solution, we would be delighted to hear them. Please send them to either me or Tom Zelenka in care of the Port of Portland.

Again, the continued growth of our area as a center for international trade depends to a large extent upon the continuation of these federal support services and we believe that a full service Customs District is vital to us.

### The Port of Portland Twenty Year Master Plan

Margery Abbott, Senior Planner  
Port of Portland

I think I was invited here today as a challenge to see if my Master Plan has been sitting on the shelf for the last two years. It has been about two years now since we did finish the Master Plan. As all of you have been aware, these have been a rough two years, both for the Portland economy and the

maritime industry. It certainly is a real challenge to see if a plan is flexible enough to meet these kinds of downturns and still keep an eye on the long term requirements to keep the Port competitive. One thing I do to keep a little perspective on this whole issue is I have a chart on the wall of my office that shows Port of Portland cargoes for the last 30 or 40 years. It really looks like a mountain range, it's just up and down and up and down. But it is tilted. The long term growth trend has been very consistent over this time frame.

Before I try to bring you up to date on events relating to the Master Plan, I want to briefly review the Master Plan just to set the stage. The Master Plan and the task force that we had working with it looked at the potential growth of cargo over the next 20 years at the Port of Portland. The plan identified actions in terms of land and facility development the Port would have to take in order to remain competitive in the long run and also set policies to guide this development. We identified potential for cargo growth from about 7.1 million tons of cargo in 1980 to as much as 23 million tons by the year 2000. If we are going to have that kind of cargo volume we need to build basically one new dock, one new berth a year, to keep up. Also this means about \$300 million worth of facilities when you look at 1980 dollars. It also means we need to reconstruct existing facilities as the Port begins to face land constraints.

In specific terms, the 30 member citizen task force recommended several things. The first was the land use plan which we are following in terms of development and new facilities. Second was a policy statement which emphasized the need to provide the region with regular steamship service for general cargo of all varieties. It also made a policy statement recognizing the need to attract more special purpose facilities such as coal and auto facilities which bring in revenue to the Port. One thing that the Master Plan did point out was the need to look at public financing in long terms. I think we identified that 20 percent of the facility requirements over the next 20 years would require some kind of public financing. The task force also recommended that we seek a general obligation bond to finance reconstruction of the older general cargo terminals to keep them viable in this market. That is where we were two years ago.

Now where are we today? In terms of tonnage after two years of decline, we seem to be well on our way to an upswing in most areas. This fiscal year we have seen a 25% increase in general cargo volume. Terminal 1 is still down; it is down about 15 percent this year. Our Terminal 2 volume is up about 49 percent over 1981-82 and Terminal 6 is up 33 percent overall. We had an excellent year in dry bulk exports and the auto business was up despite the voluntary restrictions of the Japanese. Steel imports still remain low and probably will not



recover until the economy recovers some more. I am sure you are aware of the changes in the steamship lines; some of them have already been referred to today. While we have lost a few, we have brought in several major new ones, like Hyundai Line, Mitsui Korea, Taiwan Hong Kong Service, Westwood, PAD has come in the last few years and is now increasing their service, Pacific Alaska and a couple of others. This is right in line with our general cargo mission. In terms of facility development, progress in some areas has been a little bit more rapid than we anticipated and in a couple of cases it has been a bit rougher than we had hoped. But all of the facilities are following the direction that the Master Plan outlined.

The most significant projects are as follows: The Columbia Grain Terminal at Terminal 5 has been expanded. There is construction now underway at Terminal 4 to add an interim RO/RO berth so that we can serve RO/RO ships until Terminal 2 is rebuilt. Also it will be very important during construction when we tear up the old one. The third item is the construction of a coal facility on 100 acres in South Rivergate. As I think most of you are aware, it was about 80-90 percent complete when construction stopped. That stopped on about March 2 of this past year. In the most recent development, the Port has accepted it in principle. I understand the details are being worked out and the people at the Port are pretty optimistic that it can be settled before it comes back up in court. The revisions will be to the lease. I think the changes are possible minimum guarantees that will allow the project to proceed. And finally, the most visible recommendation of the Master Plan is reconstruction of Terminal 2. In April 1982, the Port Commission approved a ballot measure to seek a general obligation bond for reconstruction of Terminal 2 and some repairs for Terminal 1. This would have been on the November 1982 ballot. This project got waylaid by Proposition 3, the property tax limitation measure. This was on the recommendation of the Attorney General, who felt that even if our bond measure were to pass, we probably still couldn't get the money if Proposition 3 also passed. And at that time Proposition 3 was ahead by 60 to 70 percent at the polls and it just didn't look too promising. So in August of last year, the Port Commission pulled the bond measure off the ballot until the whole property tax issue could be straightened out, either through the election or the State Legislature. Right now we are actively reevaluating the bond measure and seeing how we can proceed. We are feeling very strongly about the need for the T-2 reconstruction. We just have a lot of cargo we have got to handle somehow and that is the best way we can do it. The need for a T-1 is not quite so clear right now.

In summary, given the fluctuating nature of the marine business, the Master Plan continues to serve as the target and also as a way to assess where we are. The projects identified in the Master Plan are proceeding and being built as we said

they should be, based on market demand in terms of funding availability. Projects such as the new multi-purpose bulk facility continue to be a high priority. We are looking for funding sources there. We are also looking for the further expansion of the T-6 container docks before too many years pass. The most pressing issue before the Port right now is the one of financing major expansion with the very limited resources available. This problem was first identified in the Master Plan, but it has really grown as competition among the West Coast ports has stiffened. We don't see any changes in the near future.

### The Vessel In-Port Locator System

Dick Copeland, Executive Director  
Portland Merchants Exchange

What I am supposed to do is give you an update on VIPLLOC. I don't imagine anybody in the room knows what VIPLLOC is. So bear with me for just a few minutes and I will give you a little bit of history about VIPLLOC or Vessel In-Port Locator System.

Several years ago the San Francisco region received the first two R and D contracts from MARAD to do a study of all the major ports in the U.S. to establish, among other things, if there was a market or a need for estimated time of arrival for vessels in all the ports of the U.S. and the actual vessels that would be in port. As a result of that study, there was a meeting in San Francisco in 1980 where the National Association of Marine Exchanges was formed. That was the first time in the last 20 years that all the marine exchanges in the U.S. met together. They had actually never met at one time. The Columbia Association went back to MARAD along with the San Francisco Exchange in late 1981 for an R and D contract to actually write the software and develop the system. The system has been working in San Francisco and is totally computerized as far as keeping track of its vessels. Their billing is done on the computer. The software disks are supposed to be in the mail so we are hoping that we in Portland will be able to put them on our micro-computer and keep track of the vessels the same way.

To extend that beyond the local marine exchange, for the last two years we have been meeting with various vendors to find someone who could set up a national data base and also handle national marketing. After the original study and some

smaller studies, it was felt there was, in fact, a national market for this information. This includes local people such as attorneys, ship chandlers, agents, owners, stevedores, port authorities, brokers, and freight forwarders. They are pretty obvious customers most of the marine exchanges already have. Then there is the array of federal agencies.

Remember, there is no public or private agency at this time that can give you a list of vessels in port. Just to give you some idea of the kind of information we will be fitting into the system when it goes on line: the name of the vessel, the ID number, the type of propulsion, flag, type of carrier, such as container, breakbulk, grain, etc., last port of call, next port of call, local agent, local berth, estimated time of arrival, estimated time of departure, and some local things, such as pilots, and tug company. Based on this information, we hope that the vendor that we selected, which is Trade Information Planning Specialists in Seattle, will put together an array of reports that the customers will be able to get by contacting the local marine exchange or the larger customers can put in their own CRT's and be able to call up any selection of these different reports.

Just to give you an idea of the ports that would be involved in the system. They would be New York, Baltimore, Hampton Roads, Houston, New Orleans, Los Angeles, San Francisco, Portland and Seattle. The intent is for those ports to pick up the small ports in their area. The best estimate that we have been able to come up with is that these ports and the small ports near them would represent something like 90 percent of the arrivals and departures. And it is the hope that as it goes on line, we will be able to pick up some additional ports by contacting the pilots associations or starting additional marine exchanges to cover those areas. In June of this year, I attended an international port and harbors meeting in Vancouver, B.C. where I heard the various European Common Market countries present papers on a project similar to the one I have described here. They have completed their study and established a need and now they are thinking in terms of software, this type of thing. So they are probably two to three years behind where the U.S. effort is right now. Our next meeting of the National Association is in October in Virginia, at which time I hope we will sign the final contract with our vendor in Seattle. He indicates that it would be about six months from the time we sign that contract before we have the national system on line.

PANEL: OCEAN CARRIERS--CONFERENCE VS. NON-CONFERENCE

Pro-Conference View

Michael Uremovich, Vice-President - Marketing  
American President Lines, Ltd., Oakland, California

I was asked to spend just a second describing what a common carrier shipping conference is. These are groups of carriers who get together in our country, under the auspices of the Shipping Act of 1916 and subsequent legislation, essentially to set prices, rules and regulations in a given trade. These conferences have been around in all international trades essentially since the late 1800's. The first conference went to, depending on how you want to define it, about 1850-1860 between England and India. And they developed in all the trades at that time. Around the turn of the century there was a real question in a variety of governments' minds whether essentially price fixing cartels, which is what a conference is to a large extent, was appropriate for this kind of business. And several governments initiated large studies to look at that issue, our own being one.

The result of our look at the business was the Shipping Act of 1916, which establishes a series of procedural safeguards for the shipper. Other countries, the United Kingdom being one, went the other way and decided that the conference system was so appropriate that they made it an integral part of the regulations of the business. Even today, in different trades, if you are not in the conference you are not in the business. Many of us I think would prefer to see, at least intellectually, free and open competition everywhere in the world. But fortunately or not, it really doesn't work that way. What really happens is that foreign governments and our own government to some degree have a variety of interests in the various players in the international shipping community.

The conference is one of the institutions and one of the forms through which the competing government interests directly contact the carriers. It is a way for a government to help balance the supply-demand equation among the carriers in the business. It is clearly a way for the carriers to protect their own interests. Conference carriers are generally characterized, without speaking about any particular carrier or situation, by higher service level kinds of carriers. They operate the more complex systems, focus on the higher value, and more management intensive pieces of business.

If you study the trade statistics in the U.S., you will find there is a clear distinction between the kinds of business

typically carried by conference carriers and the business typically carried by non-conference carriers. It seems to me, and it seems to my company, that that is only correct. Buyers in the transportation market buy different things. Some buy the lowest cost, some buy a different service package than others, some buy fast transit time, some buy different kinds of documentation. Some buy intermodal service, some don't. If you are buying direct port-to-port service, rather simply, and you happen to be positioned, let's say, in Hong Kong and shipping to the U.S., non-conference competition is real competition and is a real problem choice for you as a shipper. In other situations that is not the case. As one of the speakers said earlier, there is really no black and white in this situation any more than any other. Because if conferences were all bad or all good, we would either have all the business or none of the business and it just doesn't split that way. It splits up because people buy different things.

Now from a carrier's perspective, why do we want a conference? Well, the normally stated reasons are stability of rate and supply, which is the classic kind of reason. Now there is an offset to that. Stability of rates and supplies implies that at any given commodity you might be able to buy cheaper elsewhere. So if the counter argument is "Yes, but those stable rates are higher than they would be without them," in some situations that is absolutely true. But try buying a discount airplane ticket around Christmas; you have those kinds of pricing differentials.

As I mentioned, it provides a form through which certain other interested parties in the trading community can meet and talk and exert their influences. In most countries, ours being a notable exception, shippers and shipper's councils are the analog on the shipper side to the freight conference on the carrier side. They seem to work reasonably effectively in most countries. Not all, but in most. They don't in ours because they are not permitted. The argument that it is more difficult here in the U.S. doesn't hold too much water because that is more a problem of the existence and non-existence of the shipper's council than it is the existence of the ocean freight conference, at least in our judgment.

The third and most damaging criticism to the conference system per se is that it tends to be less flexible and less responsive to individual shipper needs than just an individual carrier. We have a situation here on the West Coast with which we are all familiar. The PWC, Pacific Westbound Conference, is having extreme difficulty at the moment being market responsive and being flexible enough to react to the needs of the marketplace. We are meeting in Singapore today, as a matter of fact, to resolve those issues. And we, as a company, support the continuation of the conference system, but it must be responsive to marketplace needs. If something doesn't happen

In the conference structure, particularly westbound from here, American President Lines is clearly going to have to look at other options. There are historic reasons why the PWC has these problems. I won't dwell on them at length, but it is essentially a matter of the change in the transportation community, most notably containerization and intermodal have gone past the conference systems' ability to quickly handle them. That is not a problem eastbound where carriers can act independently within their conference environment, but remains a problem in most of the westbound situations. So we think that the responsiveness and flexibility criticism is the one at the moment that has the greatest merit.

We don't believe that the rate argument has much merit. The argument that conferences keep rates artificially high I don't think is demonstrated by any of the evidence - at least none that we have seen. Requests for rate reductions, for example in the PWC, particularly over the last year, have been approved in the 85-90 percent range, not all but most. Conferences have historically, and we think will continue to have, market niches and market segments that they are better equipped to address than non-conference carriers. Clearly there is some overlap, and one keeps the other honest if you will, but the segmentation process does go on in this business and they are separate.

And finally, foreign governments. This is an argument that we may or may not agree with, but I submit to you as a fact of life: foreign governments take a much greater interest in their trade and their merchant marines than we do. They legislate and through their own legislation and their own maritime reservation laws and the developing UNCTAD Code, use the conference as the mechanism through which most of these governments act. And so to wish them away because you think the prices are artificial just doesn't speak to the reality of the way foreign governments will continue to act in our judgment.

Again, we as a company support the conference system because we believe it does provide the stability, does permit the segmentation of the marketplace that makes immanent sense to us. It is a forum for people. We support shipper's councils in the U.S., clearly our government does not, and we find conferences as a very strong and natural part of the transportation community as such organizations have been in airlines and motor carriers and numbers of other kinds of situations.

## Non-Conference View

Erik Falkenberg, Vice President - Trans Pacific  
Westwood Shipping Line, Tacoma, Washington

In many cases you find that the conference carriers really represent a mixed bag because they are conference in some cases and they are non-conference in others. So they do, in many cases, speak with two different tongues and that is why I find this pro-conference set-up here quite interesting.

Westwood Shipping is a relatively new operator as a shipping entity. We are one of the few operators that are 100 percent independent. We are not a member of any conference in any of the trade routes that we do operate.

And before I go into the arguments pro and con the conference, I want to touch on some considerations that the carrier has to go through before deciding to be a conference or an independent carrier. And there are a lot of issues. We have the problem of the national flag versus a third flag carrier. The third flag carrier issue is a very important one because as a cross trader you would have to fight the national flag at both ends. We do see a lot of favoritism for the national flag. Governments do favor their own flag regardless of cost. We have cases here in the United States of the PL-480 program where at the expense of the U.S. taxpayers, a lot of cargo is shipped primarily on U.S. flag. It was said earlier by a representative from MARAD that they wanted to strengthen the U.S. flag and help them be more competitive. I think in many cases MARAD is not doing that. In fact, at the cost of the U.S. taxpayer, it is making them less competitive by not letting a lot of cargo go out on open bid market. In other cases the government gets involved with companies like Chrysler with government loans. The negative factor is that Chrysler then has to support U.S. flag only, at the high cost as compared to a lot of other alternatives.

So it is a complicated issue for a carrier to decide. You have to review the flag, you have to review the trade routes, and you also have to review the type of trade you are going into because each trade is different. What type of ships do you deal with? Do you deal with 100 percent cellular container ships, are you a combination carrier, a breakbulk container, or a con-bulker. All of these factors are very important for a carrier when they make the decision. In a case of Westwood, we are what I would term a con-bulker operator. The types of ships we deal with are bulk ships and combination container ships. So the mix of cargo we deal with lends itself, in our view, to be an independent operator in both directions. The carrier has to make a lot of decisions and

obviously when he finally makes the decision, he starts off with his own good "where do I fit in?" Then he makes the decision of conference or non-conference. And each owner again has a lot of different sets of circumstances and scenarios that you have to take into account before that decision is made.

From the shippers point of view, you have the cost aspect, the reliability of service and schedules, the port range that is being offered, and the attentiveness to shippers needs. One important factor which is very often overlooked and is often misunderstood in the trade is that it's not an either-or case. The shipper can use conference and outside carriers in most cases. Conference carriers try to indicate that in most cases you either ship with us or you don't ship with us because we can take certain actions. In most cases that is not correct. And that is a big issue as an independent carrier trying to bring this message across to the trade, to tell the trade that they have options. They can ship both conference and non-conference in most cases with no repercussions for their own activity, which gives them the benefit of both worlds. I think it is also very important for the shippers and the consignees to sort out the bad apple from the good apples among independent carriers. Because in the very volatile shipping markets, there are cases where smart independent operators might go out and take advantage of the low shipping market and take time-charter ships into the trade for a year or two and then disappear from the trade. I think it is wise from the shippers' point of view, when they look at their selection of conference carriers, to look very closely at the independent operators who they support before they really go into any type of business relationship. I think that is extremely important.

Attentiveness to shippers' needs is extremely important also because the conferences, in most cases, have very slow decision-making processes. I don't know how many shippers we have in the room here, we have some. I would venture to guess that in most cases you have received a request coming back from the conference and your requests have been C.O.D. so you will hear from us in two or three weeks or whatever. That is just not a good way of doing business. The other point, which is also extremely important, is that the conference carriers in many areas compete with themselves. And we find cases where we see a conference carrier on a port-to-port basis is a member of the conference and it is independent on an intermodal basis. So they are, in fact, independent on a point-to-port basis, conference on a port-to-port basis and we sometimes find that the total intermodal rate is lower on the intermodal basis which is a more costly and more expensive transportation chain than a port-to-port.



## The Shipper's Perspective: Conference vs. Non-Conference

David Buffam, Chairman of the Board  
Ted L. Rausch and Company

The merits of conference versus non-conference steamship service is a very controversial subject and the international freight forwarder can serve as the Devil's advocate.

Forwarders need both conference and non-conference carriers to keep ocean freight rates in balance. We do a great deal of rate negotiations for our clients and believe that the competition offered by all carriers is to the benefit of the shipping public.

The September 12 issue of the New York Journal of Commerce article by Maureen Robb stated: "The Pacific Westbound Conference, which has lost a third of its members since last year, will face critical issues at its owners meeting this month as many members question the effectiveness and even the survival of the group.

"American President Lines, for instance, said it is concerned that the present structure of the leading Pacific conference has become 'obsolete' and it is evaluating several major alternatives to the system.

"The conference, which is down to 11 members from 16 in January 1982, has seen its market share fall from about 75 percent then to an estimated 50 percent now."

Why are the conferences in trouble?

Many conference rules are too restrictive to individual carriers who need the right to make spot decisions on rates for certain types of shipments.

The voting system at the conference table allows carriers who are member carriers but not serving certain trade routes within the conference scope to dictate rates to areas they do not even serve.

Conference carrier groups are not responsive to shipper needs and thereby not only prevent the shipper from getting business, but also lose business themselves.

One good example of this was the request that the Pacific Coast European Conference recently received from shippers asking for reduced rates on frozen potatoes from the

Pacific West Coast to the Continent. Due to crop failures in Europe there is a shortage of potatoes and in order to be competitive with Eastern Canadian exporters, the West Coast rate needed to be reduced. The Conference decided against the shipper request, which will most likely result in loss of U.S. exports, plus the reefer space on the ships calling here will not be used to capacity.

We are presently experiencing faster rate action from the non-conference carriers, but their big problem is that they do not have an adequate inventory of specialized container equipment such as refrigerated containers, flat racks and bulk liquid containers.

Not all conferences are unresponsive to shipper needs, but they certainly need to be more progressive in their thinking.

The practice by individual carriers of jumping in and out of the conference at will is something which must be dealt with. It is unfair to the shipping public and must be stopped to give shippers a better chance at international markets through equitable freight rates.

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