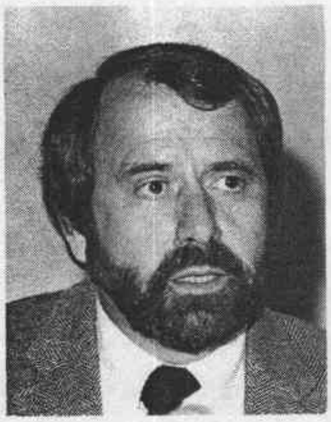
The Future of Northwest Maritime Industries XII

15 October 1985
Red Lion Lloyd Center
Portland, Oregon

Oregon State University,
Marine Advisory Program
A Land Grant / Sea Grant Cooperative
Special Report 758 October, 1985

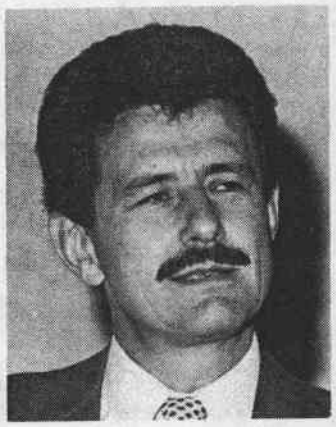
Gib Carter

Cheryl Buckley

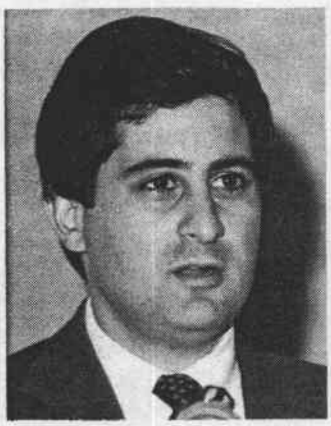


Ken Casavant

Gary Conkling

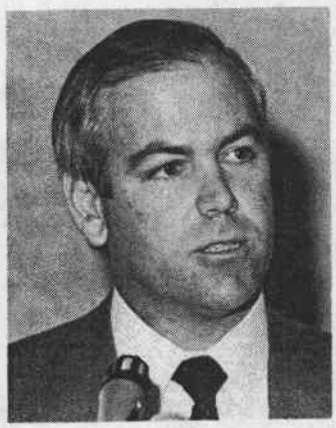


Nelson Cooney



Peter Friedmann

John Gaughan



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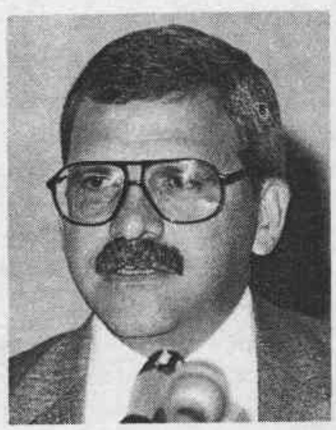
Dave Neset



John Nyce

THE FUTURE OF NORTHWEST MARITIME INDUSTRIES XII

A Conference Sponsored by

Oregon State University Extension Service
Sea Grant Marine Advisory Program

Washington State University Extension Service

University of Washington Sea Grant Program

Columbia River Towboat Association

Propeller Club

Portland Shipping Club

Women's Shipping Club

Portland, Oregon
15 October 1985

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

THE FUTURE OF NORTHWEST MARITIME INDUSTRIES

CONFERENCE XII

Red Lion/Lloyd Center **Portland, Oregon**

October 15, 1985

The sponsors proudly present the twelfth annual forum bringing together both the business and academic sectors of our region in discussion of issues vital to the future of the Columbia River and Snake River region. The objectives of the conference are, (1) to improve communication within the maritime industry and (2) to achieve a more productive maritime industry and region. With these goals in mind, we will focus on two areas of interest: Transportation Deregulation, and the future of the Columbia/Snake Basin.

The National Sea Grant College Program, the coordinating sponsor for this conference, is a partnership of government, universities and industries working for a sound economic development and appropriate use of our nation's marine and coastal resources.

Steering Committee

Chris Bieber	Williams, Dimond & Co.
Cheryl Buckley	Program Chairperson, Women's Shipping Club Euro-Pacific, Inc.
Gib Carter	Conference Coordinator, OSU Extension/Sea Grant Program
Dick Copeland	Propeller Club, Merchants Exchange
Ray Jubitz	Columbia River Towboat Association, Crowley Maritime Corp.
Linda Pearson	Port of Portland
Darwin Rutland	Portland Shipping Club, Merit Steamship Agency, Inc.
Mike Spranger	WSU Cooperative Extension/Sea Grant
Peter Williamson	Exhibits Chairperson, Port of St. Helens

Schedule

8:00 am	Registration and Coffee
8:30	Introductory Remarks - Gib Carter, OSU Extension/Sea Grant Program
8:34	Panel - TRANSPORTATION DEREGULATION TODAY - Its Effects and Future
10:00	Break
10:20	Panel - FUTURE PROSPECTS FOR THE COLUMBIA/SNAKE RIVER BASIN
12:00	No Host Cocktails
12:30	Luncheon Program
2:00 pm	Adjourn

INTRODUCTORY REMARKS **MULTNOMAH ROOM**

Panel

TRANSPORTATION DEREGULATION TODAY - ITS EFFECTS AND FUTURE

Moderator: **Peter Friedmann**, Kominers, Fort, Schlefer & Boyer, Washington D.C.

Lawrence Kiser — Assistant Vice President for Sales & Marketing, Burlington Northern, Fort Worth, TX

Nelson Cooney — Chief Council for the American Truckers Assoc., Alexandria, VA

Ray Jubitz — General Manager, Crowley Maritime, Portland, OR

Panel

FUTURE PROSPECTS OF THE COLUMBIA/SNAKE RIVER BASIN

Moderator: **Ken Casavant**, Professor of Agricultural Economics, Washington State University, Pullman, WA

Dave Neset — Director of Marine Services, Port of Portland, Portland, OR. Will discuss projects on the "drawing board" between the Port of Portland and other Columbia/Snake River ports.

Gary Conkling — Manager of Government Affairs, Tektronix, Beaverton, OR. Will address pro-trade aspects in the Columbia/Snake River Basin with the Pacific Rim.

John Nyce — Project Manager for Lisburne Facilities Project, ARCO, Santa Ana, CA. Will review modules and how they affect jobs and business in the Columbia/Snake River.

Luncheon Program & Keynote Address

ROLE OF THE MARITIME ADMINISTRATION AND NATIONAL MARITIME AFFAIRS

JOHN GAUGHAN

Administrator, Maritime Administration, Washington D.C.

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INTRODUCTION

This twelfth annual regional conference, sponsored by the original cast of cooperating organizations, was one of the better sessions according to written comments received from participants.

We have gone full circle in the types and depth of issues as well as the format and length of conference. We will continue to be responsive to your suggestions while maintaining the basic founding principles, which are to bring the voices of industry, government and the academic community together to discuss issues of mutual interest in the Columbia River Basin.

The organization and management of this program was considerably different from the previous eleven in that one of the co-sponsors, the Women's Shipping Club, accepted responsibility for leadership in the program. I am most grateful for this additional talent. We hope to continue the trend of decentralizing the conference management as each co-sponsoring organization assumes a more active role in the production of this event. We appreciate your support and want to offer an opportunity for the co-sponsors to be more creative. This conference is dynamic and must remain so in order to best serve you.

Thank you all for your continued support and be assured your comments are most welcome and factored into each plan.

Sincerely,

Gib Carter
Marine Extension Agent

INTRODUCTORY REMARKS

Gib Carter, OSU Extension/Sea Grant Program
Portland, Oregon

Welcome to the twelfth annual regional conference of the Future of the Northwest Maritime Industries. Each year we discuss some aspect of Columbia River Basin trade. This year, as always, the program was planned by representatives of each of the co-sponsoring organizations and I direct your attention to the program. It lists the steering committee members and their organizational affiliations.

We need feedback on this program, and I ask you to do that in two ways. In your packet is a form that asks some very simple questions. You might choose to fill that out. Or you can talk to members of the steering committee and give them your suggestions. We promise not to take any criticism personally. We are working on your behalf, so we need to know what you think.

Now I would like to introduce our program manager. Cheryl Buckley is employed by the Euro-Pacific International Corporation. On our steering committee, she represented the Women's Shipping Club. She is responsible for the substance of today's program.

Cheryl Buckley, Transportation Manager
Euro-Pacific International Corporation
Portland, Oregon

Good morning; thank you for coming. I would like to introduce our first panel, titled "Transportation Deregulation Today - Its Effects and Future." Moderating this panel will be Peter Friedmann. Peter is currently a member of the law firm of Kominers, Fort, Schlefer and Boyer in Washington D.C. He is also counsel with the firm of Williams, Fredrickson, Stark, Norville and Weisensee here in Portland. Peter was also the primary senate staff counsel authoring the Shipping Act of 1984.

PANEL: TRANSPORTATION DEREGULATION TODAY--ITS EFFECTS AND FUTURE

Moderator: Peter Friedmann, Attorney
Kominers, Fort, Schlefer and Boyer
Washington, D.C.

It is always great to get back to Portland. I just wish it would be on a daily basis rather than about once every couple weeks.

This morning's panel deals with transportation deregulation. We have four people on the panel who will talk about different industries. Larry Kiser is a vice president with Burlington Northern. He will speak on the rail transportation modes. Nelson Cooney, who has come from Washington, D.C. for this event, is going to speak on trucking. Ray Jubitz will speak on the barge industry and inland water transportation. I will focus on ocean transportation, ocean deregulation.

I would like to draw a common thread through all those areas. Obviously the rail, barge, truck, and ocean industries are cooperating with each other, competing with each other, or both.

In recent years, Congress has approached the transportation industries with a deregulatory purpose in mind. Now, more specifically, that means reducing government intervention in the day-to-day practices of the carriers and reducing government intervention even more specifically in the carriers' relationships with their customers. In rapid succession, Congress has focused on the air, rail, truck, bus, and finally ocean transportation modes. And in each instance, Congress responded by passing landmark pieces of legislation that could very well stand, largely as they were passed, for 50 or more years. There are systems now in place or being put in place that we are going to be living with for an awfully long time, if history is any guideline. We have the Airline Deregulation Act of 1978, the Staggers Rail Act of 1980, the Motor Carrier Regulatory Act of 1980, the Intercity Bus Regulatory Reform Act of 1982, and finally the Ocean Shipping Act of 1984. So in a very short period, we have had some landmark legislation passed.

What's interesting is that, except for ocean transportation, Congress essentially responded to the perceived need to deregulate by repealing the antitrust immunities that had allowed for concerted rate-making and other activities by those who would otherwise be competing for cargo or passengers. With renewed antitrust enforcement, there was perceived to be less of a need for the traditional regulation by the regulatory agencies. And so the Civil Aeronautics Board was terminated, the Interstate

Commerce Commission's regulatory authorities were substantially reduced.

So what you have, except for ocean transportation where you have antitrust immunity, is renewed antitrust liability. That is one form of regulation, but it is a different form now.

The other form of regulation is what I would call shipper regulation. What that really means is that Congress has enhanced the ability of shippers to negotiate favorable rates in terms of services with the providers of transportation services, the carriers. From the carrier's viewpoint, ocean and trucking to be specific, it might appear that Congress went too far in providing shippers with substantial negotiating clout. It has been suggested that maybe the shipper's provisions have substantially weakened those industries that the legislation was designed to enhance: truck and ocean. In others, such as the rail transportation mode specifically, concern has been voiced that perhaps there is too little regulation from the shipper's viewpoint, and perhaps the shipper's interests have not been best served by the deregulation. It is something that will surely be touched on by Larry Kiser and it is something that even the shippers do not agree on; some like it and some don't.

The common thread, again, is that Congress views the transportation industries as service industries. The transportation industries exist not because Congress or the American people believe we need a strong trucking industry or a strong ocean transportation industry like we need a strong automobile or farm industry, but rather we need efficient transportation industries to provide competitive service to the public, to the shippers. They are service industries and the goal has been to render our U.S. transportation industry more efficient for the benefit of all the other industries that need the transportation services.

Some of the industries have been radically changed. The trucking industry has been virtually transformed by reduced barriers to entry and so forth. There has been substantial dislocation in trucking and in air transportation modes, but by-and-large shippers are telling Congress that they believe they are better served as a result of the deregulation. Again, it varies from transportation mode to transportation mode, but the fact that the shippers are saying they are better served has been enough for Congress to resist the rather substantial pressures from some of the transportation industries to go back to the prior form of regulation.

Lawrence Kiser, Assistant Vice President
International Sales & Marketing
Burlington Northern Railroad
Fort Worth, Texas

Deregulation and the Railroad Industry

Right after the Shipping Act of 1984 was inaugurated in June 1984, I was invited to a panel presentation in Chicago sponsored by the Maritime Administration. The general topic at that time was the same thing: the Shipping Act and what it was going to do for the shipping industry. At that particular meeting all of us said it was too early to tell what was going on with deregulation, particularly under the Shipping Act.

Perhaps a few of us in the other transportation modes had some ideas about deregulation and I am going to try to share some of those with you this morning and also tie in with the Shipping Act.

For a minute I would like to talk about the "before" before we talk about the present and the future. In the railroad industry, the "before" was before 1980. As Peter said, before the Staggers Act. Life was a little different in those days. We had regulated rates within the industry; we had immunity from anti-trust, as was mentioned; and as some people in the audience told me earlier, we had a chance to sit down and discuss our rates, you might say, in private and in public. So what did we have? We had like rates, like services, and other similar things. The railroad industry, particularly as it relates to transportation, is a very mature industry. Rate equalization was in effect between various points in the country. Competition before 1980 was largely intramodal--in other words, between railroads. We were fighting over a smaller and smaller piece of the pie. The transportation market was growing, but the rail share of the market was declining and we were on a collision course with disaster because we had blinders on. The industry growth within the rail industry was either slow or flat at that time, and most rail carriers were either unprofitable, near bankruptcy, or in bankruptcy and looking for merger partners.

Now I want to talk about where Burlington Northern stood at that time. In 1970, as Peter mentioned, Burlington Northern was created out of a rather large merger that created one long railroad out of five regional railroads. It was one of the early railroad mergers. I may be a little biased, but I think it was one of the most successful ones that has happened. Why was it successful? Well, there are a number of reasons. Some of them are luck, but some of them relate to what we are talking about today. We were an end-to-end and a parallel merger, which made for some good things, such as good balance.

We also had three rather large companies come together as one and that had some benefits, too. Many of you remember the original Penn Central, a classic case of a railroad disaster. What happened was the red team and the green team couldn't get together on anything; even the basic computers couldn't talk to each other. In our particular merger, we had three companies so there was always an arbitrator in the middle to help solve the problems.

Mergers were needed in those days for carriers to survive because of low return and because of the commodity mix that the carriers were handling. In our particular case, our commodity mix was rather regional in nature at that time. Our company was largely carrying forest products, grain products, and general merchandise. Our major corridors were between the Pacific Northwest and Chicago; the merger created an opportunity to get into the Gulf through Houston. What happened during the merger to make it successful? In our particular case, about the same time as the merger we had an energy crisis in the United States. Oil prices were skyrocketing and we had the good fortune to serve the very rich low sulfur coal area in Wyoming. So in about two or three years, coal changed from a very insignificant commodity to the largest single commodity that Burlington Northern hauled.

A second thing happened just prior to deregulation under the Staggers Act. We had another merger in 1980 with a regional carrier called the Frisco Railroad, which was an end-to-end merger allowing us entry into the southeastern part of the United States. So in essence, it extended our railroad and we had a rather significant advertising campaign which many of you in Portland will remember: the longest freight train in the United States, from Portland, Oregon, to Birmingham, Alabama. Finally in 1980, the Staggers Act went into effect and changed the railroad industry for years to come and, as Peter said, hopefully for 50 years to come. Following that, we made a management decision in 1981 to shift the management of our corporation away from a traditional railroad company. And I think that is probably the key item that I would like to spend a couple minutes talking about today.

As I mentioned earlier, the transportation industry was very mature. When we merged in 1980 with the Frisco, we brought in some outside people to run the company, what I call classic businessmen, and a holding company was created in Seattle. I think the key concept within the industry then became marketing and marketing strategies. Within our company there was a shift away from the traditional centralized organization, which many companies had in the old days, to a decentralized operation. And in the area of deregulation, the customer became king. Since deregulation in 1980, our company has become an industry leader in taking advantage of deregulation. We have had good traffic gains and a good profit record in the last few years.

Now with that kind of background, let's address the issue that we are talking about today. "Deregulation today, is it working?" My immediate answer is yes and no, but with heavy emphasis on the yes for the railroad industry. But it does depend on who you ask. As Peter indicated, asking the customers in general, the answer is yes. There certainly is a group within the railroad users that is concerned about situations of market dominance and some people in the grain industry are concerned about railroad deregulation. But in general, the customer's indicate that they are very happy with what has happened with deregulation.

Why are they happy? The railroads now are an intermodal type of operation. We no longer compete within our own industry for traffic. We have become very aggressive in offering package services to shippers and users of transportation services. I think you all know that generally there are lower transport costs available to any user of rail service since deregulation. There is a great increase in service reliability within the industry. New equipment and new technology have come into play. And I think in general the railroad industry is now a market driven industry, rather than a traditional regulated industry.

If you asked some of the railroads their views of deregulation, I think generally you would get a yes answer. But there are some good news and bad news theories. Unfortunately, several railroads have gone bankrupt, some since the deregulation act. But mergers are still with us and there will be more coming, as I am sure you all know. Those companies that are well-managed are doing well and I contend they will do better. In general, deregulation has been good for the entire transportation industry and certainly for the customers who use the industry.

Let's look at some specific areas that affect the Pacific Northwest from a commodity standpoint. As Peter mentioned, I spent several years in the grain industry representing our company. Traditionally, Burlington Northern had hauled single carloads from as many as 500 elevators in the country to sub-terminals and then the grain was resold and eventually moved on to market. A lot of it moved to the Gulf. In the last 10 years, we have created what we call unit trains for grain and those are now moving transcontinentally. So we are moving grain from the Midwest to the West Coast. I think my barge panelist and I agree, the only thing we need now is a good grain market because the capacity is out there to move grain. But deregulation had a lot to do with our ability to market grain the way we are today.

In the area of general merchandise, I see great benefits from deregulation, both for the railroad industry and the customers.

I spend a good deal of my time in international containerization and that is a subject I could talk for an hour about. What has happened in that area is just astounding from the standpoint of the ocean carriers that are building capacity -- overcapacity unfortunately. The amount of trade that is moving between the United States and its trading partners, particularly in the Far East in the last three or four years, has made containerization the buzz word in the industry.

A new buzz word within our industry, certainly, is what we call double stacking or twin stacking of containers on flat cars to move large volumes of container traffic from the port areas into the interior. We pioneered a new system earlier this year of a common user train service to operate six days a week between the West Coast and Chicago in order to help increase our carrying capacity and, more importantly, reduce our costs so that we would be more cost competitive and allow the customer a lower landed transportation cost. This has been a unique thing and we are the only railroad in the United States to offer what we call a common user train service so that a customer has a choice of steamship lines to use and can get on any ship that arrives in the Pacific Northwest any day of the week for inland movement. Many of the new trains you have heard about are steamship owned and operated and only run when the steamship line arrives at port. Under our stacking operation, another benefit of deregulation is a tiered-rate program that we have instituted.

Peter asked me earlier this morning how much volume within the railroad industry is moving under contract these days. In the general area, coal is very heavily oriented to contracts. Grain now is largely moving on contracts; and under our new double stacking business, we are seeing an increasing amount of international freight moving under contract rates--a thing that was unheard of before deregulation. The other side of that coin is that our exports are not as strong as our imports, and unfortunately that is a creature of the value of the dollar and the fact that a lot of our trading partners buy raw materials from the United States. How does deregulation fit into that? Well, while the possibility existed before 1980 for doing what we call back haul pricing, there was not much of that done within any parts of the transportation industry. But since 1980, and in the particular area of container handling, there are back haul pricing opportunities now. The railroad industry has become quite aggressive in these types of operations where we are attempting to balance loaded and empty movements in both directions to maximize utilization of the equipment for ourselves and to offer the customer the service at the lowest possible cost.

In summary, what's happening today within the railroad industry is that we are offering a menu of services. Before deregulation there was only one general service available at regulated rates. Today we sit down with our customers and ask what they want. Do they want a retail or door-to-door pickup and delivery? Do they want a wholesale operation where we just provide the underlying carriage, as we are doing for many of the steamship lines? Or do they want a combination thereof? I think those are the new tools that we have within the industry now. We have the good fortune to have as our new president one of the key actors in the creation of the Staggers Act, Darias Gaskas. Darias often tells us that marketing is the key word and he has come in now as president of the company to indoctrinate the operating department in marketing. It is a whole new world to have your operating people excited about trying to sell something to a customer. I am sure those of you who have been around a railroad for a long time will agree with me that that is unique. But deregulation in the railroad industry has allowed our industry to turn around and to continue to be a profitable industry. I think it is going to continue that way and I hope deregulation lasts for a long, long time.

Nelson Cooney, Vice President for Communications
American Trucking Association
Alexandria, Virginia

Deregulation and The Trucking Industry

It is a pleasure to come to the beautiful Northwest. I happen to have a son who started four years ago at Reed College. He went there for three years and decided to take a year off. Unfortunately, this is the year that he is off. So he will probably back here next year. It would have been a little bit nicer for me if he had been here. The reason I talk about my son is because my view of his taking a year off is similar to my industry's view on deregulation. I wasn't very pleased about it when I first heard that he was going to do this, but I have adjusted and I now can see some positive points about it.

To understand where we are now I have to go through a little bit with you of what we were and how we were regulated before 1980. From 1935 to 1980, we were regulated very tightly on entry control. In order to get into the business you had to get a certificate of public convenience and necessity. In order to do that you had to show a public need. Existing carriers in the area could come into the proceeding and say, "Hey, wait a minute, I am serving the shippers adequately." It was one big, expensive battle, and it was very difficult and you only got bits and pieces of authority. For instance, you might get a few new commodities added, or you might get a few new points added, but you would not get the major point that you were seeking. It was a crazy patchwork quilt of authority that you would receive. Since 1980, entry control is very easy. There is still a process; you do have to file. So there are some individuals who might go into the business if we were totally deregulated who don't file, but anybody who has a mind to and anybody who was in business in 1980 has probably done so. You simply file an application with minimal support and the Interstate Commerce Commission (ICC) will rubber stamp it and you can have nationwide authority.

The next part of regulation that we have, and had even more before 1980, is rate regulation. The ICC used to regulate very tightly whether the rates were discriminatory, preferential, or prejudical and decide whether the rates were appropriate. The new ICC rarely looks at the rates and generally rubber stamps them. This has led almost all the shippers to be upset with the ICC. It used to be that the small shippers were somewhat pleased with the rate making process because they could be heard before the Commission and they could always get what they thought was a good break so that the big shippers weren't being favored. But now the ICC doesn't really look at the rates that closely, even though there was minimal change in the rate regulation area in that 1980 law.

The third area is the collective rate-making that we do. We still have a fair amount of collective rate-making and our anti-trust immunity has not been done away with. The one main area that it has been removed is in the area of single line rates. If you have three or four carriers hauling their own goods on their own line between two points, they can't get together and set the rates. It is primarily set up for the joint lines services that are provided and there are a lot of joint lines services in the trucking industry. So we still have our 11 major rate bureaus throughout the country. We have the national classification system. When we have things like labor contracts negotiated, we can go to the ICC with a national rate increase and receive it. That is very important to our carriers and they feel it creates a certain amount of stability and a possibility of recouping increased costs in this day of cutthroat competition.

So in 1980 when Congress passed the law which promoted deregulation in these three areas, the ICC became a strong deregulator and we are at the point that I just pointed out. I want to spend most of my time this morning talking about what the impacts of that regulatory change have been. When I look over the last five years, I find 10 major impacts.

The first one is very obvious. It is a very substantial increase in competition. We have gone from 18,000 motor carriers regulated by the ICC in 1980 to over 30,000 today. I hasten to add that practically all the new entrants are in the truckload segment of the business. There we really have to separate our industry between the two major aspects: (1) the handling of truckload freight, and (2) the general freight, less than truckload segment (LTL). It is very easy to get into the truckload segment of the industry. Actually, a one truck owner/operator can go into the business. If he has a rig, he can pick up the shipment from the shipper's dock and haul it directly to the consignee's dock and not have the capital investment that is needed in the LTL segment. So we have had a great increase in competition in the truckload segment of the industry.

In contrast, in the LTL segment of the industry, we have had an acceleration of the concentration that has been going on for years. Today, the top 10 general freight LTL carriers handle about 50 percent of the revenue received from that end of the business. Just five years ago, the top 10 collected about 35 percent of the revenue. We say that if the ICC were to be eliminated tomorrow and we had total deregulation, you would end up in about two years with 8 or 10 nationwide LTL carriers. There are three or four hundred today. That is not to say there is not a lot of competition in that segment of the industry because what has happened is that those general freight LTL carriers who had limited areas of service were able to obtain all the authority they wanted out of the ICC. So you have the same number of carriers, but they compete in many more locations than they ever did.

Third, revenues have plummeted for the carriers in the last five years. This is really a combination of the deregulation with the new competition and the recessions that we had, primarily the 1982 recession when our carriers hit an all-time low since 1935 as far as profits go. Fully 40% or our carriers operated in the red that year. Deregulation has been a mixed blessing for our carriers, but we must admit that there are other factors, primarily the recession and some increased costs that have resulted in this revenue loss. Even today, with our carriers doing better in the first three months of this year, 45% of our carriers took losses. By the year's end, we expect it to be a better figure than 1982, but still we have some carriers out there who are having some real problems.

There have been many casualties since 1980. If we look at the major carriers that had a substantial presence in 1980, we find that 400 of them are out of business. Those 400 carriers represented 90,000 employees and handled about $3.5 billion in revenue. When we look at all the carriers in the industry, we see that in 1978, for instance, there were 162 that went out of business. In 1984, there were 1400 carriers that went out of business. Actually, there are about 200-300 middle and large size carriers who are hanging in there simply because they don't want to turn over their assets to their multi-employer pension plans.

In 1980, another law was passed that required a carrier that was going out of business to pay into his multi-employer plan, the Teamster plan, the unfunded, vested liability that was attributed to his carrier. In some cases, that was greater than the net assets of the company. As a result they are hanging on and hoping that the American Trucking Association or somebody can accomplish something in Congress to relieve them of that liability. Then we figure 200-300 more carriers would go out of business. We would like to be able to resolve that problem and we keep telling Congress that we need a resolution of the pension plan problem.

Another big effect, and I think some people feel deregulation was really directed more at the unions than any other industry, has been the impact on unionism in the trucking industry. The teamsters have pointed out that in 1982 (the all-time low year) out of 300,000 unionized employees, drivers and others in the trucking industry fully 100,000 had lost their jobs. One-third of the union jobs in the trucking industry were out in 1982. Some of those jobs have come back; 30,000 of them. But still, 70,000 are not there and unionism has lost some of its strength in the trucking industry. You also see unions willing to work with companies on ESOPs (Employee Stock Ownership Plans) when the company is troubled. You also find that the National Master Freight Agreement, which used to be very strong in the 1970's, no longer exists to the extent it did in the '70's. There are a number of separately negotiated contracts and a lot of individual contracts that are negotiated. So it has had a grave impact on the unions.

We have also noticed some loss in productivity, particularly for the general freight LTL carrier. The general freight LTL carrier used to haul truckload freight to balance its movements. Since the general freight LTL carrier is a unionized carrier, it really can't compete very effectively in the truckload area because most of the truckload carriers are non-union carriers. As a result, it has lost back haul possibilities. We've calculated and documented a loss in productivity: the average load per vehicle used to be 13.6 tons and is now down to 12.4 tons.

Another result of deregulation is the creation of a sub-industry within the trucking industry. We now have a much larger broker industry than ever before. We never used to have many middlemen in the trucking industry. We had a few brokers in the heavy hauler area, but since 1980 more than 2,500 brokers have sprung up. They're primarily to help the more unsophisticated shipper, or the shipper who doesn't have his own marketing force that can pick and choose among the varied service and price options and decide what is best. These shippers look to brokers to find the best possibility for them. I know the broker's association which is being created is saying that by 1990 we will have some 10,000 brokers in our industry. It is somewhat amusing to me that while we talk about cutting costs through deregulation, we have created a middle layer, a middleman, in the trucking industry, that certainly has to cost something.

Another impact I see is what the large shippers are doing in utilizing trucking services. The best example is Sears Roebuck. Before 1980, Sears utilized over 4,000 motor carriers in all their terminals throughout the country. Now they realize that using their economic clout and concentration is to their benefit, so they have narrowed it down from over 4,000 to 190 motor carriers. You can imagine the impact this has had with all these large shippers throughout this country. Sears has gone to almost a contract carrier situation and is demanding from the common carriers very specialized type service that in the past would have been almost a contractual arrangement.

The ninth impact is in the area of private carriers, which are like house carriers. There has been a large growth in private carriage up to 1980 and the critics of trucking regulation said it was because the trucking companies, the common carriers, couldn't provide the price and service options that an individual manufacturer would want. So there was a great increase in private carriage. It is interesting that as a result of deregulation, private carriage got everything it ever wanted out of the ICC. It was able to participate in intercorporate hauling. In the past, a company that had a division that was their private carrier could not haul for another company in the conglomerate. Well, the Motor Carrier Act of 1980 allowed what is called "compensated intercorporate hauling." So you could have one trucking subsidiary of a conglomerate hauling for every other company in that conglomerate as long as the companies were 100% owned. Secondly, private carriers were able to lease the drivers and trucks from the same source. Thirdly, they were able to get ICC authority to perform for hire on the back haul. So they really were able to go into the business in a lot more vigorous fashion. On the other hand, and the interesting part of it is, "are private carriers going to grow?" They may well not because now a private carrier operation has to justify its existence to its parent company much more so than ever before. The company might not invest in a trucking company when it can get varied prices and services out of the general freight carriers today and it can get tailored services from them at a much more reduced cost than ever before.

The last point I would bring out is that our carriers have become much more sophisticated businessmen. The ICC is no longer the marketing arm of the motor carrier. The ICC used to tell you where you could travel, what rates you could charge, what kinds of services you could provide. Now each carrier is doing it on its own. As a result, for instance, in the American Trucking Association our sales and marketing council is one of our largest growing councils because they want more sophisticated techniques. We are moving into computers and communications efforts as never before. It is an exciting time for those people and less of an exciting time for the traffic departments who used to control things with their regulation of what the rates were going to be and the confusing ICC maze.

So where do we go from here? Your good senator, Senator Packwood, is an avid deregulator, as you well know. He fought hard for the Motor Carrier Act of 1980 and he would like to finish it off and close down the Interstate Commerce Commission for trucking regulation. He had hearings on this just two weeks ago. The Reagan Administration would also like to do that. Elizabeth Dole testified at the hearings and finally the Administration was able to pull a bill out of the White House. That bill is now floating around Capitol Hill. And some of the large shippers are interested in going further. But not too many other people. Deregulation is not the sexy issue that it was in 1980. So really, my best crystal balling would be that we probably won't have deregulation within the next couple of years although I can foresee it down the road.

Where does the trucking industry stand? We are not arguing ideology at this point. We are simply going to Congress and saying, "Our industry has a lot of problems. We are the highest taxed industry in the country; our effective corporate income tax rate is 38.6% compared to our brethren here (railroad) who have a 2.5% effective corporate income tax rate. We have insurance rates that are soaring, as in many other industries. We faced increases in insurance from 200% to 600% in the last couple of years. We have the ERISA (Employee Retirement Income Security Act of 1974). We have some productivity problems. In 1982, we were faced with a heavy vehicle use tax that resulted in our trailers and tractors on the average paying over $4,200 a year into the highway trust fund instead of $1,700. An offsetting factor was supposed to be that we were going to get some productivity improvements in larger vehicles--wider, heavier, double trailers on the highways throughout the country. Well, we didn't get all those productivity gains because certain states are prohibiting us from traveling once we get off the interstate system." So we have those kinds of problems. We have raised all of them to Congress and we tell them our industry is unstable at the present time. Why throw in total deregulation, which is only going to stir up the pot more? Let's resolve some of these problems and then let's take a look at it in a couple of years. We seem to be making headway with a number of senators in Congress, but not your good senator.

In reviewing some of the positives of deregulation, I would like to point out an article I read earlier this month in <u>The Journal of Commerce</u>. It talked about a truck contract program that is occurring out of the Port of Seattle. As Burlington Northern has gotten its double stacks operations to haul the containers, a lot of freight is being moved in LTL. That is being handled by six major trucking companies. They are handling it to every state in the union out of the Port of Seattle, under contract rates that go on for six months at a time with a set rate. It is something that I would think other ports would want to start up. According to the article, it's only happening at the Port of Seattle. One interesting aspect of the article was that these motor carriers provide service on import LTL to all California ports including Los Angeles. You get better service than you would by ship to California. It is a faster service and, amazingly, it is cheaper when you compare the local drayage rates of just 40-50 miles intrastate California compared with the deregulated interstate operations from Seattle to California. Actually, those companies are using it to round out their operations in back haul and they are finding a successful way to do that. That is being done by some of the major common carriers, Ryder-PIE, Transcon, a few others. Years ago that wouldn't have been as likely to have succeeded, although conceivably it could have after a long foray at the ICC to get it approved. But it was a break from the uniform rates and it was also a combination of sort of common-in-contract carriage within the same carrier, which didn't occur too much before 1980.

We hope those kinds of programs continue and increase. We will be looking for new intermodal methods of operation. In closing, I would say that we hope that you on the West Coast do not follow your brethren on the East Coast and create any work preservation rules and allow your unions to set up 50 mile container rules. We fought them vigorously and, unfortunately, unsuccessfully, having gone recently to the Supreme Court for a second time.

Ray Jubitz, General Manager
Crowley Maritime Corporation
Portland, Oregon

Deregulation and The Barge Industry

I will talk about deregulation this morning in terms of change, the environment and survival. It has been said that nothing in this world is constant, except change. The history of the company I work for, Crowley Maritime, is one certainly of change. The company began when Tom Crowley, Sr., began meeting sailing ships at the entrance to San Francisco Bay in a pulling boat and guiding those vessels into port. From there it was a fairly rapid progression from pulling boats to steam tugs to diesel tugs. Over time Crowley Maritime has expanded and changed to the point where we now have operations which stretch from Prudhoe Bay, the far north of Alaska, to Jacksonville, Florida, where the windward and leeward islands of Puerto Rico are served by our common carrier operation known as Trailer Marine Transport or TMT. We have had operations in Saudi Arabia, in the Sudan, in Singapore. Actually, Crowley has probably touched every coastline in the world at one time or another. Crowley is currently involved in several regulated common carrier operations and is also, of course, in the short and long term contract markets. So Crowley's history has been one of change and of survival.

What do I mean by survival? In order to survive, a company must possess the ability to change to meet a changing environment. And the environment will dictate the nature of the change required. Crowley is not the same company it was 75 years ago. It is not remotely close to what the company was five years ago, and I would suspect that five years from now the company will have again changed to meet the changing environment. So in other words, Crowley is really in the process of survival. And why talk about survival? Well, I think deregulation, today's topic, was brought about because of the demand for change. Deregulation is creating a new environment that requires a company to change if it is going to survive.

Deregulation has brought new competition, it has enforced improvements in productivity, and it has spawned innovation. The ironic thing is that the tug and barge industry, at least here in the Northwest and on the Columbia/Snake River System, has practically been deregulated all along. It is only recently because of the Stagger's Act that the primary competition of the tug and barge industry, specifically the railroads, has forced us into more of a competitive mode under the deregulated environment. The railroads can now write volume contract deals, as we have heard. They can be much more flexible in pricing, they have instituted unit trains--in other words they can be much more competitive.

So the Stagger's Act has changed the environment in which we operate and we are going to have to change if we are going to survive. And I submit that we have changed. We have built more efficient barges, we have entered into pooling arrangements, and we are using combination barges which haul grain downriver and petroleum and other products upriver. We now expect that we will get the new lock at Bonneville. This lock will reduce transit time for a tow of a tug and four barges from the present six hours to approximately 30 minutes. It should decrease the time it takes to make a round trip to Pasco by about 15%. All of these changes add up to a more competitivee environment. It is going to be the companies that adapt to the changes that will survive.

Since a great deal has been said and written about the Stagger's Act, I would just like to bring up a couple of points about the Interstate Commerce Commission's (ICC) interpretation of the Act that river operators in general, particularly on the

Mississippi, have had problems with. I bring these up because the Act has had such a tremendous influence on our operating environment and on the operator's ability to survive. The intent of the Act is to promote competition and give the users of the nation's transportation system the greatest value for their transportation dollar. The Act authorizes rail contracts, gives exemptions from rate regulation, and reduces the regulation of rate discrimination. Fortunately, in the wisdom of our congressional representatives, it also calls for certain safeguards against what I would call the monopolist tendencies of the railroads. Section 707 of the Act addresses the relationship between water carriers and railroads and prohibits practices by the railroad that are unfair, predatory, destructive, or which undermine competition. However, the ICC has often failed to recognize the significance of these safeguards. Attempts by river operators and others to gain information concerning rate making by the railroads have been rebuffed by the ICC which has found that water carriers have no standing under the Act. In effect, water carriers, agricultural shippers, and ports, among others, have found themselves frozen out, as they are not able to obtain the vital information that is required to pursue a competitive course of action. The ICC's rules do not provide sufficient information on rail contracts to protect all parties. In effect, then, anti-trust rules which apply to most transportation modes are not applied to the railroads. They are protected by the ICC's interpretation of the Stagger's Act. Railroads have long argued that they have wanted to be treated like other businesses. It seems only right that they should not object to anti-trust scrutiny.

The second area where the effects of the deregulated environment is being felt is in the acquisition of tug and barge interests by the railroads. Here, of course, I refer to the ICC's decision approving CSX Corporation's takeover of American Commercial Barge Lines (ACBL). Since the passage of the Panama Canal Act of 1912, railroads have been prohibited from acquiring control of barge lines unless the acquisition can be shown to be in the public interest and to have no appreciable competitive impact. Waterway operators contend that since ACBL has been one of the largest in the nation, it is almost impossible to find that there is not impact from such a merger. The ICC agreed that competition was involved, but said the merger would not reduce overall competition. The ICC agreed with CSX's arguments that the merger could not possibly reduce competition on the waterways because the barge industry was characterized by a large number of competitors and the absence of barriers to enter and exit the market make it a contestable market, one in which competition cannot be reduced. The waterway operators countered that only a relative handful of line haul barge companies have sufficient traffic density, operating patterns, and fleet size to compete effectively for traffic, and that ease of entry into the line haul business is a total myth. Companies cannot raise the enormous amounts of capital necessary to get equipment nor achieve traffic densities necessary to compete with the established line haul companies. The ICC did not agree that facts and common sense showed that eliminating ACBL as a major CSX competitor and then giving it the economic power and a captive traffic relationship with CSX would lead to the inability of other barge lines to compete with the combined CSX/ACBL. The result, then, has been and will be a reduction in the competitive alternatives shippers now have when they seek to move commodities by water. It will mean a reduction in competition. Shippers realize that eliminating their shipping alternatives in this way is not in the public interest and will preclude them from benefitting from the tempering affect barge rates now have on rail rates.

Now all of this is not to say that water carriers do not welcome competition. Quite the contrary. However, we do demand that we all operate under the same rules of fair play. We hope that Congress will continue reviewing legislation to make sure that the laws are equitable for everyone in the transportation industry.

So much for the present of deregulation. What of the future? What will this changed, deregulated environment bring? I am afraid that my vision of the future is somewhat clouded by massive short-term problems. U.S. export policies and farm programs have given us a hugh surplus of grain. We will not export all the white wheat grown in the Northwest this year, which will add to the already bulging stocks. We do not have to grow a single bushel of wheat in the next year and we would still be able to meet the most optimistic export projections. Worldwide competition from Australia, Argentina, Canada, the Common Market, and now even China has made it more difficult to sell U.S. wheat. More and more countries have become self-sufficient in wheat production, and our own strong dollar, although it is certainly softening, is making it very difficult for us to compete. In the Northwest, exports in this current crop year may be less than half what they were just four years ago. That, I submit, is a changing environment.

And what, specifically, are the water carriers doing to respond to this changing environment? Well, like other industries, we are faced with variable costs that must be trimmed. We actually have very little control over some of these costs. Fuel costs, for example. We have some control over consumption and, yes, we do have some control over price, but for about 90% of our fuel costs we cannot impose good management practices. And insurance costs. We all know what is happening with liability coverage. It is absolutely going through the ceiling. And unless we decide to trim back coverage, which in some cases we are being forced to do, there is really little that we can do about those increasing costs. Other costs, though, we can control. Barge tows are now being traded between tugs in the middle of the river, so that the more powerful tugs can handle the heaviest tows. Tugs that have less horsepower and, therefore, consume less fuel are being used in more appropriate places on the river. Unnecessary maintenance items are being deferred until a later date. Consumables, such as supplies, are being watched much closer. Inventory items are being reduced; surplus inventories are being either sold off or scrapped. We will continue to work very hard with our various union employees to hold wages at existing levels. We are continually watching overtime. Our administrative employees have been informed that there will be no salary increases for the foreseeable future. Fringe benefit packages have been trimmed or changed in order to reduce their impact. And, certainly for the most difficult part, we have had to cut head count by approximately 25% through layoffs and retirements.

Variable costs are only a portion of the pie. We are also attacking our fixed costs. We are renegotiating leases, either to reduce their cost or to obtain better terms. We are thinking twice before committing any capital dollars, and when those are committed, the payouts must be very rapid. All of these items are not yet totally accomplished and I dare say they will be continually pursued as we go down the time track. We will be doing more with less. All these things certainly are not just happening within our company, but are being done in all companies in our industry because the environment is dictating that changes are necessary in order to survive.

What do I see for the long-term? Well, I heard a story the other day that if you took all the economists in the world and lined them up end to end, they will all point in different directions. So much for economic opinion. So I would say that the only thing I can be sure about for the long-term is that the environment will be continually changing. The tug and barge industry on the Columbia/Snake Rivers will be much different five years from now. Probably not all the present carriers will survive. There will be some failures, there will be some combinations, and there will be increased rationalization. And just as the railroads and the trucking industries have undergone massive changes and will continue to change, so will the tug and barge industries because survival dictates that we do so.

QUESTIONS AND ANSWERS

Question to Nelson Cooney: You mentioned some pretty strong examples of the dislocation, the unemployment, the bankruptcy problems, etc., in the trucking industry. You also mentioned some loss of productivity. From purely the shipper's viewpoint, do you believe shippers are better off today than they were before 1980? You may want to distinguish between large shippers and small shippers.

Nelson Cooney: Well, I don't think it is fair to ask a carrier about the viewpoint of the shippers. Nevertheless, I will give it to you. Generally speaking, the shippers that go before Congress say that things are wonderful and that we need more deregulation. I tend to think that those shippers are primarily the largest shippers who, because of their economic clout, can get the best deals. The smaller shippers, the unsophisticated ones, are never heard from on Capitol Hill. When we look at the track record of the rates over the last five years, you would think that our rates were substantially lower. We have had substantial increases in costs and our rates have outperformed the consumer price index. So, I am not so certain that things are that much cheaper today. And I do think that the cross-subsidy that did exist, whereby the small communities and the small shippers were being helped to an extent by the larger shippers, is going by the wayside. In fact, the shippers of small lots, the National Small Shippings Traffic Conference, is testifying on Capitol Hill that the cross-subsidy is going the other way and now the big shippers are being cross-subsidized by the higher rates for the shippers of smaller shipments.

Peter Friedmann: I can probably reflect some of the same views in ocean transportation with the introduction of service contracts and so forth. Now in ocean transportation some of those same small shipper versus large shipper concerns are emerging.

Question to panel in general: Has deregulation altered transportation patterns? Has cargo shifted from one mode to another? Are there patterns emerging?

Lawrence Kiser: Speaking for the rail industry, I would definitely say we have seen a shift in traffic patterns. I think there was a concern among other carriers that the railroads might end up being only bulk carriers and that is true to an extent. However, as I indicated in my remarks, we have tried to penetrate more into the trucking business because that, we feel, is where the larger bulk of that freight had gone and we were hauling a diminishing share. So certainly in the intermodal area, or what we call piggyback or containerization and trailers, the rail industry is attempting to secure a larger share of the intercity traffic from other modes.

Nelson Cooney: Larry, I wonder if you would agree with me. I tend to think that piggyback operations in the last few years, say up until the last year, primarily taking freight out of the car load traffic, so it wasn't really taking away from the trucks. Now I think you have become more aggressive in that area, so we are going to become more aggressive back. I don't know whether it is a product of deregulation; maybe it is a mentality that has been affected, but things like the energy crisis and your innovation with the double stack are more important factors than deregulation.

Lawrence Kiser: I agree and I think what's also interesting is that while we as a railroad are pursuing that venture, a lot of the truckers are using railroad as a substitute carrier because of lower costs or savings in fuel and other items. So while there is some change in who is handling what, there is more cooperation between modes than there used to be, particularly on the long haul.

Nelson Cooney: Two things have really changed our traffic patterns more than deregulation. One is the movement of industry from certain areas of the country to the Sunbelt. The other big impact on us is the increase in imports, which affects transportation in a couple of ways. We used to haul, and I think this is true for the railroads as well, a lot of commodities into the plants. Then we would handle the finished product back out. So we would have a couple moves, even three or four moves. Now with imports we just have the one move. It has helped some carriers who are located at the ports, but in the overall scheme of things, there are fewer movements in the trucking industry. Another aspect of the changing patterns is the increase in smaller, more valuable freight over the larger freight that we used to have. Things are getting smaller and weighing less. Automobiles are weighing a lot less and we don't have the bulk and heavy traffic that we used to have.

Lawrence Kiser: Coupled with that, of course, is the high cost of inventories, so most of the customers using transportation are also ordering in smaller quantities. Where we used to sell a boxcar pretty frequently, now the less-than-truckload (LTL) is more in vogue. So the size of the shipment has changed materially and so has the distance it travels.

Nelson Cooney: And expecting it to get there just in time is a factor. We have shippers who give us scheduled delivery dates, which creates havoc with our trailer use. We might have the freight in the trailer for a longer period of time. We already have it there, but we can't deliver it until Tuesday at 10:30.

Question: What has been the relationship between deregulation in the market and the ease of tax shelter financing for new equipment--for example, barges, rail cars, etc. And then I will toss in the follow up question, has the easy money made the industries healthier or weaker?

Ray Jubitz: Well, I am sure the railroads can definitely speak to this. For the barge business, there was a major building program in the 1979 to 1981 period when things looked very good for wheat and grain exports, and certainly some of those investments were made by individuals looking for tax shelters. All I can say is that all those barges that were built are not needed today. They could just be tied up and left to rot, and that is a major problem for our industry. Here in the Northwest we are probably 25% to 30% over capacity. In Mississippi, it is certainly much greater than that. It has been a big problem.

Lawrence Kiser: I would certainly second that. In the '70s, we had constant car shortages. Day after day, all we did was give excuses as to why we didn't have the carrying capacity. So we started getting the carrying capacity, and in about 1980 we were hauling more grain than we ever had before. We have the capacity to haul twice as much as is available to handle right now. A lot of investment went into cars to handle grain that are now rusting on sidings because of the inability of the United States to compete in the world market for grain. On the flip side of that coin, in the last three or four years there has been more of a mood within the railroad industry, certainly, to go into leasing rather than purchasing. I think that has been cause and effect.

Question: Under deregulation, all carriers seem to have eliminated liability for goods carried, or common carrier liability. What is the panel's response to this, and what is your response to the shipper complaints that may have arisen?

Nelson Cooney: It is not true for the motor carriers. We are still common carriers and have full common carrier liability. We would like to go to a new system. We would like to have the shippers become risk managers themselves and, given price service options, decide whether we should take on 100% liability for all loss and damage claims. But it is not true today and it is a concern of some shippers. There is one shipper group that actually does oppose deregulation because they are afraid it will take away the full common carrier liability. That is the Shippers National Freight Claim Conference.

Question to Nelson Cooney: Please give your impression regarding the need for a national driver licensing procedure.

Nelson Cooney: We need something better than we have. There are a number of states that don't require truck drivers to have any different licenses than automobile drivers. We need some sort of uniformity. Most people on the highway can't believe that somebody up there in a big rig doesn't have a special license that's required. We are working through the National Governor's group to accomplish that. Whether you could get federal regulation in that area is doubtful under the Reagan Administration and the federalism concept. I don't think it is in vogue today to go to a national. What we are also interested in is a national drivers register that works. There is a national drivers register in the works, but they are testing things out now and we may not have it until 1995. In the meantime, ATA has contracted with an Oklahoma company that is computerizing the best records from each state--and not just the driving record but also the employee driving history records with different trucking companies. We are going to try to expand that. But we recognize that is a real problem. We think deregulation is tied in to the safety issue out there on the highway and we raised it to Senator Packwood, although he rejects it. We feel there is a tie-in particularly where you have survival economics. The first thing you let go is maintenance and safety programs. Our major carriers, we think, keep it up, but there are a lot of people out there who don't and that kind of competition is really bad. I think it has an impact on safety.

Question: Are the barge and rail lines on and along the river currently cutting grain rates in a price war that will be detrimental to all?

Lawrence Kiser: At the moment I don't see the rails and barges getting into a toe-to-toe rate war because it isn't going to effectively move any grain or help fill barges or trains. I would submit that our efforts are jointly zeroed in on trying to help the grain industry in general try to figure out how to sell the United States surplus and not get into a rate war on who handles how much.

Ray Jubitz: I am glad to hear that. I am also glad to hear you are concentrating on competing with the trucks more than us. It is a big problem, obviously. We used to talk in terms of rate increases in the early '80s. The tariff or rate schedule we use today is still the one we used in 1982 and, actually, the rates are declining to the point where they are probably close to the 1978 rates. What does that mean? It means that tug and barge companies are not very healthy. If you had money to invest, I daresay it probably would not be in the tug and barge industry. But those of us who are in it ask "what are the alternatives?" And it is a very interesting question. Banks are considering those questions, as are investors of all kinds, and certainly the top management of Crowley Maritime. And I submit that until problems are solved about our grain exports, we are going to have a tough time in this country. I don't think we have really felt it out here in the Northwest as much as they have felt it on the Mississippi. It has been a real bad situation for a lot of small, medium, and even large size tug and barge companies.

Peter Friedmann: I guess we can summarize that by saying the transportation industry really is a service industry. When the rest of the economy gets going and exports get going, rail and truck and barge industries will be doing better as well.

Cheryl Buckley, Transportation Manager
Euro-Pacific International, Inc.
Portland, Oregon

I would like to introduce our next panel, titled "Future Prospects of the Columbia/Snake River Basin." The moderator is Ken Casavant. Ken is the associate director of the Washington State Transportation Research Center and also a professor of Agricultural Economics at Washington State University.

PANEL: FUTURE PROSPECTS OF THE COLUMBIA/SNAKE RIVER BASIN

Ken Casavant, Professor
Department of Agricultural and Resource Economics
Washington State University
Pullman, Washington

The theme of our panel is the future prospects for the Columbia/Snake River Basin. But we have to remember that future prospects are usually based on historical strength and that is a fact associated with the activities of the Columbia/-Snake River Basin. As many of you know, I have done quite a bit of research on transportation in the Pacific Northwest. I have looked at all modes for over 15 years--ever since my Ph.D. dissertation at Washington State University, which dealt with the competitive position between the Columbia/Snake River ports and the Puget Sound ports for agricultural transportation.

One thing this research does is reinforce the interdependence of the upriver ports and agricultural and other industries with the downriver system and the ports that are available to serve that system. We need what happens down here and you need some of the productive capabilities and marketing capabilities that we are developing up in the hinterlands of the Columbia/Snake River. I think that dependence/interdependence is very strong.

The first panel looked at the benefits and problems of deregulation in transportation. This one will look at the prospects and benefits of the Columbia/Snake River and related areas. Let me give two examples of what some of those benefits are. I am an agricultural economist. I am paid to work with and for agricultural production industries in the State of Washington. Let me give you two examples of what we see as benefits from the Columbia/Snake River.

If you look at the rail rate in Whitman County, where Washington State University, home of the sometimes fighting Cougars, is located, you will find that as late as 1983 we were moving our grain out of Whitman County at 1944 rail rates. The availability of slack water navigation on the Columbia/Snake

River gets the credit. If you look at the rail rate over time, it increases and decreases, increases and decreases. If you compare the increases and decreases with the construction of the new dams on the river, lag it one year, you will see a pattern that exactly duplicates those rate decreases. So grain that never moves on the river is benefiting from the river's availability and from that competition.

Second example: Great Falls, Montana. Prior to the Stagger's Act, which we talked about before, Great Falls elevators moved their grain by truck-barge 90% of the time; 10% by rail. I did a survey of the Great Falls elevators about 11 months ago and it is now 10% truck-barge and 90% rail. This is one of the shifts that the first panel talked about. Let's look with a little more detail at some of the relative numbers of why that shift occurred. I am going to suggest that the competition caused the institution of multiple car rates during some of these changes. Now these numbers aren't exact because I wrote them as I was listening to the first panel, but they do reflect what generally existed at that time. Prior to 1982, the single car rate out of that area was around $1.26. When we used Burke's rail costing system to identify the cost of that movement, the cost for rail was $1.16. So they were making roughly 10 cents over the fully distributed costs of that load. Now let's compare that with the multiple car rates, the movement by 26 cars or 52 cars. That rate dropped the rate for the shipper from $1.26 to $1.12, but it dropped the railroad's cost by 21 cents, so the net difference between a multiple car rate and the rail cost was roughly 17 cents. In order to compete against the truck/barge, we have a situation where the rails decreased the rate to the shipper by 14 cents. The shipper now from that area is paying 14 cents less per hundred than previously, but because of the economies of multiple car movement and the tremendous amount of local movement, the railroad gained an additional 7 cents margin between the rate and the cost.

What that says is the delightful proposition that both the shipper and the railroad gained as a result of that multiple car rate innovation. And that innovation came about because of competition with the truck barge. So again, here's grain no longer moving on the river, but as sure as I am standing here, it has benefited tremendously from having that added force on the river.

Dave Neset, Director of Marine Services
Port of Portland
Portland, Oregon

Prospects on the Drawing Board

I have good news for you on developments of the Columbia navigation system. We have a lot of progress associated with the system: the Columbia, Willamette, and Snake Rivers. The system benefits from tremendous interport cooperation. Some of the projects we are involved in include the deepening of the mouth of the Columbia River, which was strongly supported by all the ports on the river; the formation of the Maritime Safety Association, now about 3 years old; the new Bonneville Lock; the current river level reporting system; the anchorage studies; and the cooperative action to handle a Mount St. Helens eruption. All of these are from a brief list of some of the things I am going to talk a little more about. They are indicative of the kind of cooperation that exists among the ports on the lower river deep-draft channels and the upstream shallow-draft channels.

I want to show some slides to give you a better idea of what is going on in the Columbia/Snake system.

This map was developed by the Columbia/Snake River Marketing Group and shows the many assets of the system: the agricultural areas, the forest areas, the navigation 465 miles up to Lewiston, the ports and products. This map is being distributed worldwide to make all our domestic and international customers aware of the assets of the region. There is a big information gap that exists overseas. Some people don't know where Oregon is. They think the Snake River is in Burma.

The 36 ports in the system compete with one another pretty intensely in most areas, but they also have been able to cooperate. The 36 ports in the deep-draft and shallow draft sections of the river formed the marketing group, which has done a lot to raise worldwide attention to the existence and assets of the region. It is up to each port to go out and sell its own particular services, site, and capabilities. It helps a lot if potential customers know where the place is, so one area of cooperation is the Columbia/Snake River Marketing Group.

Now let's look at Bonneville Locks. Since it isn't built yet, it is a little hard to get a picture of it. This slide is off the Corps of Engineers report. The new lock cost estimate is about $190 million. The lock will be built on the dimensions of the upriver lock and increase capacity substantially beyond the 13 million tons currently estimated. We are the only area that gets the funds for projects appropriated before they are authorized. We can thank Senator Hatfield for that. We are the only region in the country that has had navigation projects approved in the last seven or eight years, thanks again to Senator Hatfield. Bonneville Lock was pulled out of the continuing authorization bill, but somehow managed to get put back in such a way that it is approved as of May 1986 unless there is specific authorization that approves it. In May 1986, the money for the project will be there, the project will be approved, and the contract drawing can be prepared. It's certainly a major victory in terms of inter-port cooperation. A lot of associations participated in this project. The Pacific Northwest Waterways Association has certainly played a significant role in bringing all the political and economic forces to bear on getting this project approved. It is a success story.

Another success story about to happen is the replacement of the Burlington Northern Railroad bridge. It is about a $16 million project. Our spans on the bridge now are about 235 feet. The new bridge will be a lift span, similar to the Steel Bridge, with 185 feet clear height and 400 feet width. So the next time we build a big drydock, we won't have to worry about moving it through the bridge again. I had the pleasure of riding on of those big tankers down through that bridge. That was enough to motivate me to work hard to get that bridge replaced. We have had a lot of cooperative support from our congressional delegation and a lot of support from all the ports on the river for this particular project. We ran into a problem with our cost/benefit ratio, which was stalled by our congressional delegation. But we got everything straightened out. The contract drawings are underway and the bridge should be under construction within the next four or five months. Our major problem is how to make sure that it is wide open when the Rose Festival Fleet arrives in June 1986.

Another project coming along nicely is the turning basin at Kalama. They are handling an awful lot of grain out of the Peavy Elevator and bringing some big shipments, some of them drawing 39-40 feet. This turning basin will facilitate the handling of those vessels in the most efficient manner possible. This project is going to be done within the next 12 months.

Another success story involves how we dealt with the Mount St. Helens eruption. Although it happened a long time ago, we are still dealing with the consequences as we try to keep the navigation channel of the Columbia River clean. People who live in Cowlitz County are still faced with the threat of flooding and continued dredging of the Cowlitz River and the Toutle. We have managed to see that money is appropriated to get it cleaned up. Again it has been a cooperative effort. The Assistant Secretary of the Army is scheduled to make the final decision on whether or not the single retention structure will be built where the Green River joins the Toutle. That project has an estimated cost of $292 million. The retention structure is, in essence, a dam to retain the silts from the pre-avalanche that came off the volcano. It's about 177 feet high. It is considered the most effective way of keeping those silts and sediments out of the Cowlitz and the Columbia. Hopefully, the secretary will make the right decision and authorize the construction.

Another success story involves the Columbia River anchorages. They are a cooperative effort among all the ports on the Columbia River. The anchorages are numbered 1 through 9 and are clustered in Astoria, Longview, Kalama, Woodland, Vancouver, and Portland. The study for the Astoria anchorages has been completed by the Corps of Engineers and we could anticipate some work being done there. The anchorages will enable us to accommodate deeper draft ships and longer ships. There would be more urgency in the project if we had a lot of grain moving on the river. But that will come back and, hopefully, we will be prepared to handle it in the most efficient way possible.

Another cooperative success story is the river level reporting system. This is supported by the ports on the lower river and includes seven river level stations where the real-time combined effect of the tide and river stage will be recorded in a central location (this is currently located at Terminal 1). At six-minute intervals, we will have the exact reading on the river level. This is important when you are trying to move a 39- or 40-foot draft ship in a 40-foot channel. You have to use more than just the channel's depth below the zero datum. You have to use the plus numbers that come with the tide and river stage. The purpose of the river level reporting system is to tell pilots and ship captains how much water they have above the 40-foot mark in the channel. Now we also have to make sure we have 40 feet of depth in the channel because sometimes we don't have it. A foot of draft on the grain vessels could be worth as much as $20,000 in ocean freight rates for delay. That is a lot of money for an additional foot of draft and the higher value cargo is worth a lot more. These reporting stations are installed and running. Hopefully, the information will be available in a month or two to debug the system.

In conjunction with the river level reporting system, we are working with the National Oceanographic and Atmospheric Administration at the River Forecast Center in Portland to develop a predictive model which will accurately forecast what the river level will be three to five days in the future. We have made projections as much as six months in advance. This is pretty important for vessel planning purposes and trying to book in deeper draft ships. All this facilitates deeper draft navigation on the river.

Finally, let's look at the future of the channel. We now have a 40-foot channel from Portland/Vancouver to the sea; there is a 55-foot depth at the mouth. Those are now valid. In the future we anticipate a deeper draft channel, probably only in the lower reaches, maybe only the lower 30 miles. If that was dug to 42-45 feet, we would have a channel of that depth for the entire 110 miles from Portland to the sea by using the water available due to the tides. So in the future we will be working towards a deeper draft channel. I can't tell you how many years it will take. The average approval time on projects of that type is about 26 years. We are going to try to shorten that.

Gary Conkling, Manager of Government Affairs
Tektronix, Inc.
Portland, Oregon

Prospects for Trade and Regional Cooperation

I want to talk about two subjects. First, protectionism and whether or not we are going to have much prospect in this region for international commerce and maritime activities. Second, regional economic development and the importance of regional cooperative endeavor.

Unfortunately, we are the region that gave the country 50% of Smoot-Hawley. Congressman Hawley was an Oregonian. He shouldn't be regarded as a protectionist. If he could stand here today, he would tell you he really wasn't a protectionist and he never had it in mind to pass a protectionist bill. It's just that, standing around on the floor accepting an amendment here and an amendment there, it all started to come together and after it was all done, it looked like protectionism. In fact, all these trade bills can become Christmas tree ornaments that will be deadly poison for regions such as ours that depend on international trade--not only for jobs today, but for jobs we would like to create for tomorrow.

It is fair to say that the protectionist tide in Congress has crested. I think that largely contributed to the President's mid-September statement and, more important, the action by the G-5 group that took some steps to bring down the dollar, even though it has only slightly declined. That pressure point relieved some of the tension that is building and, if nothing else, the Administration has reacted to what many in Congress really wanted to do, which is to come up with a trade policy instead of allowing us to have 535 trade policies invented in various congressional offices on Capitol Hill. Even though the House and Senate both passed textile quota bills, the good news is that they don't have enough votes to override the veto.

You are going to continue to hear Congress saber rattling about trade. Don't be surprised about it. For those of you who favor free trade, make sure you are somewhat reserved in criticizing it. Some members of Congress are trying to deal with this issue by rattling their sabers, mostly to make sure that the Administration keeps focusing on trade matters. So some of the saber rattling, while you don't have to agree with the point or even the tone of it, is not all bad. It certainly doesn't deserve a huge amount of criticism. We need to be sensitive that there are tactics and that there are policies, and some members who are on our side from time to time have to use tactics.

There are two trends that are more helpful. First, Congress has refocused its attention on macro economic issues. More precisely, it is trying to deal with the hugh budget deficit which has created the basic economic distortions that are hurting our system today and has resulted in a very strong dollar. The strong dollar is undoubtedly the most pervasive trade barrier that exporters in the United States face, both in terms of reaching markets overseas and in selling to their natural markets in the United States. Congress is beginning to rekindle the fires of balancing the budget. It isn't going to be able to do it tomorrow, or next year. The problem is that severe. We should be encouraging members of Congress to keep focusing on macro economic questions, such as balancing the federal budget so that our fiscal policies are more under our own control.

The second positive sign is that there are now fair trade competitiveness packages being developed in Congress. This is replacing some of the quicker hip-shooting type of protectionist bills--of which the textile bill is perhaps the most notable. The House Republican caucus and the Senate Finance Committee Republicans, led by Senator Packwood, are beginning to develop some packages that include the items President Reagan mentioned in his September announcement, such as streamlining our fair trade practices law, creating war chests to fight foreign export subsidies, and dealing with intellectual property infringements. In addition, they're looking at the whole question of how we are going to deal with Third World debt. The hugh debt problems in the Third World prevent those countries from buying our products. We need to develop long-term solutions for structuring that debt in order to rekindle those economies so they represent markets to us.

Some people are also urging a broader agenda. They want to look at the unilateral trade barriers that we have--not barriers that are imposed on foreign shores, but barriers on our own shore. Export controls, for example, impact a great number of people, both in terms of the high technology community, which I am interested in, and in terms of foreign policy that has affected our agricultural interests. So I don't think there is any question that unilateral trade barriers ought to be on any appropriate agenda.

Moreover, we ought to be looking at tax reform. The tax bill, which is essentially the entire federal tax code dumped into a mixmaster and shaken around a little bit in the name of reform, has a significant impact on the competitive abilities of U.S. industries. It has a severe impact on capital incentives as well as on foreign tax matters, which are of particular interest to anyone operating in the foreign arena. I submit that the capital incentives as well as the foreign tax revision will make the United States less competitive, not more competitive. There is a good question whether or not we can afford the potential recession-inducement factors that might well be embedded in some of these positions. So as you review issues of tax reform I hope you will begin to ask what effect it will have on our competitiveness.

Finally, this country must come to grips with how our tax system lines up with the tax systems of our major competitors. When U.S. exporters sell to Europe or Japan, they pay a value added tax. When foreign exporters sell to the United States, they get a rebate on their value added tax. So U.S.exporters are at a competitive disadvantage on taxation. We need to structurally realign the corporate tax system of the United States and that ought to include a value added tax. Many people believe consumption taxes are regressive. But some day we will come to grips with the fact that we must have a tax system that is competitive with our major trading partners.

Now that is the national setting. I submit that through groups such as the Pacific Northwest Waterways, you can have an influence on national policy. Because of your relative dependence on some of these issues, you must take a greater interest in trying to mold and shape the policies that are being made on the federal level.

In addition, people can do more at the regional level. If you look at the region as defined by Oregon, Washington and Idaho, you have three states that compete a great deal. We are going to continue to compete and that is fine. But at the same time, we need to be increasingly aware that our trading partners view us as a region, as a group. The threat of foreign competition is so great that we must go beyond talking about regional issues such as the interdependence of upriver/downriver ports. We must assume that as a given and move toward larger scale regional endeavors and regional recognition. We must be aware of regional successes, regional opportunities, and regional problems.

We must finally admit that the problem in this region is not whether Puget Sound or the Columbia/Snake River Basin gets the economic development opportunity. The problem is whether we are going to have a north-south situation with some communities that have jobs and others that have no jobs and are in deep economic stress. The north-south problem is the challenge of the Pacific Northwest, not whether development goes to Washington or Oregon. If we can think in those terms and strategies that are built on regional understanding, we are going to really look at our regional assets, our regional liabilities, our regional infrastructure, and our regional opportunities and develop an action plan in a cross-state, cross-industry coalition that will put some action behind the proposals and tap the full strength that we have regionally.

For too long, we have gotten by with old, lazy thinking. We still talk about ourselves as a region that has been dependent upon agriculture and timber. Certainly they are important and we want them to be continually important. But I was amazed that in the last Oregon legislature we had a discussion over economic development and virtually no one thought of the ports as economic development engines.

Given that in the federal government most people regard ports as a significant component of the economy, I found it incredible. We even have state legislators who aren't convinced that ports in our state are economically important. Nor do we realize the importance of aerospace, of test-and-measurement companies, such as my own company, of materials, of aluminum, of the emerging material areas, of silicon manufacturing, crystal growers, and, of course, light manufacturing. We are a diversified region. We have more strength than we recognize. We actually still have people who say we have to make choices between high tech or high trade. That is not a choice that we have to make because high technology is one of the most heavily traded commodities that we manufacture in this region. We need to find mechanisms that will give us a chance to cooperate.

Let me conclude by putting a plug in for what I hope will be a strategic exercise. The Pacific Northwest International Trade Association has been touting an idea to have a regional economic summit meeting early next year. The intention is to have delegates from a broad set of industry groups--agriculture, timber, food processing, maritime interests--look strategically at the assets, the liabilities, the infrastructure and the potential of our region, and to see if they can come to an agreement about some basic thread of international commerce, some worldwide identity shared by Oregon, Washington and Idaho. Then the challenge would be to develop an action plan and a coalition strong enough to move those projects on to the agenda with members of Congress, the Administration, governors, and so on. Such action could make our future prospects in this region as bright as we all would like them.

John Nyce, Project Manager
Atlantic Richfield Company
Irvine, California

The Effect of Modules on the Columbia/Snake River Economy

As I was preparing, a number of questions went through my mind: why me? why the Lisburne Project? You probably are wondering, "What is the Lisburne Project?" "What is a module?" "How does module construction affect other industries, and how does it create jobs?"

Now, why are we talking about an oil project at a maritime conference in the Northwest? One reason is dollars. Oil projects pump about $100 million into the Pacific Northwest and, specifically, into the Columbia River Basin region. Secondly, they create a lot of jobs--around 1500 currently. We're talking about Alaska oil projects. You can do a certain amount of work on the North Slope of Alaska, but you can't do all the work there, and that's how the Pacific Northwest comes into play. You look for a place where you can do much of your work under better conditions. The Northwest is close to Alaska and it has good weather. I am sure if you were to take a poll, Oregon would probably not win as the place to look for good weather. But when it is compared to the alternative of ice, snow and -50 degree weather on the North Slope of Alaska, it looks like a pretty good place to do your work.

Furthermore, in developing an oil field you look for ways to keep your costs down. Doing work in the Northwest is one way of doing that. The Pacific Northwest has played a major role in Alaska oil field development for the past 10 years. I know this particular panel will look into the future. But we need to look at the history of what has happened here on Alaska oil field development to get a better perspective on what type of work is being done in the Northwest, and then we can talk about the outlook for the future.

There are four oil fields in Alaska that have been developed or are being developed at present. There's the Prudhoe field, the Kuparak field, the Lisburne field, and the Milton Point field. The Prudhoe field was discovered in the late 1960's. It is the largest field in Alaska; in fact, it is the largest field in the United States. It is currently producing about 1.5 million barrels of oil per day. The Kuparak field is the second largest field in Alaska. It has been developed and produces about 250,000 barrels of oil a day and is currently being expanded. Lisburne is the third largest oil field in Alaska. It is the one we are currently developing. It will produce about 100,000 barrels of oil per day. The Milton Point field is currently being developed and is the smallest field. It will produce 30,000 to 40,000 barrels of oil per day. This combined production is equivalent to about 15% of the petroleum requirements of the United States. So you can see that production out of Alaska plays a major part in supplying the United States' energy requirements.

To best explain this type of work, I want to show you some slides of what we are dealing with.

This map of Alaska will orient you to where the oil fields are located. At the top of Alaska is the North Slope, off the Arctic Ocean. The black line down through the center represents the trans-Alaska pipeline. It is the major system that transports about 2 million barrels of oil per day to the Valdez Terminal, which is on the southern end. That is where tankers are loaded for transporting oil to ports in the Lower 48.

This map shows the various oil fields that exist on the North Slope, some of which have been developed and some that are huge reserves that are undeveloped. Now we get into facilities that we are currently building. This is an artist's rendering of a drill site location, depicting what it looks like on the North Slope of Alaska in the summertime with some vegetation and a lot of lakes. This group of buildings is put together for the purpose of processing crude oil, which really just separates the oil, the water, and the gas. The gas is dehydrated and reinjected back into the ground for future use. The water is cleaned and reinjected back into the ground, and then crude oil is pumped from this facility to the first pump station of the trans-Alaska pipeline.

That depicts the location of the Lisburne field right off Prudhoe Bay. It circles around the bay with the six drill site locations.

Now we get into what happens here in the Pacific Northwest. This is a picture of our facility at Astoria where most of those buildings that you saw depicted in the artist's rendering are constructed. This slide shows the materials that we store at the construction facility. This slide shows a large fuel base that was fabricated in Japan, shipped across the ocean, and offloaded at our site in Portland.

This is a picture of some of the equipment that is placed inside modular facilities. Here you can start to see the assembly of the equipment, the vessels, the pumps and compressors inside the unit.

These next slides show the work that is being done at the Port of Portland Ship Repair Yard where we lease the site for the construction of these facilities. As I mentioned, we also have a construction site at Astoria. So we are using the two sites to build the facilities. There are seven large facilities being constructed at Portland and a number of smaller facilities being constructed at Astoria.

We build these facilities in groups. These units will be built together in the Lower 48 to make sure that everything fits; then they are separated and shipped as separate units and reassembled at Prudhoe Bay.

The largest units are about 160 feet in length, about the size of a nine-story building, and weigh around 2700 tons. They are picked up and moved onto barges. A number of units can be placed on a 100 foot x 400 foot barge. They put on the barges by trailers or transporter crawlers, and they can be taken off in a similar fashion in Prudhoe and moved into their final resting place where they become part of the processing plant.

Now I would like to give you some idea of what this work means in the way of jobs. The previous speaker mentioned the need for the region to be aggressive in getting work that creates jobs. This is work that 10 years ago did not exist and now it is a significant contribution to the economy of the Pacific Northwest. At Astoria, it employs 450 construction workers; at Portland, 900 construction workers. There are an additional 120 staff people at each of those sites. The work at Astoria is taking place over two years, in Portland about 16 months. Each of those locations represents about $35 million in direct payroll and the purchase of materials, supplies, tools, and construction equipment. Between the two sites that is around $70 million that goes directly into the economy. There are other services and supplies that are needed at these sites, so we turn to local suppliers of lumber, concrete, insulation, paint, electrical equipment and so on. There are also other contracts awarded beyond the construction, such as the contract to barge the facilities from the Pacific Northwest to Alaska. The contracts with rigging companies to move the facilities are in excess of $20 million, so you can see this very easily adds up to a direct expenditure just for this one project in the Pacific Northwest of over $100 million.

This type of work has taken place this past year in Portland, Astoria, and Coos Bay. It has also been going on in Washington at Tacoma, Anacortes, and Everett since 1974.

I hope this gives you an understanding of what the work is and what it means to the local economies. There was mention made earlier about economists being laid end-to-end and they would all point in different directions. It is just as difficult to figure out what is going to happen with the price of oil. If it were economical to develop these additional oil fields in Alaska, the work would certainly not be done in Alaska. It would be done just as it has for the past 10 years, with a good portion of it occurring in the Pacific Northwest. The oil fields that are currently in production will need additional facilities to continue to produce oil. These are not massive projects, but they are smaller facilities that need to be built every year. In fact, work will continue to be done in the Pacific Northwest, so there are opportunities for this type of work. The economic environment in the Pacific Northwest is very positive for this type of activity and it looks like it will be continuing in the future.

QUESTIONS AND ANSWERS

Question to John Nyce: Are there any activities associated with outflow of the petroleum that can be located in the Pacific Northwest? You talked a lot about the staging and the infrastructure, but how about the outflow of petroleum itself?

John Nyce: I think you are referring to the refining process. There are certainly opportunities in the transportation area. The Port of Portland Ship Repair Yard has had quite a lot of business in the past in repair of the tankers that are used to transport the Alaskan crude oil to the refineries off the West Coast. I really don't see any efforts to build new refineries. There seems to be a sufficient number of refineries on the West Coast right now. In fact, there are many that are being mothballed, so I don't see opportunities for additional refineries.

Question: What are the future prospects of extending navigation on the Columbia River up to Wenatchee or at least Royal City?

Dave Neset: Navigation up the Columbia is being actively pursued by the Pacific Northwest Waterways Association and supported by the other ports and the members of that association. There have been some schemes devised to develop what is called the Hanford Reach canal, which would permit navigation up to that Reach. I am not aware today of active approval being sought in Congress for a lock to be built at the dams. There has been significant controversy there among environmental concerns, agricultural concerns, hydropower concerns and each of those who uses water. The water in the Columbia is pretty well fully allocated.

Question: What are your development plans for your recently leased Tongue Point site and your lease option site on the Skipanon?

John Nyce: Those leases are by one of our contractors, Astoria Oil Services. They are not leases by Atlantic Richfield Co. For the lease at Tongue Point, Astoria Oil Services has a contract with ARCO to build some small modular facilities similar to what you saw in the slides. That will be completed in June 1986. Since it is a contractor's lease, I am not sure what their plans are beyond that point in time. That particular contractor also has the lease on the Skipanon area. As to what their exact plans are, I really can't answer that.

Question: Why did you limit consideration for the lower Columbia River deepening to just the lower 30 mile reach?

Dave Neset: At about river mile 30 there is a low point where the tidal effects of the estuary can yield a zero river level or, in fact, a minus zero river level. Above that you usually have a river that is +2, +3, +4. So if you dig the lower portion deeper, you can effectively obtain a channel that would accommodate 42 foot draft ships even though the full channel is not dug to 45 feet. You get a fresh water flow above river mile 30 so that you can effectively attain deeper draft navigation by only digging the lower portion to a greater depth.

Question: Since your panel is to look to the future, could you outline some of the potential strategies for developing what you refer to as a cross-state, cross-industry coalition?

Gary Conkling: Let me give you three examples of projects that I think might merit some consideration as things to work on. 1) There are huge amounts of market-related kinds of information available. The problem is that the typical business person often receives a mound of material about a market that is so unannotated that it is really worse than getting nothing. What we really need is somebody to help synthesize or analyze the material to a point where it is fairly usable. We have in our region a bunch of international trade centers, none of which has the scale to really put into force some analysis capable of dealing with this growing mound of information. The Department of Commerce is cranking up its computers to generate even more of that stuff, but what we really need is to find a way to bring it down to some usable focus and target it to the particular kinds of commodities or factory goods and services that we have in the region. So one project might be a regional international trade center made up of several trade centers to really deal with this type of information and actually have some impact.

2) We have a number of emerging products and technologies in our region. A lot of people believe, for example, in the future of meadowfoam. We have a company in the Portland area that is the only maker in the United States of flat-paneled cathode ray tubes. All the other competitors are in Japan. We have some unique world monopolies on processes or commodities, and we need to begin to think about how we could come up with funding mechanisms to support them in world competition. I don't think any given state, certainly not the State of Oregon, can do that. Maybe if we looked at it in a three-state platform, we might be able to find enough ability to support some of those projects.

3) We have a growing interest in all three states in our universities, especially engineering schools, which are of some interest to the high technology group. And yet at the same time we haven't really even begun to talk about how the University of Oregon and the University of Washington can do anything but play football together. We have an opportunity in our region to begin to say, why have three? Why can't we begin to figure out how we can come up with joint research projects? We have a company in Oregon that is involved in world class

super-computer research, but the research is going on in New York because there wasn't a school in the Northwest large enough to handle it. I think that is terrible. We should be thinking regionally and putting together a platform large enough to be of international significance.

So there are three ideas that cut across the timber, agriculture, high technology, manufacturing, and services sectors that suggest why a regional scale approach might have some appeal.

Question: What are the major factors that control the development of West Sac other than oil price? Is there a time line for development on that project?

John Nyce: There is a plan in existence right now that is testing methods to economically produce the oil. It is very much dependent upon the price of oil. I think that the major factor is really the price of oil. There are technologies out there right now that could do the job and certainly they are working on improving them.

Question: Relative to the Lisburne Project, what percentage of the development activity is completed now and how much is left for the future? And is that percentage of development similar for the oil industry?

John Nyce: The development of the Lisburne Oil Field started in 1984 and it is scheduled to be complete in the spring of 1987. We are finished with the engineering, maybe a quarter of the way complete with construction, and the rest of that work will be completed by early 1987. The future work would be in smaller amounts that would be involved with adding facilities to keep the field producing, but no major work.

Question: Is most of the modular development or construction completed at this time?

John Nyce: The modular-type construction is relative to Alaska oil fields. The fields that I mentioned earlier are either producing or in the process of being developed. The ones that are in the process of being developed will be complete in early 1987. Here, again, they are facing a similar situation. It's just the smaller activities to keep the field running. There are no other major field developments planned right now.

Question: Can you address the new farm bill and what elements of the legislation affect the trade prospects of this region?

Ken Casavant: The farm bill hasn't been finalized. I am a bit disappointed in the direction that it has gone in that it appears it is going to look similar to what we have had up to now. If, in fact, we have a target price that will be just a little lower than at present, a target price will make it extremely difficult for the United States to get active in international movements of wheat. Other components of the farm bill under consideration are continuation or expansion of PL480-kinds of export activity. I support that for humanitarian reasons abroad and at home. Associated with that is continuing discussion of the cargo preference statutes. I have a hard time as an agricultural economist speaking in favor of cargo preference in particular segments of that traffic. The best thing would be to have the strength of the dollar reduced so we could get active in the international market again. The budget considerations may well be the most important part of the farm bill, even when they are not in the farm bill.

John Gaughan, Administrator
Maritime Administration
Washington, D.C.

The Role of the Maritime Administration and National Maritime Affairs

A quick story before I get started. I had asked the Maritime Administration public affairs people to help put together some remarks for me. At the end of last week I got a 26-page speech from them. I read it over the weekend and at about page nine I started to fall asleep, so I decided to try to write my own. It is far shorter because my own remarks are five pages.

I feel a little bit like Houdini having finessed my way out here. In my present capacity as Deputy Assistant Secretary for Governmental Affairs, I am very much involved in the legislative process, and Congress is in full swing right now. My confirmation hearing is Thursday. I was concerned that I wouldn't be able to fly to the coast, do this and get back in time to finish my courtesy calls. I heard Senator Packwood was out here, so that was my excuse. I thought I could do my courtesy call to the Senator while I was here.

I am going to frame the announcement of my speech today because it lists me as Maritime Administrator in my first national appearance. Unfortunately, I haven't assumed that office yet. I feel a bit constrained in what I can and cannot say simply because I think the Congress of the United States deserves the opportunity to query me on what their concerns are. Having gotten all of the disclaimers out of the way, I will throw caution to the wind and hope that it doesn't get back to Washington before I do.

I think it is important for me to tell you a bit about myself, what shaped me, what makes me tick. My father was an Irish coal miner from the coal region of Pennsylvania. He managed to get a law degree after the Second World War. He was a very direct and plain spoken person. He never steered me wrong. When I was a third class cadet in the Coast Guard Academy, I was having serious academic trouble. I was regularly before the academic board. At the end of my third class year, , they gave me a choice of resigning or spending an extra year there as a third classman. They gave me the weekend to think about it. I went home. My dad took me out to a place called the Quarry House, a little bar where he used to hang out. For about three hours he let me vent all my frustrations; he never said a word. After I had pretty much blown myself out, he looked at me and said, "You know, you always struck me as an ironass little son-of-a-bitch, that when they knocked you down you got back up." There was no question at that point what I was going to do. I went back to the Coast Guard Academy, graduated, and that's what led me to where I am today.

The first day that I walked into the Academy, I saw a plaque embedded in the floor of Chase Hall which read, "Who lives here, reveres honor, honors duty." That is something I took to heart. I have lived by it and I hope to continue to live by it. The responsiblity that I am about to undertake is one that I take both proudly and seriously. I am firmly convinced of the need for a strong U.S. maritime industry. I also believe that it is time to step back, refocus national maritime policy, and aim it into the 21st century. The Merchant Marine Act of 1936 was fashioned to respond to a number of concerns facing our nation at that time. And it stood us well in terms of preparing for the shipping and shipbuilding demands of World War II. But as the world situation changed, particularly during the past ten years, there has been a growing recognition that the approaches of the 1936 Act have not accomplished their goal. The world economic situation has brought increasing strains to the U.S. flag shipping industry and to the U.S. shipyard industry. The Administration's stated policy of freeing up the industry and allowing it to compete is a good one; and I think it should be part of a refocused and reenergized national Maritime policy. The answers to all the challenges facing the industry don't lie in Washington. They really lie with all of you out here. I think the best that any Administrator can hope for is to be able to lead the Maritime Administration out of the doldrums and into a position where it is an effective, productive agency carrying out its mission of finding opportunities for our ships to compete and for our shipyards to stay in business.

I don't mean to overlook the port industry or all the support industries by concentrating on just ships and shipyards, but I think those two areas are key to bringing renewed strength and vigor to all the associated aspects of maritime enterprise. As many of you are aware, the Department of Transportation has pursued transportation deregulation across the board for all segments. Most recently the Secretary testified before Senator Packwood on further truck deregulation. The theme is no different in the maritime arena. Largely through the efforts of people like Punch Green, Peter Friedmann, Senator Packwood and others, the Administration has taken the first step towards regulatory reform in the shipping industry with the passage of the Shipping Act of 1984. Some critics may say that the Administration has attempted to make more of the benefits of the Shipping Act than are actually there. I disagree with that because I genuinely believe that the forms included in that act allowing for the development of intermodal movements of cargoes and the ability of shippers to negotiate time, volume, and service contracts, and carriers to get expedited approval of agreements present a unique opportunity for the U.S. flag liner industry to stem the march of foreign flag competition for cargoes. Additionally, in that Shipping Act is a provision that allows the Federal Maritime Commission to take retaliatory action against foreign countries who do not give U.S. flag carriers an opportunity to compete with their foreign country trade. In the future that provision is going to play a major role in ensuring that there are opportunities to compete.

I mentioned earlier the many challenges facing the industry. I don't intend to ignore those issues, but I can tell you that I will work hard not to focus entirely on the problems and will make time to deal with the healthy parts of the industry and look for opportunities for the future.

It is time for all of us to think about what the world will look like in fifteen years and begin to lay the groundwork now to meet the oncoming challenges and, when they come, emerge stronger than we are today. This is always the case when you open the flood gates. There is a rush of water that takes some time to slow to a steady stream. We have seen that phenomenon occur as other segments of the transportation industry have been freed from regulatory restraints. And it hasn't come without problems. But when you look around, I am convinced it is an absolute benefit; you have more choices of what airline to fly, what trucking company to ship your goods on, and, in some cases, rates a railroad will offer you. The maritime industry must learn to adapt to the same type of environment.

It has always struck me as ironic that an industry that has a rough and tumble reputation has come to rely so much on government to keep it going, to show it the way. This country was built on the spirit of enterprise and competition, and competition naturally anticipates friction. There is no doubt we have some real competitors out there, but that shouldn't mean that we should shy from the fight. If you look at trade in the United States, it is clear that there has been a literal explosion of goods coming from the Pacific Rim that provides unique opportunities for areas such as the Columbia/Snake River Basin. It also provides opportunities for U.S. companies to find new markets for their products and ways of moving them efficiently through their ports.

I hope I have made some sense. It is tough for me not to be candid and straight-spoken, but I am trying to save some of my thunder for this confirmation hearing. It has been an honor to take my show on the road for the first time. I look forward to the remainder of the day.

QUESTIONS AND ANSWERS

Question: What is the future of the Maritime Administration as you see it, and do you feel comfortable with it?

John Gaughan: There has been an undercurrent that I have detected, as if there is some kind of hidden agenda. Is the Maritime Administration, as an agency, on its way out? Well, if there is a hidden agenda, I sure don't know it. Certainly the Secretary of Transportation has not given me marching orders to close the agency down. To the contrary, I have been tasked very specifically with some missions. One of them is to have the senior managers of the agency sit down and help me focus on what the mission of the agency should be, what its goals are, and how we should achieve them. I may find when I get down there that it has already occurred, but I have a sense we need to, as I said in my speech, step back and look to the future. I would really hope to be able to use my position as the administrator to talk not only to groups like this, but literally go to the Detroit Economic Club and talk to them about the genuine need for a variable U.S. maritime industry and to see if there aren't ways of using their leverage to ensure additional cargoes and so forth. I would like to see a U.S. flag carrier calling at the Port of Portland. I don't think there is one right now. I am not sure that I have the answer as to how you get one here, but waterborne transportation is certainly just one part of the growing network of this whole intermodal movement. There are lots of opportunities; this area has some tremendous facilities. With the natural markets in the Pacific Rim, I think there are those opportunities. If I can help bring different elements together to make an opportunity available, I can't do much more than that. The industry itself is going to have to seize the initiative, but I am certainly committed to trying to do that.

One of the queer mandates of the Maritime Administration is as a promotional agency. I am not going to run the business, because Lord knows I don't have that experience. You all have that kind of experience. Maybe I can find opportunities, not only for U.S. flag carriers and U.S shipbuilders, but for ports and all the rest that goes with it.

Question: Our wheat exports are off some 50% due to a lot of things, some of it is the high cost of the dollar and some because of cargo preference in the United States. The administration has not worked visibly at all within any of the negotiations in the push and shove in relation to that. Would you have any comment on that as the new administrator?

John Gaughan: If you are referring to the negotiations between the agriculture interests and the maritime interests, these were negotiations to try to reach some kind of compromise that might be included in a new farm bill. Quite frankly, it is my understanding that they didn't care to have the Administration as part of that, at least initially. It is not clear to me at this point whether they really have a compromise worked out that could be universally supported. The cargo preference issue is one of the thorniest ones that is under consideration by the Congress right now. It is the first issue that I can remember that brought two secretaries in the Cabinet into public conflict. This Administration has been pretty phenomenal in solving its disagreements behind the scenes and then marching to a single beat behind this president. The cargo preference issue brought, unfortunately, Secretary Dole and Secretary Block into a public contest. That gives you some sense of the deep feelings on both sides and the toughness of the problem.

Having said all of that, the Administration has tried, and will continue to try, to resolve some of the concerns of the agriculture interests. Let me give you an example. Presently U.S. law prohibits a foreign-built vessel flying the U.S. flag from carrying preference cargoes for a period of three years. That is a terrible disincentive to an operator to build a new, efficient ship; and at the risk of exercising people who are associated with shipbuilding in the room, the Administration has proposed that that section of the law be changed to eliminate that three year waiting period. One of the reasons for that is quite simply to allow new efficient tonnage to come into the trade to bring those cost differentials down. I have had operators tell me they can literally get within dollars of their foreign competitors if they are able to buy new equipment with reduced manning and wage scales. You are never going to balance that out when you can have a crew of Bombay Indians -- and I don't single them out, but just a foreign flag crew -- their crew wages and U.S. flag wages are never going to be the same. But the maritime unions have already taken great strides to bring their operating costs down. Now that avoids the question. The Administration's stated position, and it has been this since 1982, was that the Administration supported the existing cargo preference laws. Now you have a court case that has thrown some of that into a cocked hat by saying that the cargo preference laws would apply not only to the give-away programs but to blended credit, which is the combination of interest free loans and so forth. The Administration is appealing that case.

There are lots of things you can do in that program. At this point I don't know what it will take. You can do consecutive charters. You get it so these lots of cargo that are moving are an economic size. I will give you one personal view and that is I don't ever want to see a U.S. flag ship carry a preference cargo and then go to Bangladesh to be scrapped. The purpose of the cargo preference requirements is not to pay the way for somebody to get their ship scrapped. Now that one may come back to haunt me. There may be all kinds of reasons why it is a good idea. But it just doesn't make sense to me. If it turns out that it makes sense, I will come back and tell you why I was wrong. But I think there are reforms to the way the program is actually run now that might help solve that problem.

Question: You spoke of the Merchant Marine Act of 1930. How do you feel about the Merchant Marine Act of 1920, the Jones Act?

John Gaughan: The Administration supports the Jones Act. I personally support the Jones Act. I think it is not at all unusual for a country to have cabotage. I know that it does bring with it certain problems, such as higher costs. But I am not ready at this point to say we ought to walk away from it. I will be glad to hear anybody's ideas on things that could be done.

Let me give you an example of something that has been done in that regard. The Coast Guard has a definition of "built in the United States." When a vessel was built in the United States, it meant that all the components that went on the vessel had to be U.S. built. That definition has been changed and now allows for foreign-built engines and equipment. I am told by an operator who has both international and domestic operations that that change alone resulted in about a 30% decrease in the cost of some new ships they were building. So there are ways of getting at some of the high costs associated with the Jones Act without just throwing the whole thing in.

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