

Barge firm expands scope

By BOB SHALLIT
Daily News business editor

For the past six years, Pacific Western Lines has been a sleepy, little-known barge transportation outfit that competed — though usually in vain — with Alaska's major ocean-going freight carriers.

A part of Sealaska Corp.'s Alaska Brick Group of Companies, Pacific Western lost money consistently, contributing disproportionately to the red ink recorded in recent years by the Juneau-based Native regional corporation.

Today, however, with new management, a fresh infusion of capital from Sealaska and two new \$3 million tugboats, Pacific Western is beginning to make a run at its better-known rivals — Sea-Land Service Co., TOTE and Alaska Hydrotrain.

The company posted its first profit last year, according to Richard Kito, chairman of the Alaska Brick Group, which includes Alaska Aggregate Corp. and Alaska Brick Co. in addition to Pacific Western. And additional gains are expected in the coming years as a result of the freight boom now beginning to hit Alaska's marine transportation system.

"We've had some rough times, but we've stuck them out," Kito said in a recent interview. "Now we see an opportunity to grow along with the whole southcentral region."

Increased drilling activity on the North Slope and the resurgence of construction activity in the Anchorage area are cited by Pacific Western officials as the key reasons for the turnaround.

Two years ago, the small shipping company's prospects were considerably less bright. Its mounting losses, caused mainly by the post-pipeline downturn in the Alaska construction industry, were forcing Sealaska directors to pursue one of two options: "sell it or go with it," according to Kito.

After lengthy study, the Sealaska board opted for the latter choice. The management and financial structure of the Alaska Brick Group was completely reorganized — and the commitment was made to plow \$10 million immediately into the shipping concern to expand and modernize its fleet of tugs and barges.

A key part of the strategy

was the acquisition of two new "super-tugs" — extra-long tugboats capable of vastly reducing the round-trip sailing time between Seattle and Anchorage. The tugs, which previously had seen oil company service in the North Sea, will cut Pacific Western's one-way travel time by about three days, allowing the company to double its current bi-weekly sailing schedule.

"We're putting ourselves in a position to hit the port as often as our competition," said C. Thomas Marshall, Alaska Brick's president.

One of the two tugs, the 114-foot-long Eagle, made its first trip to Anchorage last week.

Although Pacific Western is still considerably slower than its steam-driven competitors, it can offer lower prices — on automobiles, for instance — because of fuel and labor savings.

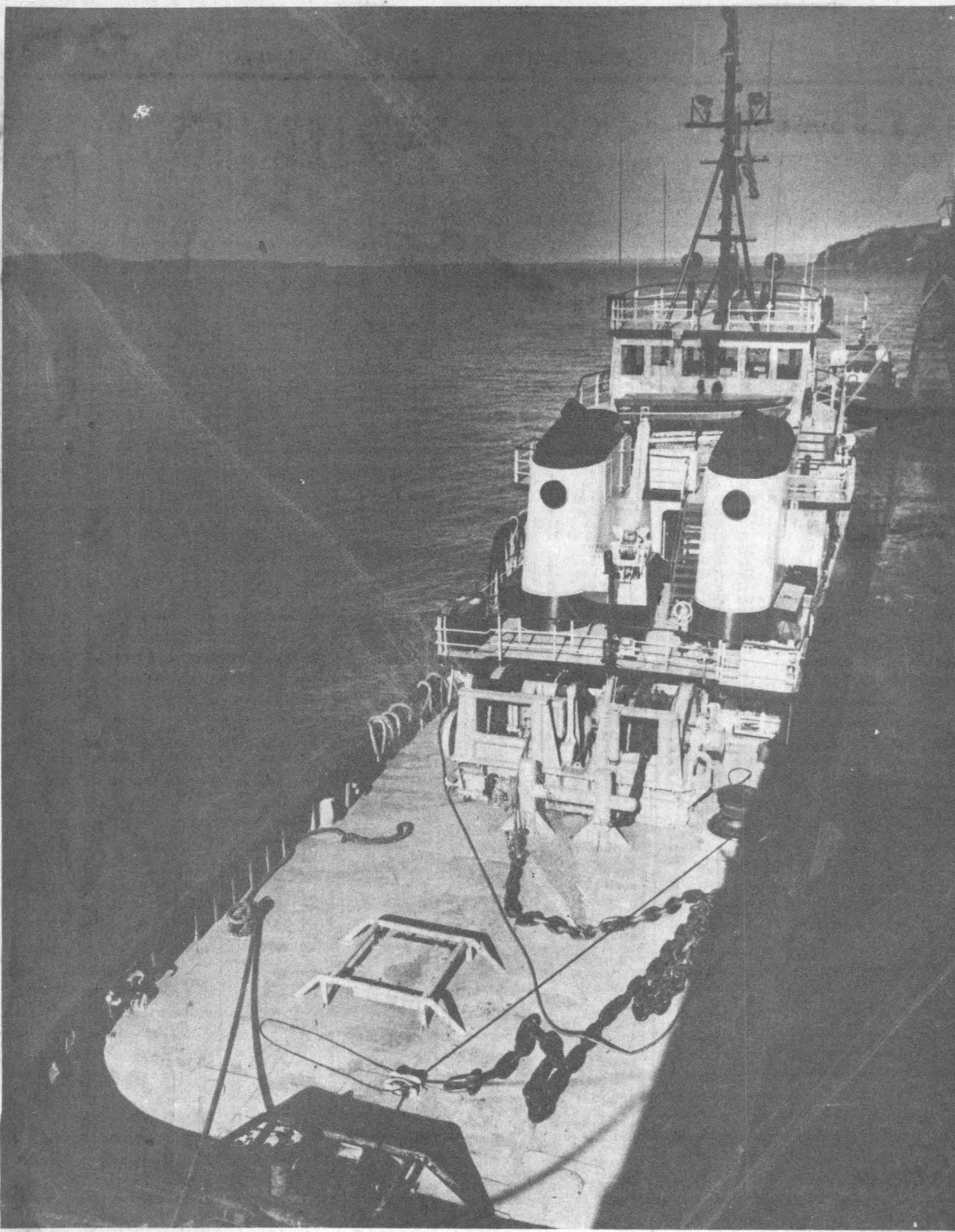
Tugs use far less fuel than the TOTE and Sea-Land vessels and Pacific Western requires only an eight-member crew compared to the 25 to 30 employees that travel with the larger boats.

"They (TOTE and Sea-

Land) can get your automobile to Anchorage from Seattle in five days while it might take us eight days," said Michale Halco, Pacific Western's traffic manager. "But we can probably save you \$150."

Still, head-to-head competition with the big shippers is not likely to be very successful for Pacific Western. Instead, shipping experts say, its potential lies in its ability to carry unusual and oversized loads, such as bulk cement, mobile homes, tractors and fishing boats.

Pacific Western's Marshall agrees. "We handle the kind of freight the other companies can't haul," he said.



Anchorage Daily News/Monte Paulsen

The 'Eagle' sits in port at Anchorage after its maiden voyage through Cook Inlet last week. It is the largest tug to ever arrive in Anchorage.

Freight haulers begin turning a profit

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that could give the impression of a capacity shortage.

TOTE's tonnage hit bottom about a year ago, and bounced back a healthy 16 percent, says Everett W. Trout, vice president for operations. The total market into Anchorage rose a similar amount, says Trout, and ended 1980 with tonnage about where it was five years ago. TOTE's share, however, has risen, so that it splits the business roughly 40-40 with Sea-Land, with Hydro-Train carrying the rest.

"We're tooth-and-nail with Sea-Land after being nowhere five years ago," says Ronald J. Gumbaz, TOTE vice president for finance and administration. "We're slightly ahead into Anchorage."

But TOTE has never made a nickel in the Alaska trade, and is the one carrier that still admits to being in the red. Its roll-on, roll-off service is flexible for customers because it accommodates unusual trailer sizes. But it is a less efficient use of ship space than Sea-Land's stack of uniform 35-foot boxes. TOTE's ships — essentially floating parking garages — are the largest of their kind.

Averaging summers and winters, TOTE has been running 80 percent full. This year the outlook is better. "This is the first year we're anticipating enjoying full ships with some consistency during the peak months," says Trout.

The carriers' other concern is rates. Shipping rate increases, which have been the curse of the Anchorage store owner or lumber retailer, are described by TOTE and Sea-Land as pitifully inadequate despite cumulative increases of more than 59 percent over the past three years (see accompanying chart).

"We're perceived by many of our customers to be a very profitable business," says Sea-Land's Baker, who says his operation is barely in the black. "Rate increases get a lot of publicity, but we're not getting full value out of those increases," he complains.

What has happened, carriers say, is that they have announced general rate increases in the last few years, then sabotaged them by expanding volume discounts to freight consolidators and slashing rates on selected items, like vehicles and building materials. Baker says Sea-Land's average revenue per northbound container was about \$900 in 1970, and just less than double that — \$1,800 — at the end of 1980. The published rates far more than doubled, but the actual money collected per van did not.

Rates have not risen uniformly, nor do volume discounts benefit all shippers. "There's no question," says Baker, "The larger shipper has been able to mix cargo and take advantage

of the lower rate."

At TOTE, the average revenue per trailer did not rise appreciably from 1975 to 1979, says Leonard H. Shapiro, vice president for pricing. "Alaska is one of the most competitive transportation markets in the country," he says. "We simply had a rate war going on."

But beginning early in 1980, says Shapiro, "for the first time since TOTE had been in the market, we saw revenue-per-trailer rising in line with general rate increases. The trend is continuing."

TOTE began making price increases stick at the low point in the business, after tonnage had fallen 15 percent in two years and was just beginning to creep upward.

This hints at a question no carrier is eager to discuss: Future rate increases. For most of the last four years, both TOTE and Sea-Land have lost money in the Alaska trade, and were kept alive by their corporate parents. They have tried to push up their rates, only to see the structure crumble in the tug-of-war for tonnage. But now the economy of Alaska has turned around; oil spending is increasing, and big new projects are on the drawing board. Now, when carriers hungry for profit are finally able to make rate increases stick, will they stick the shippers?

The carriers are not willing to answer that question specifically — in part because federal antitrust authorities frown on carriers "signaling" to each other in the press. Yet, it's a good bet rates will go up this year, and probably by more than 10 percent.

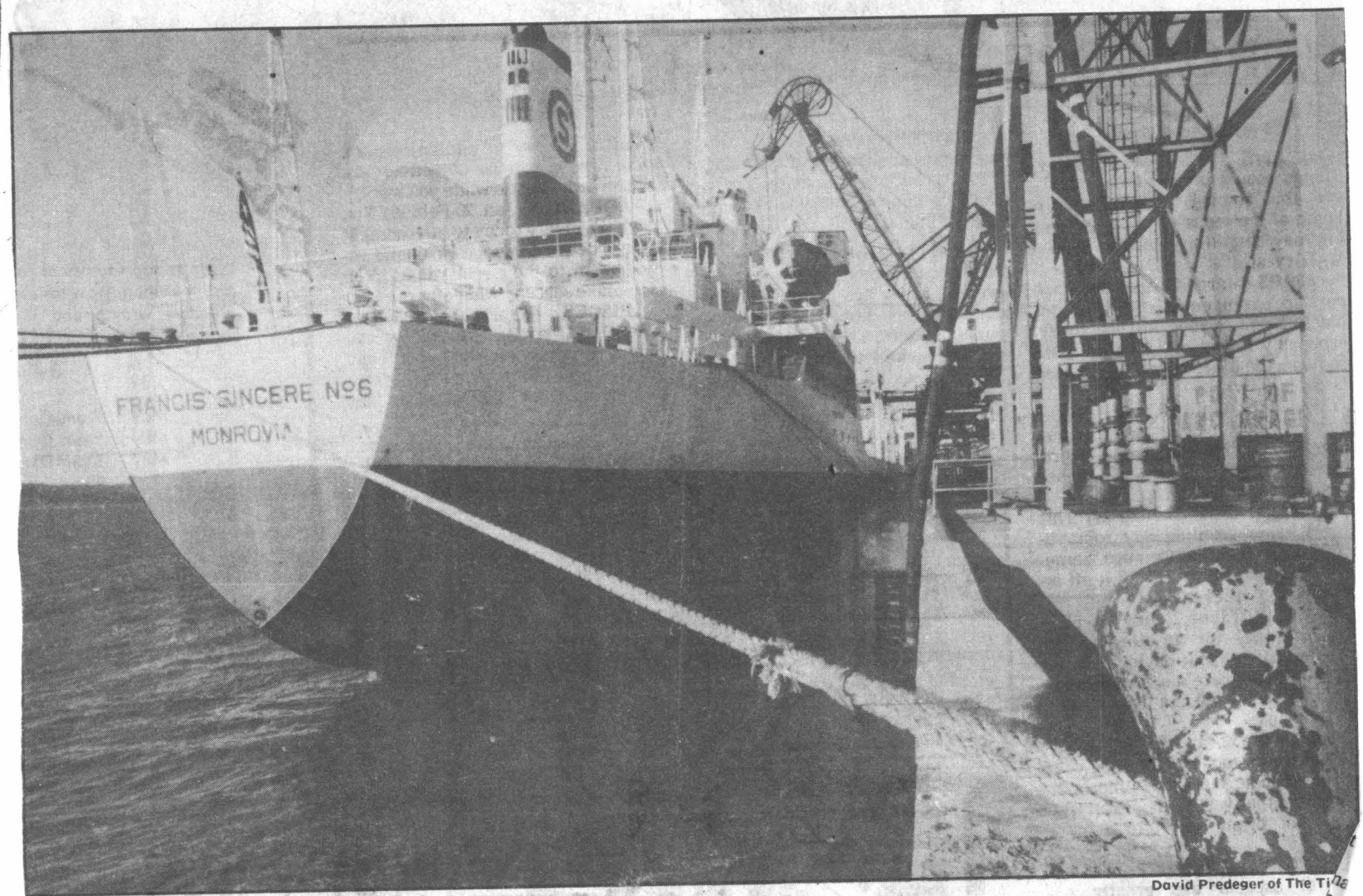
Both TOTE and Sea-Land say they will not squeeze shippers for every nickel. Rates are only part of the way to make money in shipping; the other way is to keep ships full, and most still sail with excess capacity. Furthermore, rate increases of more than 10 percent must be justified by the carrier to the Interstate Commerce Commission, and may be turned down. This does not guarantee, however, that the ICC will veto such increases, or that the carriers will not ask for them.

Strong growth in the 1980s in Alaska could bring the need for new ships. Sea-Land's three ships, furthermore, are remodeled freighters of World War II vintage, and have only about five years of useful life without requiring large new investments.

Both steamship operators have analyzed how they would respond to the need for new ships, and both have contingency plans they are understandably reluctant to discuss.

Sea-Land has an advantage in that it ships are smaller, and thus its investments make in smaller packages.

Anchorage Daily Times, April 16, 1981



David Predegar of The Times

TIED UP, TIDE DOWN

The 11,000-ton cargo ship Francis Sincere No. 6 has been offloading some 2,700 tons of steel plate this week to be used by several firms in Southcentral Alaska. The ship arrived from Japan

Tuesday and is expected to complete the unloading process this evening. An official with the North Star Terminal and Sourdine Company said the vessel may head out to sea tonight.

Anchorage Daily News Wednesday, April 8, 1981

Freight rate increase predicted

By ANN CONY
Daily News reporter

Freight rates for Alaska-bound ocean cargo out of Seattle will increase by 7 to 10 percent in early June and labor disputes are likely to cause some disruption in shipments this summer, according to Fred Tolan, a Seattle freight traffic consultant.

"There's no question rates are going to go up. The only question is how much," Tolan said in a telephone interview Tuesday.

"Between fuel and labor, what the heck, I don't think there's a chance of it being less than 7 percent," he said.

On the labor front, eight shipping-related labor contracts will expire by the end of June, the consultant pointed out.

"Nobody settles a big labor contract at less than 8 to 10 percent. It is very hard to be optimistic that eight separate labor contracts will go off without a hitch and without a strike," he said.

Longshoremen will be fighting with Teamsters in Seattle for ship-ping consolidation work that is now being done off the docks by Teamsters, Tolan said. And, "You've got a tough union fight in Alaska with the Teamsters contract," he added. "The situation is very, very tense."

In addition to general rate increases, Alaska businesses and consumers face higher costs for imported goods because of a decision by ocean carriers to no longer keep transcontinental throughrates via Seattle as low as the rates via Prince Rupert, Tolan said.

Tolan said the state's three major shippers — Alaska Hydro-Train, Sea-Land Service Co. and Totem Ocean Trailers Express (TOTE) — will cancel their voluntary participation in a tariff program that has kept transcontinental shipping rates to Alaska via Seattle in line with rates through Prince Rupert.

The throughrate program was instituted nearly 20 years ago to



Anchorage Daily News/Fran Durner

The cost of moving freight between Alaska and the Lower 48 is expected to increase 7 to 10 percent this summer.

promote traffic through Seattle/Tacoma and the participants "ate the difference between the two rates," Tolan said.

"Basically the carriers tell us they thought (offering artificially low rates through Seattle) was a needless waste of money and they just decided not to do it anymore."

"They're gambling that the slower, less expensive traffic through St. Rupert will keep most of the traffic here (in Seattle) even if it costs a little more," Tolan said.

Virtually all rail freight from east of the Rockies — beer from the Midwest, furniture, appliances, frozen orange juice and steel products, for instance — will be affected by the carriers' decision, Tolan said.

Steve Nerland, vice president of Nerland's Home Furnishings in Anchorage, said his company will try to route all furniture shipments through Prince Rupert rather than pay higher rates via Seattle.

"We don't have any choice but to go through Prince Rupert," said Nerland.

He also expressed some indignation with the general rate increase expected in June and said his company and other members of the Washington-Oregon Shippers Cooperative will protest the rate increases through the association, which gave Sea-Land and TOTE \$2.5 million pounds of business to Alaska last year, according to Nerland.

"If business is down, you can

understand why possibly they need rate increases, but with the projected increase in business, it looks to me like they're just trying to get more money," he said. "What's next? Will there be a further increase? It's kind of a no-win type situation."

Sea-Land and TOTE have raised shipping rates four times in the last 15 months.

After years of fierce competition and heavy financial losses, the shipping steamship and barge-service companies serving Alaska found the tables turning in the second half of 1980, apparently on increased employment and business opportunities in Alaska. Two of the three major carriers report that they've pulled out of the red since then.