Sunday Business

SECTION D

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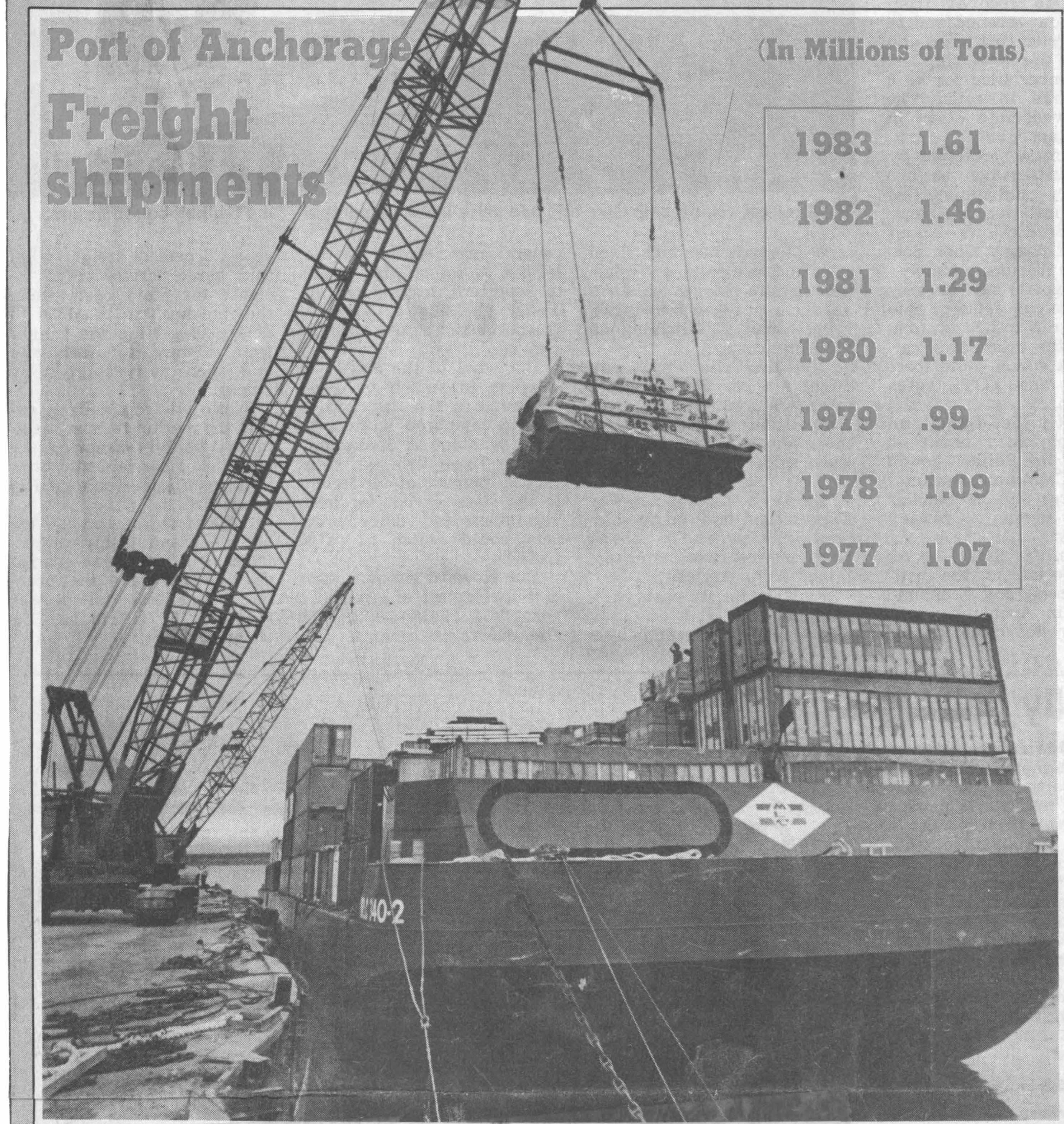

Daily News file photo

Freight shipments from the Port of Seattle rose 17 percent last year; shipping capacity rose 25 percent.

Alaska shippers hear war drums

Freight up; so is competition

By CHUCK KLEESCHULTE
Daily News business reporter

It doesn't take a weather forecaster to predict that Alaska's current shipping industry may be in for rough sailing come spring.

Last year shippers carried 17 percent more freight to the state from the Port of Seattle than they did in 1982, freight shipments from Seattle topping 800,000 metric tons for the first time.

The container and cargo ships did not always sail full. But business was so strong during the peak summer season they sometimes were forced to leave some freight at the dock.

The very success of the industry after some tough post-pipeline years has led to a rapid expansion in the Seattle-Alaska shipping industry.

And that could prompt the shippers to hold down freight rates in the face of increasing competition, some experts say. Lower rates could translate to lower prices for consumers in the 49th state.

"I wouldn't want to say there'll be rate wars, but I do expect a period of extreme competition for freight by all the shippers," said Tom Garside of Crowley Maritime Corp., which carries about 15 percent of Alaska-bound freight.

"It's just like the airlines. When you have too many open seats the competition for passengers gets more spirited," said Garside, vice president for common carrier revenue in Seattle.

Cargo capacity for the shippers has expanded rapidly on several fronts in the last year.

Taken in whole, it adds up to a 25 percent increase in freight capacity to the Alaska Railbelt this year — a year when transportation officials are predicting that freight volumes will rise by just 5 to 8 percent.

The expansion includes:

• Last fall Seattle shipping magnate Peter F. Woeck, attracted by the seeming boom times, announced he was spending $20 million to launch a barge line between Seattle and Seward, called Sea-Way. He started building two giant triple-decked barges capable of carrying 18,000 trailer vans to the state yearly beginning March 21.

• Six months earlier, Canadian National Rail doubled of its Aqua-Train barge-rail capacity to the Railbelt.

• In December, Crowley announced it was putting a second deck on six of its railcar barges. That will allow Crowley's Alaska Hydro-Train to carry 14,600 more vans to Whittier from Seward starting in April.

• Last month Sea-Land Service Co., one of the two container shipping firms with a lock on the Seattle-to-Alaska market, said it would spend well over $100 million during the next two and one-half years to increase its capacity by nearly 50 percent — permitting another 11,400 vans to reach the Port of Anchorage.

The potential oversupply of capacity is expected by some to lead to a renewal of stiff freight competition and rate turmoil,

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Shipping rates could reflect competition

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especially if Sea-Way undercuts the rates of the established cargo lines.

A spokesman for Fred Tolan, a Seattle-based transportation rate expert, says rates should drop in the short-run because of the new competition.

Jack Baker, Sea-Land's executive vice president in Seattle, said it's impossible to predict what will happen. "Historically, however, increases we've taken have not taken hold. You would have to bet there will be some dissipation of rates," Baker said.

But Everett Trout, vice president of operations for container shipper Totem Ocean Trailer Express in Seattle, said it's impossible to predict what will happen to freight rates without knowing what will happen to the state economy.

If major developments like the Sheffield House expansion occur, Trout said, much of new shipping capacity planned for this year may be absorbed, keeping rates from dropping.

"There are no absolute certainties. If freight loads don't increase, and if you believe Adam Smith and in demand curves, an excess of demand could drive down prices," Trout said last week.

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A lack of freight certainly affected freight rates a half dozen years ago.

In the late 1970s, after the boom created by building the $8 billion trans-Alaska oil pipeline, most freight firms averaged no more than 60 percent capacity on runs to the state.

Given the stiff competition between 20-year-old Sea-Land and nine-year-old TOTE for whatever freight they could garner, inflation far outstripped rate increases.

For example, Trout said the tariffs for shipping new cars to the state rose 45 percent from 1976-83, when Seattle prices were rising 99 percent. Although rates for smaller volume shippers generally rose more than rates of their larger competitors, all shipping firms did suffer through lean times.

But the rebound in construction that began in 1981 and may have peaked with Anchorage's record building season last year propelled freight shipments skyward.

Joan Movius, office manager for the Port of Anchorage, said 1.6 million tons of general cargo passed through the port last year, 10 percent more than in 1982 and 62 percent more than the 993,000 tons that reached the port at the depth of the post-pipeline recession in 1979.

Some shippers, however, say they didn't fare that well economically given stiff rate competition.

Although Sea-Land and TOTE got approval to boost freight tariffs 8.5 percent last year, officials of the firms estimate their revenue rose by just 2 to 5 percent due to other tariff reductions, such as those granted to smaller volume shippers.

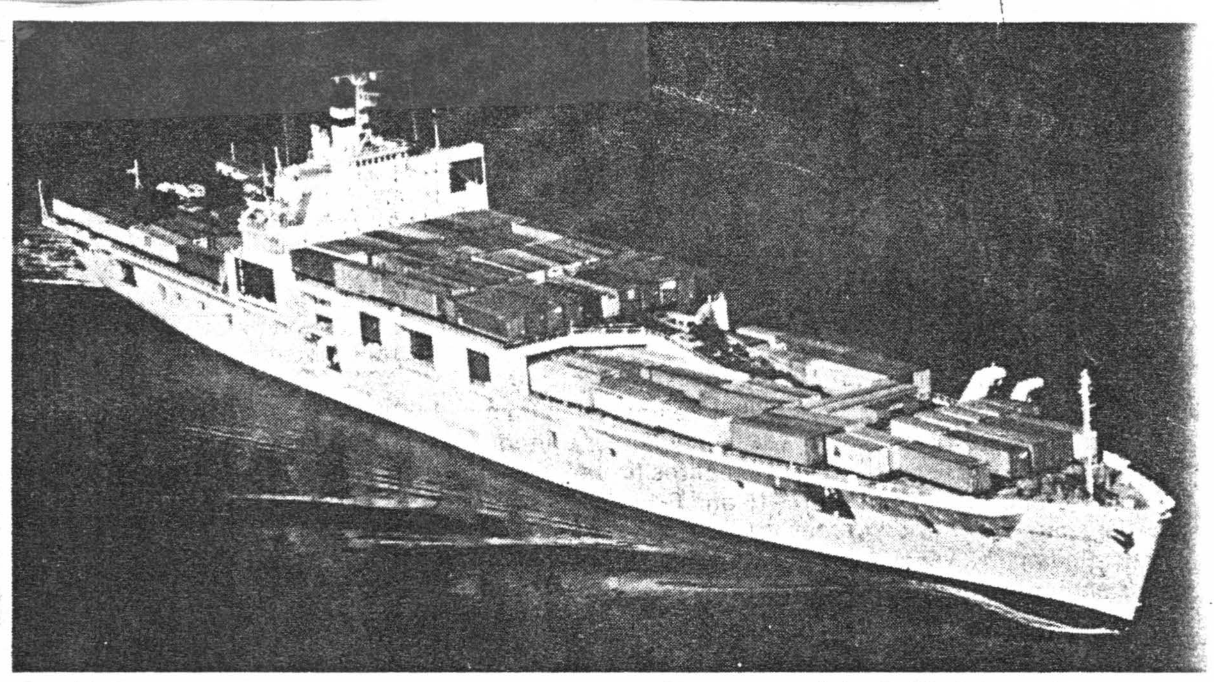
Partly to recover from years of low revenue and to cover expected cost hikes and equipment upgrades, shippers last November filed for an 8 percent hike in rates. The increase went into effect in early January.

The increase, protested by Alaska businessmen as discriminatory and unjustified given the inflation rate, complicate predictions about what will happen when Sea-Way starts its runs in March.

Some experts say Sea-Way will ignore the January rate boost to grab freight customers from the established carriers. That action could force Sea-Land and TOTE rates back down.

Currently Sea-Land and TOTE each carry about 40 percent of the Railbelt-bound freight. Canadian National Rail's barge service handles around 5 percent. Crowley has the rest.

But Phillip Rowe, a research associate for the Institute of Social and Economic Research in Anchorage, said rates may not drop far because shippers face high fixed costs and as a group are reluctant to pare rates much when an oversupply of freight-carrying capacity is driving up their unit costs.



TOTE roll-on, roll-off ships like this one carry about 40 percent of the Railbelt-bound freight.

"In the short-run you might not get the change in rates you would expect from competition just because of the makeup of the market," Rowe said.

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The key to rates is Sea-Way Express and how many shippers will switch to slower barge service, from faster container ship service.

Sea-Way, for its part, isn't talking.

Fred Peil, the company's general manager in Seattle, refuses to return phone calls to reporters, leaving the industry guessing as to what the barge line's rate strategy may be.

But what of the ability of shippers to switch to barge service — a five-day trip to Alaska compared with three days by ship? A spokesman for the Tolan firm estimates that 90 percent of all freight to the state, except for fresh vegetables and dairy products, could switch to barge traffic.

But Howard Acton, owner of Superpretzel of Alaska, a snackfood wholesaler that led the effort to reverse this year's 8 percent freight hike, said barge service could increase inventory costs when the five-day trip is added to delays in getting the freight from Seward to Anchorage and then delivering it by truck.

While all freight firms expect the market to turn chaotic for a period this spring, the established carriers said business conditions won't greatly deteriorate.

"All of us are competitive and we intend to stay competitive. It's the new entrant that should have the problem," said Ross Walker, vice president for CN Rail in Edmonton, Alberta.

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