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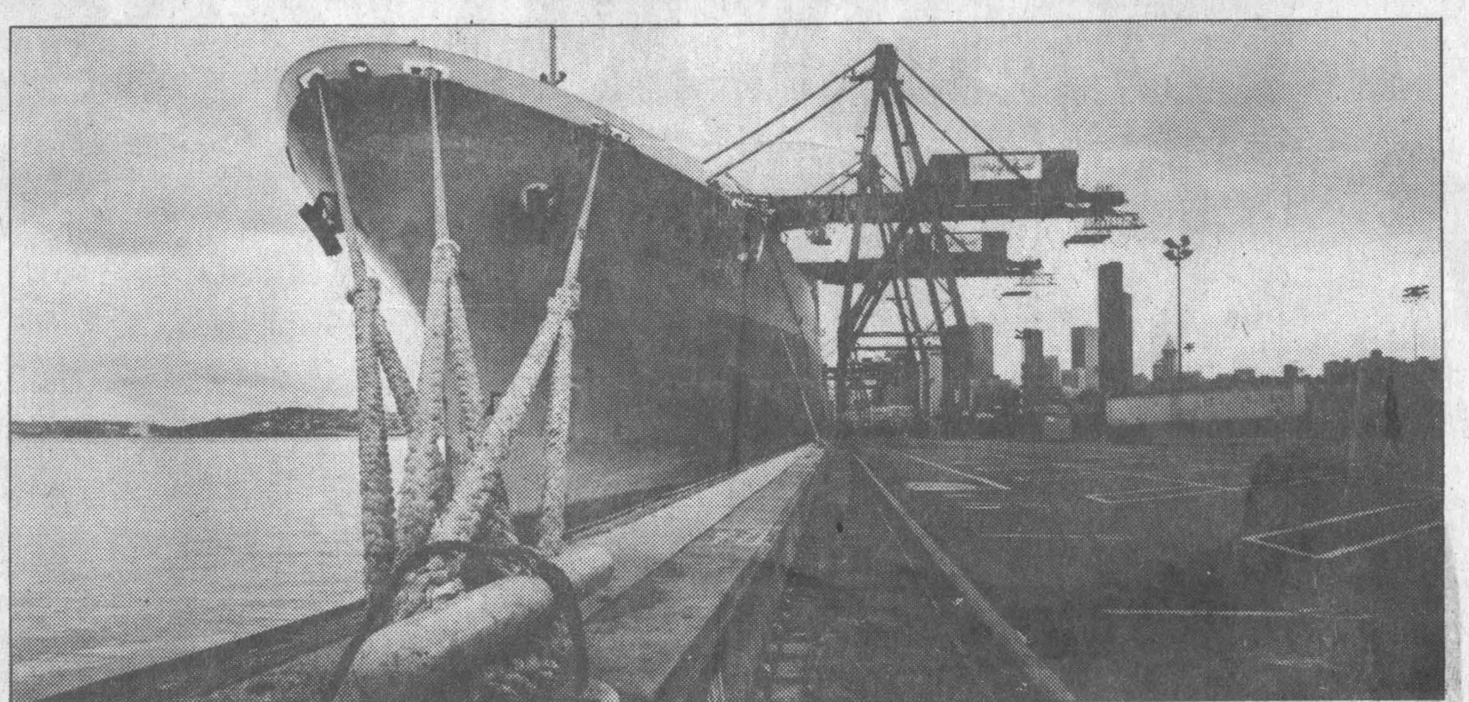
PORTS

Traditional Ways Ebb as a New Wave of Intermodal Cargo Handling Rolls In



JOE KENNEDY and DON KELSEN / Los Angeles Times

Freight containers, top, are stacked aboard the Kauai in the Port of Los Angeles. In Seattle, the Japanese freighter Richmond Bridge unloads cargo. The city's skyline is visible in the background in photo above.

By NANCY YOSHIHARA, *Times Staff Writer*

In the 1954 movie "On the Waterfront," Lee J. Cobb, portraying a corrupt New York longshoremen's union chieftain, summed up the economics of a port in simple terms:

"We got the fattest piers and the fattest harbor in the world," he bellowed. "Everything moves in and out, we take our cut."

Times change, and things are no longer so simple.

Port operations, in fact, are now so complex that a knowledge of economics, computer technology and international relations is necessary to fully understand them.

There is a revolution in progress on the waterfront, drastically changing the economic environment for ports and ship operators. In recent years, the boom in imports from Asia has shifted the big growth in U.S. port trade to the West Coast, and the competition among West Coast ports and shipping lines is bloody.

The ports are being forced to look beyond their traditional role as regional points of entry for imports destined for markets no more than 500 to 1,000 miles away and are becoming gateways for imports bound for consumers east of the Rockies and conduits for Asia-bound exports from the Midwest and East.

To a large extent, this development does away with the ports' old restricted areas of influence and puts them into greatly heightened competition with each other.

"There is very little that absolutely has to go through certain ports these days," said Steven Resnick, director of marketing at the Port of Los Angeles.

As a result, ports are having to make huge investments—in specialized new equipment, and to ensure convenient truck and rail connections for intermodal handling of cargoes.

Deregulation of truck and railroad firms, with its attendant lowering of rates, and major innovations in the railroads' cargo-handling systems are the root causes of the increasing use of land transportation systems for cargo movement.

Previously, cargoes were carried as far as possible by water—through the Panama Canal and up the U.S. central

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river system—because it was cheaper. But now, intense competition among truck and rail companies has made it faster, easier and cheaper to transport cargo overland instead of by water to points east of the Rockies.

The new, sophisticated intermodal systems mark the first major breakthrough in shipping since containerization revolutionized the maritime business beginning in the 1950s.

Containers, which are owned or leased by shipping companies and come in a variety of sizes, are packed once and usually remain intact from point of origin to destination.

Containerization has helped to reduce dramatically labor requirements because the containers easily are handled by mechanized, often automated, systems both aboard ship and ashore.

Today, 75% to 90% of the general cargo that goes through U.S. ports is shipped in containers, according to the American Assn. of Port Authorities in Alexandria, Va. General cargo does not include commodities such as coal, iron ore or grain, which are shipped in bulk, or large items such as automobiles.

Until recently, containers were shipped domestically by truck or rail systems that operated independent of ocean carriers.

But American President Lines, which operates only in the Pacific, began pioneering a new rail transportation concept in 1979 when it leased conventional flat cars to carry containers from ports to the ultimate inland destination of the cargo.

In 1984, APL, which is based in Oakland, also developed a rail car that allows containers to be stacked two high. The cost of shipping containers on such double-stacked trains is said to be about 30% lower than that of moving cargo on conventional trains. APL's success has spawned a host of imitators among shipping and railroad lines.

Rate Competition

Meanwhile, however, ship operators have been involved since 1982 in the most severe rate competition that anyone in the industry can recall. It has helped to keep consumer prices down but is hurting ship operators and accelerating changes in the Pacific maritime business.

The U.S. Shipping Act of 1984, which lifted previous restrictions and allowed ship operators to form "conferences" and make agreements on rate guidelines, gave them virtual immunity from antitrust action. The operators now are permitted to set rate guidelines even for shipments that might be transported partially by land.

However, a ship owner can undercut the agreed rates if he gives other conference members notice of his "independent action." Rate-cutting has hit unprecedented levels during the last year when ship owners, seeing the potential for the continued growth of the Pacific trade, put more containers into operation.

The result: too many containers chasing too few cargoes, forcing additional competitive moves.

Because of the rate competition, it now costs only about $375 to ship a 40-foot container full of lumber from Seattle to Tokyo; in 1982, it cost $1,400. Ronald B. Gottshall, managing director of San Francisco-based Transpacific Westbound Rate Agreement, an association of 16 ship operators, said it now costs more to move a load of lumber from Portland to Seattle than from Portland to Tokyo.

Hapag-Lloyd AG, West Germany's largest steamship line, has pulled out of the transpacific trade because it was losing money, and three other lines—Seawinds, Char Ching and Karlander Kangaroo Line—have gone out of business entirely.

Under pressure from the rate decline, representatives of other major international shipping firms met in Hong Kong in January and agreed on a general rate increase of 10% in April and 15% in September on Pacific freight to and from the United States. It is expected, however, that it will take a number of such increases to bring rates back to profitable levels for ship operators. They say they do not expect relief before 1988 or 1989.

Tradition-Bound

"Traditionally, the steamship industry is tradition-bound, moving slowly and changing only after a number of years," said Resnick of the Port of Los Angeles. "Right now, steamship operators and all the people in the maritime industry are forced to make decisions quickly. They, in turn, put pressure on the ports to make decisions" on how to continue to grow.

Thanks to new technology and computers, ship operators have unprecedented flexibility in scheduling their vessels' voyages. The rate war has accelerated a growing practice among operators of re-

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routing ships to reduce the number of port calls it makes—stopping, perhaps, only at two rather than at all six of the coast's major ports.

"We feel that there will be fewer port calls on the West Coast," said James D. Dwyer, executive director of the Port of Seattle. He believes that "the two primary port [complexes] . . . will be Southern California and the Puget Sound area."

American President Lines, for example, has eliminated regular port calls at San Pedro and Oakland on one route, which now includes a stop only at Seattle on the West Coast, according to Michael E. Uremovich, an APL vice president.

Fewer ships in port means fewer opportunities for tugs, liner handlers, cargo handlers, and for the businesses that provide goods and services to ports. That has an economic impact that reaches well beyond the waterfront.

For example, the ports of Los Angeles and Long Beach together generate more than $10 billion a year in economic activity in Southern California, and about 300,000 jobs are either directly or indirectly related to the two ports.

As ship operators compete, they go shopping for ports, intensifying the competition among the commercial harbors. Land-route alternatives allow ship operators to sell land and sea transportation packages. Thus, they are looking for ports that provide "load centers"—locations from which cargo can be distributed to all points in the United States.

In some cases, it may be cheaper to deliver goods through one port, such as Seattle, and truck them to their ultimate destination in Southern California even through the Los Angeles-Long Beach port complex might be closer, according to M. R. Dinsmore, director of the marine division of the Port of Seattle.

Seattle offers a package of warehousing and trucking services for certain kinds of shipments, which, Dinsmore claims, can cost shippers less than delivering direct through Los Angeles-Long Beach.

An example might be a container packed with a number of small shipments of textile or electronic goods bound for different destinations. Within one day after arriving at the Seattle port, the container is partially unloaded at warehousing facilities operated by the port, where its remaining contents are reloaded onto a truck en route to Southern California.

"It is cheaper and more efficient because we have a network set up to handle smaller shipments," Dinsmore said.

The time of the trip south by road is made up for by the fact that, because of great-circle routing, it takes cargo ships one day less to reach Northwest ports from Asia than it does to get to San Francisco Bay and Southern California.

Crucial to such routing alternatives are state-of-the-art port facilities to ease the transfer of cargoes from ships to trucks and trains. As a result, ports are spending millions of dollars to construct intermodal systems.

The ports of Los Angeles and Long Beach, for example, have joined forces for the first time to build an intermodal transfer facility. It will bring rail facilities within four miles of both ports, making them more competitive in cost and time with other ports. The rail line could not be built any closer because of existing development surrounding the ports.

Truck and rail alternatives give ship operators more leverage in bargaining with ports. Resnick of the Los Angeles port said: "Steamship lines now find themselves in a very strong position vis-a-vis ports. Ports now have to solicit that business very strongly and compete for that business. You have to ensure that a steamship line is very happy and comfortable in your port because it has many opportunities . . . [that it] didn't have five years ago."

One of the most significant signs of increased competition among ports is the relocation of steamship lines from one port to another. "That has real monetary impact on a port," said Anthony E. Shotwell, manager of market research at the Port of Long Beach. "In Long Beach, we've seen a few of our lines move to L.A., in part because we were unable to accommodate their growth. They have more land there."

Not surprisingly, West Coast ports are evolving into aggressive marketers. They are all expected to continue to grow, but Los Angeles, Long Beach and the ports of Seattle and Portland are expected to flourish at the expense of Oakland and San Francisco.

In short, ports are going after each other's business in a way they never have before.

For example, Los Angeles and Long Beach, where imports have been emphasized because of Southern California's huge consumer base, hope to enlarge that side of the trade even further by siphoning off some of the Northwest's business on imports bound for the Midwest and East. And they are out to capture some of Oakland's traditional export business.

Meanwhile, Seattle is undaunted by the Southern California competition. "Not until two years ago did Los Angeles and Long Beach begin to look at Midwest and Eastern business," Dwyer said. "Los Angeles' and Long Beach's success has been by default. They merely followed the growth of population."

Seattle, with a surrounding population of only 3 million, compared to 12 million in the Los Angeles-Long Beach region, has had to be more innovative to survive. It has carved a niche as a transshipment point to the East and was the first West Coast port to build a container terminal. About 80% of all cargo passing through Seattle and Tacoma ends up east of the Rockies.

Seattle also has developed some innovative marketing packages, including an annual $30-million advance payment program that prepays freight charges for small Midwestern shippers who consolidate shipments in containers that go through Seattle's port.

Oakland may stand to lose the most in terms of future growth. With ships cutting back on port calls, and the Northwest and Southern California ports aggressively going after its export business, Oakland is vulnerable.

Already, Seattle officials proudly boast of having wooed away much of Oakland's exports of Tennessee cotton. But Oakland port officials, responding to the new era's heightened competition, say they plan to try to recapture lost business and to seek new shipping by developing warehousing facilities nearby and further developing its regional markets.