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What's In Store for Industry in 2009? Leaders Take A Look At The Year Ahead

By David Murray, Waterways Journal
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Last year brought floods and hurricanes, the closure of the Mississippi River Gulf Outlet, a historic election, and the challenge of new water discharge regulations for the barge industry.

The Mississippi River flooded cornfields and broke through levees, causing uncertainty in grain markets as the U.S. Department of Agriculture made several embarrassing adjustments in grain forecasts.

The prices of steel and scrap skyrocketed to historic highs, then crashed. Oil sank below \$40 a barrel, freezing many drilling projects. Hurricane Gustav battered Baton Rouge, and Hurricane Ike pummeled Galveston.

An oil spill in the Lower Mississippi River shut down shipping, caused billions in losses, provided some wince-worthy moments in a Coast Guard hearing, and triggered a new regime of Coast Guard barge inspections.

On the upside, the first two quarters of the year brought record tonnages and, for some, record profits—as well as high costs for steel and fuel. Many companies continued to renew their barge and towboat fleets. Partnerships between industry and federal agencies were strengthened.

But the bursting of the credit bubble this fall brought the biggest economic meltdown in years—by some measures since 1984's recession, by others since World War II. Like a towboat whose engines have been cut off, the inland waterways economy continued to cruise for awhile, before the larger economy caught up with it.

To round out the year, a 10-year-old court case brought tough new water discharge regulations and increased risk for river companies. Only two things can be predicted with any confidence for the coming year.

It will take some time for the economy to recover. And the federal infrastructure program will provide stimulus and jobs—how many, no one can yet say.

Infrastructure Hopes

Waterways Council Inc. president Cornel Martin appreciates that he began his tenure this past July in the wake of a successful run for his organization.

“Up until about eight years ago, you had several regional organizations making pitches for local projects,” said Martin. “WCI nationalized that effort very effectively. Our No. 1 priority was to spend down the inland waterways trust fund, which we did. Our second priority was, and is, to get new projects authorized. The whole advocacy effort is much more coordinated and effective now,” Martin told the WJ.

Martin hopes for good things from the incoming Obama administration when it comes to badly needed waterways infrastructure funds.

“Remember that as a freshman senator, Sen. Obama was very involved in negotiations over Water Resources Development Act of 2007, a leader in the debate, and an active proponent of projects on the Upper Mississippi and Upper Illinois rivers. I have to believe he is still very aware of those needs and those issues,” he said.

How many waterways project meet the “shovel-ready” definition for infrastructure projects we’ve heard in the media?

“So many waterways projects already have shovels in the ground. They are underway and underfunded. They can be broken down into three categories.

“Let’s take a project like the Lower Mon. It needs about \$450 million and another eight years to complete. Last year it received about \$49 million in funding. Stimulus money can certainly help speed up spending on projects like these that are already ongoing. Instead of a few dozen people working on them, you can have hundreds.

“Then there are the major rehab projects, where the need is clear and no long, front-end design process is needed. The Corps is ready to go on those right now,” Martin said.

“Finally, there are a couple of projects that were already approved in WRDA 2007. They only need to move to construction.” In the coming scramble for stimulus money, Martin said he hopes the public remembers one thing: “There’s no better way for a farmer to get his goods to market than by barge. That’s the message we’ll keep repeating again and again.”

He also firmly believes the environmental advantages of barging are more relevant than ever.

Lockage and Licensing

2008 was an especially busy year for The American Waterways Operators, said Ann Burns, vice president of communications and public

affairs.

Fighting off the Bush administration's lockage fee proposal consumed a lot of time and effort.

"AWO worked closely with the Waterways Council to prevent the Bush administration's proposed lockage fee for the inland waterways from being introduced on Capitol Hill," said Burns.

Licensing and inspection issues were a major focus of the past year.

"AWO worked with the Towing Safety Advisory Committee (TSAC) to provide comments to the Coast Guard's second draft of the proposed towing vessel regulations. AWO also worked with the TSAC subgroup on Economic Analysis to assist the Coast Guard in collecting economic figures and statistics needed to support the agency's economic impact assessment of the forthcoming towing vessel inspection regulations," said Burns.

2008 saw many successes, said Burns. "AWO saw the culmination of part of its several years-long effort to ease the vessel personnel shortage when a 'bridging' rule for allowing individuals currently outside the towing profession to become mates was published by the Coast Guard," Burns said.

"AWO also worked with the Coast Guard to promote widespread implementation of crew endurance management principles, while ensuring a practical approach to crew endurance, work and rest issues.

"AWO began the process, officially completed in January of 2009, of making changes to the Responsible Carrier Program, including the development of a means to provide immediate notification to all our members when a company has failed an RCP audit. "

TWICs And Inspections

Burns noted that incoming President Obama is "a strong supporter of the continued integrity of the Jones Act. AWO will be spending time informing incoming members of Congress and the Obama administration about the connection between the Jones Act and a vibrant domestic maritime industry."

"AWO expects that a Notice of Proposal Rulemaking for a new towing vessel inspection regime will be published in the spring of this year. Analyzing what the proposed rule consists of and providing appropriate and constructive feedback to the Coast Guard during the comment period will be very important to waterways transportation safety," Burns said.

"A main issue will be the implementation of the TWIC program, scheduled for April 15 of this year. AWO will continue working with the Coast Guard to ensure that security at our ports and harbors is assured, while not infringing upon either the ability of mariners to make a living without being over-burdened, or the free flow of commerce

on our waterways.

“Specifically, AWO hopes to eliminate the second trip for mariners to the TWIC enrollment center and to ensure that TWIC card readers are not required on towing vessels.

“A major challenge for the coming year will be working with the Coast Guard to improve its system of licensing mariners so that delays at the National Maritime Center in West Virginia do not cause mariners to be unnecessarily out of work,” Burns said.

Long-Term Approach Needed

Since user fees appear to be dead, how will waterways infrastructure projects be financed? Amy Larson, president of the National Waterways Conference Inc., said, “Industry needs to work with the Administration and the Congress to develop a long-term equitable approach for maintaining our critical waterways.

“Relying solely on annual federal appropriations to maintain these waterways is not a viable approach, nor is expecting the towing industry to bear the ever growing expense of maintaining projects that have exceeded or are nearing their physical life.”

Larson raised another important point. Just when the need for infrastructure spending is acute, the credit meltdown has reduced the ability of local partners to pay their share.

“The credit crisis has undoubtedly caused certain local sponsors to review whether they can proceed as cost sharing partners of critical water resources projects,” Larson said.

“It is too early to determine the magnitude of this problem. However, the new Administration and Congress need to take a serious look at how best to move forward with upgrading this country’s water infrastructure as part of an overall stimulus package, recognizing the challenges being faced by local governments in meeting their cost sharing requirements. As this likely dialogue develops, the NWC is prepared to participate and assist however we can.”

Up And Down With Steel

Sandor Toth, publisher of the respected River Transport News, sees Gulf ports gaining back a share of grain freights in 2009.

“Ocean freight rates have tanked, and that may help barges regain market share. I see the Lower Mississippi poised to regain market share in grain traffic it had lost to the Pacific Northwest over the past two years. Overall grain volumes on the inland waterways could even be up in 2009,” Toth said.

Steel is another story. Toth said the run-up and collapse of steel prices was one of 2008’s biggest stories.

“Overall, the steel industry is a basket case. Weekly output figures for steel right now, if they continue, indicate an output for 2009 of

50 or 60 million tons, when we've been averaging 115 million tons over the past few years. That's quite a drop."

However, the drop in steel prices isn't a straightforward benefit for barge-builders, because scrap prices are also dropping.

"I haven't seen new barge prices come down enough to induce new barge-building [beyond what's already happening]," said Toth. "Low scrap prices will probably persuade some people to hold onto their old barges a bit longer. Prices for plate steel are still relatively strong right now, unlike rolled steel and some other segments."

Grain Volumes Down

Ken Eriksen of Informa Economics agrees that Gulf ports may regain some market share in grain over the coming year. But the increase won't be enough to offset overall declines in grain volumes, he said.

"Pacific and Western ports will be off by 26 percent, Gulf ports by about 20 percent," Eriksen said.

Due to steep declines in America's exports, he sees corn volumes declining by as much as 33 percent, wheat by 20 percent and soybeans by a relatively modest 5 percent. "Overall, grain volumes will be down one-fourth" from 2007—admittedly a record year, he said. He forecast a figure of 3.816 billion bushels for all grain exports. He said grain volumes would be comparable to the 2002-2003 period for crop year 2008-9 (September through August).

Grain inventories are building up as grain processing and livestock feeding companies are slowing overall usage patterns, he said. Fertilizer is sitting in Gulf barges and storage facilities as farmers wait for prices to decline.

"Farmers haven't made up their mind on their acreage mix yet," and this contributes to their delays in ordering fertilizer, Eriksen said.

"We anticipate some positive economic news in the fourth quarter of 2009, when the new crop year starts.

"The Great Lakes might benefit to some extent, to the point that some companies might find it worthwhile to run vessels empty one way to get grain out by that route," Eriksen said.

Hurricanes and Lower Tonnages

2008's busiest man on the inland waterways was, arguably, Raymond Butler, director of the Gulf Intracoastal Canal Association. Butler told the WJ that 2008 "was definitely GICA's busiest year on record."

"Beginning with a whirlwind 30-visit trip to Congress in February, followed by the closure of the MR-GO, the beginning of the New Orleans Hurricane Protection Floodgate Project in April, a major 50 day flood

on the Mississippi River in April and May, the New Orleans oil spill in July, a record GICA Convention in August, the dewatering of the Inner Harbor Lock, and four major hurricanes, things didn't slow down at all," Butler said.

"During all of these events, the price of oil confounded all economic fundamentals for our country—and the barge industry.

"The story of tonnages being moved on the waterway had already begun to tell us that things were beginning to slow during 2007. Reports I get confirm lowering tonnages on the Intracoastal Waterway for 2008 as well, and I'm hearing that they will really begin to drop in the upcoming months of 2009," said Butler.

Butler is especially concerned (with many others) about infrastructure funds.

"We are just barely getting by at our present barge drafts, and our supporting infrastructure is beginning to fail more frequently," he said.