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INLAND TOWING HAS A COMEBACK

By Bruce Johnson

Significant growth in grain exports and a general improvement is U.S. manufacturing are producing a comeback for the inland towing industry, according to industry sources.

Fueled by higher scrap metal prices and greater traffic volumes, the chronic over capacity of inland barge equipment appears to be rapidly coming to an end. In fact, shortage of hopper and tank barges is developing. With competition remaining keen among towing firms, rates still are abnormally low. However, the outlook is for rates to rise as towing companies experience a continued upswing in business activity. A fundamental reason for the comeback is the marked upswing in grain movements, due primarily to the decline in value of the American dollar making exports more salable overseas, and a new Farm Bill and U.S. Department of Agriculture policies encouraging a reduction in federal grain storage inventories.

"Grain exports are up substantially," agreed Tom Vorholt, general manager of dry cargo sales, Ingram Barge Co., Nashville. In terms of tonnage, Gulf Coast exporting of grain was up 24% last year compared with the year before and the USDA forecast is for another 24% increase this year.

"Conditions have improved quite a bit since the low of August ‘86 continuing into the first couple of months of ‘87, said Dave Campbell, VP of marketing for Valley Line Co., St. Louis. "Since then, we’ve seen an upsurge of business." This increase is due not only to greater grain exporting but "general upturn in the economy in the Midwest" generating a steady increase in coal movements and traffic related to the steel industry.

An indication of how much the increased grain movements, in particular, have affected barge inventories can be seen at certain coal transshipment facilities.

"It’s been very difficult for us to put (coal transportation throughout) packages together," said Glenn Emery, VP of marketing for Cleancoal Terminal Co., Philadelphia. "There’s not a lot of barge availability out there." Besides higher scrap prices encouraging a more rapid rate of barge scrapping and a reluctance of barge companies to construct new equipment, there is greater inland towing industry interest in transporting grain because it produces more revenues than coal. "You put the two of those together and that spells a (barge) shortage for coal."

Said a representative (who asked not to be named) of a major coal export outlet on the Gulf Coast: "We’ve had high demand for barges. These first four months (this year) have been very strong as far as export is concerned. Rumor has it that barges are tighter than they have been for some time." He attributed at least part of his company’s coal exporting success to aggressive marketing, backed by tonnage guaranteed transportation commitments made in advance with barge lines to that inland towing capacity is sufficient for the firm’s export customers.

"Generally speaking, every usable barge, whether hopper, dry cargo, or liquid cargo, is out there working," reported John Nichols, president of Mississippi Marine Corp., Greenville, Miss., a non-barge owning towing firm. He said several larger companies, especially those with their own yards, "have initiated some new construction activity," He said "barges are very scarce" in his area. "It's better than it's been for a long time. Barge rates are better." Nichols added that "the boat business is better than it has been since 1982. Some of the older boats have gotten jobs and gone to work." He said this general improvement in towing conditions is due to the number of factors, including greater traffic volumes, smaller boats doing smaller tows because of a desire for faster equipment turn-arounds and barges "slowly feeding back into the system" from repossessed fleets managed by the U.S. Maritime Administration and private lending institutions.

Vorholt, at Nashville based Ingram, reported that barge freight rates are up 25% to 30% southbound to the Gulf, compared with last year at this time, and the northbound rates "are up at least 50%." By comparison, southbound tonnage is up 3% to 5% and northbound tonnage is up about 10%, he said. Rates have gone up more dramatically than tonnage largely because large grain movements this year continued well beyond the usual cessation for the season, he said, noting that this has "put pressure" on the open hopper fleet. With no significant new barge construction since 1981 and a large number of barge retirements since then, "supply and demand in our business is starting to come back into equilibrium," Vorholt reported. Noting that some new barge construction now is beginning to occur, he said "rates are approaching where it's justifiable to build new equipment again." But he noted that inland towing rates still are $3 to $4 a ton below those of the late 1970's.

While barge freight rates are up strongly, towing rate increases have been modest, at best. "A lot more boats are operating now that were tied up before," noted Ron Moore, president of American Barge & Towing Co., St. Louis. Improved market conditions have brought more towboats out of lay-up, he said. "There's not a large excess of barges right now, but there's excess towing capacity to move the barges.

Towing rates "have not increased and are still pretty tight competitively," reported Bill Dyer, president of Tennessee Valley Towing, Paducah, KY, a non-barge owning towing firm. "But the full freight rates look to be up 30% to 35% during the past year. They (these improved rates) will eventually filter down to the tower." In his area, about 30% more towboats are running now that last year at this time. Dyer reported. "There's still a little excess power. But there's no excess barges at all."

Said a representative (who asked not to be named) of an intracoastal towing company based in Texas: "A lot of surplus equipment has either been scrapped or sold foreign. There isn't as much surplus equipment. That helped in the rate structure and the profit picture." Said another unnamed source, representing a barge line in St. Louis, "Earnings per day are up 29% compared with the same period last year. In addition to more commodities moving on the river system, this earnings improvement is a "reflection of less equipment. The fleet is getting older, and there is less equipment to handle the demand."

Observed Keith Gosney, VP of marketing, Merchants Grain & Transportation Inc., St. Louis: "This year has been a lot better than last. We've come a long way here in barge per day earnings." He said typical 1980/81 vintage barge has experienced and "incredibly rapid" rise in charter market value from $45 to $65 a day during the past 18 months. He said he looks for that rate to exceed $100, a point prompting significant orders for new hopper barges, within the next two to three years. "If there’s any increase in grain or, particularly, coal" movements, a shortage of hopper barges is likely.

Campbell, at Valley line, said he has seen charter rates on barges increase from $35 to $40 a day in 1986 to $75 to $80 a day now, depending on term. He noted that typical barge of 1979 or 1980 vintage now is selling for $150,000 to $165,000, compared with $75,000 to $80,000 in 1986.

Gosney observed that there has been a very good market in scrap metal during the past year, which has resulted in numerous idle barges being taken out of inventory. When barge owners were offered only $5,000 scrap value for a barge, they were prone to keep the barge in their lay-up fleet; now, with $10,000 scrap metal bids for a barge, equipment is being scrapped.

Agreed Dryer, at Tennessee Valley Towing: "The barge fleet is shrinking quite dramatically. Barges are being scrapped at four time the price they were five years ago." Up to $18,000 in scrap metal value is now being bid for barges.

Bruce Tilton, manager of transportation for Ashland Oil, Inc., Ashland, KY, said a "very tight" equipment situation now is emerging. "I believe we’re going to be approaching" the need for ordering new tank barges during the next year if market conditions remain favorable. "We see a strengthening in our market" due to a "continuing stable economy and relatively low petroleum prices." These current conditions of steady but not spectacular growth, termed the best since the early 1980’s, should continue, he related. "If the economy stays stable and oil prices stay stable."

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