

or whether they have too much and want to hold up an order in a supplier's warehouse. There are a number of things we can do with it. The key is flexibility and control. This is what we are offering our clients and what third-party logistics is doing for our customers. You must be flexible.

Another part of this is to have the right partners. As a freight forwarder custom house broker, we don't have the huge assets of our own airplanes, ships, trains, trucks. We have partners that do this around the world. Merchandise may not come right into the port. It may be warehoused and consolidated with other cargo, then moved in. It may come into Los Angeles and go back into another warehouse for distribution with other cargo for other areas depending on what the customer wants. It may be sectioned and some may be flown out.

If our partner isn't doing his job, we can go get another partner without being bogged down with his assets. We handle Federal Express. We do all the customs clearance for them. We are their partner. Their cargo is precleared before it ever leaves for its destination. We have 100 people in Anchorage, Alaska, waiting for planes to come in and refuel to take the documentation off those planes and have it up and running by the time the planes get to Memphis for distribution. It took a while to set up the system but we've done it. Again, it is the partner relationship. In order to be efficient you have to have this. It is an integrated management information system that makes it work and we are constantly upgrading our system. We have FIS, the Fritz Information System, with a BASIC program. We go to a client, find out what their needs are, and develop a system for them based on what they want.

In some cases there will be problems, but it is up to us, in third-party logistics, to solve them. We have material management control for all items of purchase. For example, on our defense military contracts everything works off a purchase order, we work on a line-item basis from the original supplier here in the United States all the way to delivery to our clients overseas. It goes both ways. In reference to cost control and savings, most of our clients, like Sears and Penneys, must see some type of savings to justify bringing us in. We use our buying power around the world and our operations around the world to determine what we can tie into not only to keep the cargo moving as fast as possible but also to keep the costs in line.

I want to talk for a few moments about applying third-party logistics to world changes and demands. Kuwait is a crisis where there is no single solution. The Iraqis destroyed the entire infrastructure—all files, all computers, all transportation systems, and all

communications systems.

There are two operational ports in Kuwait that handle general cargo. Shwayka and Shwayba. Shwayka is the largest port and it is closed and will be closed for at least a year. All the equipment in the yard of the ports has been destroyed. Nothing in the port is functional any longer. Every 3-ton crane in the port was damaged and has to be replaced. Kuwaiti Customs now requires ships coming in (except for those bringing relief supplies) have 24 hours to get their cargo off the piers. If it is not off the piers, they put the cargo right back on the ship again and make it sail out. There is no domestic trucking industry left in Kuwait. What trucking there is now comes up from the emirates out of Saudi Arabia and they are charging a fortune for it.

There is no place to store any cargo because all the buildings were hit with cluster bombs. The problem in Kuwait is that they have to start again from scratch. We toured the airport and the ports to look at the basic infrastructure to see how to get cargo delivered all the way through. This is what we are studying right now. The problems we are facing I don't think anyone has faced anywhere else in the world. Even if we had the equipment there, we don't have the labor force.

Conclusion

Third-party logistics and strategic planning go hand in hand. There are a lot of opportunities out there. We see a lot of innovations and improvements coming down the road because of situations like this.

THE REGULATORY ENVIRONMENT

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One of the major issues is the regulatory environment we find ourselves in today. The laws that have been written and rewritten over the last 75 years are really a quagmire. Today's marketplace bears little resemblance to the marketplace for which those laws were enacted. Therefore, it is difficult to follow the letter or the spirit of the laws that were enacted in the early 1900s.

An American flag carrier today finds itself competing in a regulatory environment that allows foreign-flag carriers to have more rights and competitive opportunity than a U.S.-flag carrier. Also, certain U.S.-flag carriers compete on a more equal basis than

others. A U.S.-flag carrier who is receiving subsidy to offset his higher crew costs is precluded without waiver from foreign-flag feeder opportunities, utilization of foreign-flag vessels, contracting with foreign flag vessels, or operating them—almost everything that relates to profitable operation. Thus, he is a second-class citizen to his unsubsidized U.S.-flag brethren and really a third-class citizen to foreigners.

We hear the concept of a level playing field espoused in forums such as this, at conferences, and constantly in the media. But no one really wants a level playing field. Each player in the game is looking for his own strategic advantage. In the past few years, Sea-Land has said on more than one occasion that it desires to obtain a subsidy. Some would support this issue if Sea-Land would accept the regulatory environment that U.S.-flag subsidized carriers operate under and also be willing to divest all domestic and foreign-flag operations. Under today's laws, the level playing field would also require a stand-alone vessel operator with subsidy, no foreign flag vessels, no domestic operations, strict adherence to trade routes, and no affiliated companies operating in any of the above environments. Foreign-flag operators must somehow also be put into this same trick bag if we really want a level playing field.

On the other hand, we could try and seek legislative relief to fix some of these problems. Legislative relief has been sought for over the last decade or two with little or no change except the abolition of some of the most helpful legislation that existed for the U.S. Merchant Marine. What really is the definition of intermodalism? Is it the cooperation between carriers with each mode of transportation being provided by a first-class provider in that mode? Or is it a vertically integrated mega-company with absolute control over cargo movement, routing it from its steamship company to its railroad company to its trucking company, or vice versa? I'd like to coin a phrase and call it a mega-modal company in which basically the ocean carrier is lost inside this mega-company. It becomes sort of a loss leader, so that the other business of the mega-modal operator can profit. Today, we have two companies striving hard to be mega-modal, CSX and Nedlloyd. Also, American President International (API) to a certain degree.

I believe that true intermodalism is the former definition whereby each mode in the transportation chain does what it does best. Vertical integration of domestic segments, blue and brown water segments, logistics, management, and full land segments will in time create mega-modal companies that become ineffective and in the long run disappear. Mega-modalism could turn into monopoly.

A true intermodal move really requires strong partnership between first-class transportation providers in each segment of the transportation chain in lieu of these mega-modal operators. From the shipper-consignee perspective, they are interested in and continually espouse a desire for premier service. At the end of the day, shippers and consignees are looking for the lowest rate, which is not always equal to superior service. In the short run, the mega-modal carrier may produce the lowest cost, but the quality of service will not necessarily be as high as the services offered by the partnerships of first-class carriers in each segment working together to provide an integrated, superior, hopefully seamless, intermodal service.

This may take us back to the level playing field or utopian situation where each transportation mode strives to be the best that it can be and in effect, to provide the best overall service, albeit possibly not the lowest-cost service. What do shippers and consignees want? They want air freight at covered wagon prices.

On the ocean carrier segment and how the playing field is not level, there are many different types of ocean carriers running the gamut from the very small one- or two-ship operators with charter tonnage (or even on the non-vessel-operating common carriers, NVOCC, with no ships at all in the trade) and just slot chartering on others, to the perfectly integrated transportation monopolizers, with each size of operator in between. There are various direct or hidden subsidies that are given to the many operators, officially subsidized or not. There are ocean carriers that are wholly or partly owned by foreign governments who subsidize their operation. There are foreign taxation schemes that subsidize the capital component of vessels. There are vertically and horizontally integrated manufacturing, trading, and shipping companies that strive to maintain low freight rates and use ocean transportation as a loss leader to their other business enterprises. In vertically integrated transportation companies, we have indeterminate subsidies from parent to son or grandson.

These subsidies, directly or indirectly, easily defined or undefined, generally pose no regulatory problem for the ocean carrier providers; however, some require long administrative proceedings and labors because they are precluded from owning and operating foreign flag vessels, providing domestic transportation services, deviating from authorized trade routes or making more than their allowable number of sailings per annum. As I have briefly outlined, each operator has a different set of circumstances and regulatory constraints; the playing field we operate on is less than level—it is in fact quite uneven.

This is the environment. One must plan for no

regulatory or administrative relief because this condition will probably be the environment into the future as it has been for the last 75 years. We at Lykes support and are in favor of a level playing field and state today that we will support Sea-Land's application for subsidy as long as they remove themselves from foreign-flag operations and domestic transportation operations, and live within the rules of the regulatory environment that most remaining U.S.-flag operators have been living with for decades.

Questions & Answers

* Has Lykes considered giving up its subsidy in order to have foreign operations?

It has been considered on several occasions. The decision has not been firmly made.

* How many more years do we have before that decision will be made for you by lack of government action?

Probably months is a better answer than years.

* Do you have a strategic plan for when these months are up as to where Lykes is going to go?

We have been working on waivers for years to operate foreign flag vessels and we are no closer today than we have been. We are finding it very difficult to diversify inside the system.

* If nothing happens with the U.S. Merchant Marine policy, what is going to happen?

Over the last 20 years, we have lost about 20 operators. After I said that, I came up with 16 that have gone out of business in the last 20 years. I think that is what is happening. It is not going to happen to Lykes Brothers Steamship Company, but the flag at the stern of the vessel might be a little different.

RAIL LINKAGES TO SHIP, BARGE, AND TRUCK

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I'd like to talk about intermodalism from a carrier's perspective—in particular, how it affects the maritime

industries. The changes of the last 20 years have been so significant and happened so fast that I don't think it is fair to call it a rapid pace of change. I think it has been more like magic.

A concept that is similar to the concept of mega-modalism is what I call multi-modalism. I think the term intermodal is really too narrow and by the definition of the term may restrict us in thinking about strategy and change over the next 20 years.

It is impossible to be in a discussion about contemporary issues in transportation, especially an internationally oriented discussion, without automatically using the term intermodal to describe much of what is going on. I will focus on three topics.

1. What is this idea of multi-modalism?
2. Who has won so far and why?
3. Some thoughts on how it might evolve in the future.

Intermodal has been defined primarily according to technology. The textbook definition is the transfer of freight from one mode or type of carrier to another. In the 1960s and 1970s, we commonly described intermodal as referring to the movement of highway trailers on railroad flatbed cars, but strictly speaking intermodal really refers to just about every type of transportation movement that any of the carriers are involved in. Virtually every movement we make as inland barge carriers is part of an intermodal movement whether it be grain products that start at a field elevator and move to the water by rail or truck, then by barge, then to another terminal, then to an ocean carrier. Almost all movements are intermodal.

In the 1980s, the term intermodal was expanded to refer to the movement of ocean carriers by rail and then ship or ship and then rail. While this physical definition is perfectly suitable to draw boundaries around what is meant by intermodal transportation, multimodalism is defined more in terms of the customers who are being served than by the service that is being provided.

Service from the shippers' perspective is the set of options that deliver the necessary transportation service from true origin to true destination, from purchase order to invoice. From the shippers' perspective, we are trying to make the movement uni-modal. We don't want the shipper himself to care at all about the intermediate transactions that the carriers perform either as mega-modal independent entities or as a whole group of carriers aligned in sequence together.

The second distinguishing feature, as intermodalism unfolded, was that the roles and responsibilities of the various participants were basically well defined. The rail