Ed Sniffen Summary on the July 2013 Southeast Barge Service Merger
September 4, 2014

Background.

In the Spring of 2013, Lynden approached the Alaska Attorney General about the antitrust issues that could arise if Lynden acquired the assets of Northland Services. Over the course of the following year, we investigated the proposal, which included selling assets that Northland used to provide service in southeast Alaska to Samson. Because the service provided by Northland and Lynden only overlapped in southeast, that was the only market of concern from an antitrust perspective. A copy of the Decree is attached. The Decree was reviewed by our economist, Econ One, and subject to public comment for 60 days before the court approved it in October of 2013. No one objected to the terms of the Decree. The main terms include divestiture of assets and facilities to Samson at favorable terms, discounts on space on Lynden's barges, and a space buy-back agreement in the event Samson decides to run its own barge to southeast. The Decree does not require Samson to run its own barge, although that is an option if Samson determines it would be profitable to do so. Lynden uses some barges that it owns, towed by a third party tug company, and on some routes it leases barge services entirely from a third party.

Current Status.

Both Lynden (operating as AML) and Samson provide barge service for the marine delivery of deck cargo in Juneau. Taking over the southeast market from Northland was a big step for Samson, and the transition has not been without challenges. Samson has worked diligently to overcome several obstacles and continues to streamline its operation to provide competitive service at the best possible rates. Because of favorable space sharing requirements in the Consent Decree, Samson is able to use space on Lynden operated barges at a fraction of the cost to actually run its own barge. This allows Samson to compete freely, without the fixed cost per trip. The arrangement makes economic sense, and does not affect the delivery of cargo. It gives Samson a much better opportunity to effectively compete with AML than if Samson were required to operate its own barges. From the customer's perspective, it makes no difference who actually runs the barge. All that matters is that product is delivered timely and at reasonable prices. In the past, Northland and AML shared space on each other's barges. Nothing in the Consent Decree requires Samson to run its own barge, and we did not contemplate that it would do so immediately. We are hopeful, however, that as Samson becomes more comfortable in its new role, and begins to acquire more market share, that it may decide to run its own barge in the future. The Consent Decree encourages this by requiring AML to lease back a certain amount of unused space on any barge Samson decides to operate.

Samson also utilizes shared space at AML's facility in Juneau. This resulted in huge savings to Samson, and allows them to more effectively and efficiently receive and deliver cargo without spending money to lease space that it does not currently need. If Samson needs to acquire space in the future, the parties have agreed that Samson is able to lease back space currently held by AML. Thus, the ability for Samson to expand has not been hindered.

Some customers may perceive these arrangements as affecting competition; believing Samson is merely acting as an agent of Lynden. This is an inaccurate assumption. It is common in the shipping industry for competitors to share facilities. When the volume simply does not justify separate, competing facilities or vessels , competitors and consumers benefit by maximizing the use of shared resources and minimizing cost. This does not mean that Samson cannot compete with Lynden on price or service. While the cargo may come off the same barge, Samson is able to independently determine how to receive, deliver, and price its service. This is no different than when both AML and Samson move cargo using the State ferry, but have their own rates and service offerings.

One of the impacts from the transaction that has been felt by some Juneau businesses is the elimination of "any quantity" (AQ) contracts. These contracts were maintained by Northland, and essentially provided that a customer could ship any quantity of goods for the same rate. Thus, a customer could ship a carton of Styrofoam cups or a whole container of cups, and the price per pound would be the same. The result of these AQ contracts was that Samson was spending thousands of dollars to deliver a mostly empty container that resulted in only a few hundred dollars of revenue. The economics of these AQ contracts was simply not sustainable, and both Samson and AML have implemented minimum quantities for its cargo deliveries. This has caused rates for some customers to increase. Although Northland delivered cargo under these AQ contract terms, our analysis indicates that it was not something that could be maintained over time (i.e., it was not profitable). Customers have the ability to mitigate (or at least partially mitigate) the loss of AQ rates by consolidating shipments and trying to schedule inventory more carefully.

Outlook Going Forward.

As a whole, barge cargo shipping rates to southeast Alaska are very reasonable. Rates are less than shipping to Anchorage, for example. And for some package barge rates are lower than alternatives like UPS or U.S. Mail. Although a few customers have experienced some rate increases, the overwhelming majority of cargo continues to be delivered at the same, reasonable rates that were in place before the merger. Samson remains a viable competitor, and we hope it will continue to grow, refine its operation, and improve its service as it moves into its new role. It is difficult to determine if Samson will ultimately become a successful and sustainable competitor in this market. If Samson fails, the Consent Decree provides that AML will take over Samson's customers, and freeze its rates (subject to CPI and fuel surcharge adjustments) for 36 months, or until a new competitor can be found to enter this market.