Moving right along

Intermodal bottlenecks

BY THEODORE PRINCE

Recently, many import customers have expressed fears that the impending peak shipping season will be a reprise of last year’s failed one.

Unfortunately, the intense focus on Union Pacific railroad’s problems has given rise to a common judgment, mistakenly I believe, that all the current problems originate at UP.

The country does not have a railroad problem. We have an intermodal problem.

As an industry, we too often seek suboptimal solutions. We try to improve individual components without resolving the overall industry problems.

Intermodal is a process that requires efficient service and smooth integration of all its separate parts.

The search for seamless service seems to have been forgotten. If we don’t start working on systematic solutions, we will continue to be plagued by the same problems.

That said, let’s begin to address the problems. I would separate them into three categories: general economic, ocean and inland.

Microeconomic issues plague the ocean shipping business. Vessel supply, or capacity, is greater than demand because of new vessel construction and deployment.

It is natural for rates to fall in such a market, and problems have been exacerbated by the host of post-Panamax vessels that have come on line in the past 18 months. These vessels also impose a burden heretofore unknown in this country — the deadly combination of cost increases and revenue reductions.

Macroeconomic issues are also a problem. The Asian flu is causing an import-export imbalance, which is taxing the capabilities of ocean carriers.

In fact, this summer may see shipping lines sailing empty from Asia because of a lack of empty equipment. Export rates continue to drop — even faster and more dramatically than the recent $300 general rate increase for import traffic.

Ocean carriers are in increasingly weaker financial condition. The $300 rate increase, even if it survives intact for a full year, will make only a small dent in the accumulated deficits experienced by liner shipping companies during the past two years.

Due to these mounting losses, lines may well be unable, or unwilling, to adequately serve their customers.

There are other issues as well. The ports of Los Angeles and Long Beach have turned from golden funnels of international commerce into leaden bottlenecks. Their structural defects are many, yet action to solve them does not appear to be forthcoming. Unfortunately, the desire to obtain space has produced long-term commitments from the lines, and other ports are not an option.

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Throughout the West Coast, most ports are merely landlords. As long as the long-term real estate leases keep paying, and the bondholders receive their interest payments, port management will maintain a positive attitude and hope for the best.

On-dock rail, the intended panacea for West Coast intermodal, needs tough review. In many cases, draying containers off-dock is cheaper and faster than sticking with on-dock. On-dock loading meets many service problems before departing on its transcontinental railroad journey. On-dock solutions are complicated and require much more than financial investment alone.

The issue of labor cannot be ignored, either. Without adequate, sufficiently trained labor, nothing will move. The International Longshore and Warehouse Union is confronted by a crisis of leadership, and the international union is unable to control its local unions.

Management is no better. Pacific Maritime Association leaders are unable to generate any significant initiatives for fear of reprisal by individual members. Furthermore, the members with the most votes are often a silent majority in contract deliberations.

As for inland transportation issues, the Union Pacific has been portrayed as the sole villain in this drama. If it were only so simple. Certainly UP has not integrated Southern Pacific Railroad into its network as it said it would. Without doubt, UP has contributed to service problems and, unfortunately, has withdrawn publicly and allowed the portrayal of its problems to be controlled by others. UP’s silence has convinced many shippers that the railroad is the only problem standing between them and peak season success.

The split of Conrail will be critical. However, even now the uncertainties are great. Such a transaction is unprecedented. Although it is referred to as a merger, vixification may be a more appropriate word. Norfolk Southern and CSX have been very thorough in their preparation, but the proof will be in the actual results.

In addition to operational issues, cultural problems may be a risk as well. Time will tell if the Conrail division will generate the aggressive intermodal benefits its buyers are promising.

All in all, there are many obstacles facing shippers this peak season.

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