Moving right along

Railroads: Focus on intermodal

BY THEODORE PRINCE

Recently, relationships between railroads and their customers have been subjected to considerable scrutiny. The Surface Transportation Board and Congress have initiated much of this review, but intermodal transportation has not yet been a big part of the discussion.

The reason is clear: intermodal does not have a strong advocate in Washington. The leading senators, from both sides of the aisle, all represent traditional carload commodities. Consider: Kay Bailey Hutchison of Texas (chemicals and resins), Jay Rockefeller of West Virginia (coal), Conrad Burns and Byron Dorgan of North Dakota (grain).

Ed Emmet, representing the shippers' voice as president of the National Industrial Transportation League, has a board of directors that includes only a handful of primary intermodal shippers. While many of his members use intermodal, they are consumed by their carload service problems.

The Intermodal Association of North America is constrained from challenging railroads because the railroads are members of the association. The few large intermodal shippers who actually have a Washington presence are focused on other legislative issues (e.g., ocean shipping reform, open skies, truck limits, etc.)

Where, then, is the rail industry? Let's start in the East. The "Conrail Transaction," as the impending division of Conrail has come to be called, is a transaction without recent precedent. Perhaps vixenization — rather than merger or transaction — is a better description.

Norfolk Southern and CSX seek to divide a functioning entity into two pieces, and to absorb their portions into their systems. Certainly, there are benefits: single-line intermodal service and rail-to-rail competition will exist where today there is none. Better competition with trucks will now be possible, and the new product should divert a significant amount of truck traffic.

Today, Conrail's intermodal network is a high-capacity, high-service network. This network will be dismantled. There will no longer be a unified premium network serving the Northeast — it will have been divided. CSX and NS will need to enhance their networks to replicate what is being lost. It may be several years before the physical plant of either railroad will resemble Conrail.

Both railroads seem committed to making the necessary network capacity commitments. However, intermodal requires both line-haul and terminal capacity. But initial intermodal profitability will be hampered because each railroad may have to maintain about 75% of the Conrail trains to support 50% of the Conrail volume.

All this takes place simultaneously with a terminal paradigm shift. The Conrail intermodal product was terminal-driven line haul, that is, terminals were chosen in lieu of line-haul routes. (A good example is United Parcel Service's New Jersey traffic. UPS relies on the North Bergen facility, and uses the River Line for trains to/from Chicago.) The new system will have line-haul driven terminals. Customers will now choose line-haul options (e.g., routes) and terminals will be a byproduct.

The situation with the Western railroads is also fascinating. Union Pacific is clearly playing capacity catch-up. Not only is there a capacity shortfall with the acquired Southern Pacific, but with the former UP as well. At the same time, UP is trying to combat customer defections.

The UP/SP operating plan outlined many network advantages for intermodal. The infrastructure changes necessary to accommodate these improvements are under way — some are even completed. However, after the traffic diversions there may not be the network density that was envisioned to support these improved services.

Burlington Northern Santa Fe has emerged the major winner from the UP problems, but it seems to have adopted the Conrail intermodal philosophy from the 1960s: "It's our way — the highway."

Defecting customers from UP have often been presented with "take it or leave it" proposals. Multifaceted contracts have been de rigueur. Certainly, BNSF has aggressively invested in infrastructure and capacity, and it should be allowed to enjoy the benefits of their foresight. Nevertheless, two questions remain. First, will BNSF be able to handle the avalanche of UP defections without seeing a decline in service quality? Second, when UP improves, will the defecting customers regret their move if they are chafing under BNSF indifference?

Finally, a word about the North American Free Trade Agreement and railroads. Canadian National and Canadian Pacific are working hard to retain and attract intermodal business. Their service has improved and their rates have become competitive. Canadian port calls are more of an option all the time for steamship lines. Both railroads see themselves as North American carriers and have taken steps to increase their scope and scale. In some corridors, they can begin to think about offering an alternative to American railroads.

Unfortunately, the split-up of Mexico's FNM railroad does not bode well for intermodal. The new franchises in Mexico seem intent on pricing intermodal at a level that will divert the business to truck or all-water. The issues facing railroads today are serious. Let's hope they can resolve the immediate issues and address intermodal too.

Theodore Prince, a transportation consultant, was senior vice president and chief operating officer of "K" Line America.