Intermodal — a keeper?

Third, railroads finally reduced crew size from five to two. The final step of this reduction was Presidential Emergency Board 219.

Under this agreement, displaced excess workers were guaranteed a portion of their salary. Railroads had their cost savings, but they also had a significant incentive to grow business.

Into this opportunity stepped intermodal. As international traffic grew at a great rate, a large part of the volume growth came from steamship lines.

Traditional domestic customers increased their volume, and major new customers entered as well. It was a win-win situation for everyone. Railroads filled excess capacity and intermodal customers enjoyed reliable and cost-effective service.

Everything went well until the summer of 1993. The weather that summer caused terrible service problems. As an industry, we missed the wakeup call. We were too eager to attribute the problems to a fluke weather condition, not recognizing that capacity utilization was nearing maximum.

Since then, additional externalities have affected the industry — more weather problems, macroeconomic problems, mergers. The excess capacity is gone. Now, investment is required. Can intermodal justify the investment necessary to support further growth?

The Railroad-Shopper Transportation Advisory Committee thinks not. It believes the rates of return on intermodal are less than available rates of return from other lines of business. This is because railroad intermodal rates are constrained by truckload rates.

Although railroads are investing significant amounts of capital, it is not enough — especially to handle peak demand, which is the nature of the transportation business.

When viewed along with the well-publicized problems of UP and other railroads, perhaps the RSTAC’s viewpoint should be considered. But I think not.

First, intermodal is one of the few commodities that promise growth to the railroads. They cannot turn their back on it. Although coal and grain may be more profitable, they are also too dependent on weather and international economic issues.

Second, no other option exists. There is already a shortage of truck drivers today. And there are also serious congestion problems on the national highway system. A widespread diversion of intermodal cargo to highway is simply not possible.

Railroads face a conundrum. There are probably two or three dollars in worthy project requests for every available dollar of capital. If allocation goes strictly according to return on investment, intermodal could well be shut out.

Public-private investment in intermodal terminals is one way to provide needed capital. However, there have already been several cases of ill-advised intermodal terminal projects — some built by the railroad, some private, some public.

Constructive dialogue like that begun in Dallas is the answer.

Information sharing between partners and cooperative ventures will allow intermodal continued growth and will provide an opportunity for continued infrastructure investment.

Theodore Prince (TedPrince@aol.com) is a transportation consultant based in Richmond, Va. He writes a weekly column for The Journal of Commerce.