International and intermodal

As the intermodal leaders gather in Atlanta this week, some would have in mind the anniversary in the transportation industry that occurs Monday.

On April 26, 1956, the Ideal X sailed from Port Elizabeth, N.J., to Houston, marking the beginning of containerization as we know it today. Ranking beside the development of the diesel engine and the invention of the airplane, containerization represents one of the most significant transportation innovations of this century.

The significance of that fateful sailing may well extend beyond transportation. Although the Vietnam war, persuaded it to opt for Asia — considered at the time to be receptive to American business.

The subsequent e-goods revolution in Asia could only have been accomplished by a reliable and cost-effective transportation solution. Containerization and intermodal were key components of the subsequent Asian economic miracle.

The development of the dou-

ble stack train in the early 1980s represented another significant technological break-

through that provided faster transit with reduced transportation expense, and it served as an important force in the import boom that started the U.S. economy emerged from the early 1980s recession.

This traffic boom, in turn, helped the railroads as they struggled to right-size themselves after railroad deregulation. Intermodal, in general, and international, specifically, were the fastest growing traffic sectors for the railroad. Railroads became used to continued annual growth, while steamship lines expected continued cost reductions from more volume.

The intermodal industry now faces a “Catch-22” scenario. Continued growth depends on service restoration and improvement requiring investment. But railroads are confronted by so many demands for capital that it is difficult to justify spending scarce resources on a commodity that does not demonstrate robust return on investment.

International intermodal cargo may be one of the early railroad traffic casualties. First, there exists dramatic disagreement on rate direction. Railroads want to raise their margins. Steamship lines, hemorrhaging money, want the railroads to join them in a commercial version of Russian roulette, and to reduce rates to help the lines in their time of need. To date, the railroads have been resolute in refusing the invitation.

The cachet of intermodal cargo is losing its luster. Conference lines used to justify their premium over independent line rates by citing a service difference. One example of their difference was the providing of intermodal service, not just port-to-port service. Today that service difference is gone, and many independents offer better service than some of their conference line competitors.

In truth, the conferences themselves are gone too. Lines are left with entrenched rate structure that left West Coast rate levels high and intermodal rates low — when compared with the additional inland delivery expense.

Lines feel somewhat mistakenly, that intermodal rates must rise, so the marginal cost will be recovered by the marginal revenue. But without a conference structure to enforce rigidity, West Coast rates may fall to their proper level. This would increase the intermodal spread, yet leave those inland rates the same.

We are not likely to see a widespread return to transloading, which, was common before double-stack trains made intact inland movement the norm. There simply isn’t enough capacity, unless a remarkable renaissance of boxcar moves occurs.

International and intermodal have been together for many years. As we all convene at the Expo, we might devote a few discussions to an exploration of how intermodal’s role can continue, not only for our industries, but for our country’s economy as well.

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