Intermodal and the railroad renaissance

Next week the International Intermodal Expo will be held in Atlanta. The event, which comes at an interesting moment in industry history, looks like it will reflect the changes currently under way in the industry.

The Intermodal Expo was first held in 1984. At that time, intermodal was emerging as a robust growth engine for the railroad industry. The Expo provided an opportunity to display technology, discuss new ideas and generally promote intermodal transportation.

Back then, the railroads threw their full support behind intermodal and the Expo.

The decade of 1985 through 1994 has been labeled the railroad renaissance. Railroads were unburdened of regulatory oversight in 1980 by the Staggers Act. They worked to bring capacity supply and demand for service into closer equilibrium. Supply was reduced as railroads were granted greater leniency to shed marginal assets, such as branch lines.

Railroads lowered expenses, most notably by reducing crew size from five to two. Presidential Emergency Board 219 displaced excess workers, who were guaranteed a portion of their salary.

Railroads achieved cost savings, but they also had a significant incentive to grow business.

Railroads had to grow demand. Deregulation had allowed them to negotiate contracts with customers, rather than through the Interstate Commerce Commission. Into this opportunity stepped intermodal.

As international traffic rapidly increased, a large part of volume growth came from steamship lines. Traditional domestic customers increased their volume, while major, new customers joined the market. It was a win-win situation. Railroads filled excess capacity and intermodal customers enjoyed reliable and cost-effective service.

Over the years, intermodal technology and new business — and the Expo — grew together. Double-stack containers came first, followed by domestic containerization and now e-commerce.

Over the years, intense debates raged about proper technology. Could RoadRail succeed? Should double-stack cars be bulk-head or inter-box-connector?

Could domestic containers replicate the 110-inch door opening of highway trailers? Should domestic containers use the pin or the wedge?

Then came the summer of 1993 — when the weather caused catastrophic service problems. As an industry, we missed the wake up call. We were too eager to attribute the problems we suddenly faced to a fluke weather condition, not recognizing that capacity utilization was nearing maximum.

Since then, additional externalities have impacted the industry (and provided excuses for poor performance) — more weather problems, macroeconomic problems, and three major mergers, with a fourth pending. Excess capacity is gone.

Now investment is required. But can intermodal justify the investment necessary to support further growth?

The conventional wisdom is that it must, for two reasons.

First, railroads need intermodal because it is one of the few commodities promising growth. Although coal and grain may be more profitable, they are also too dependent on weather and international economic issues.

Second, there is the rationale that society needs intermodal because there already exists a shortage of truck drivers, accompanied by serious congestion problems on our national highway system.

But I think we are misreading the marketplace. Consider three traffic statistics over the past decade:

Rail intermodal traffic is up by over 50%. This is often cited as proof of the growing role of this traffic. Before we strain ourselves patting our own back, we should also consider that containers now outnumber trailers.

Yes, some of this is the growth of domestic containerization, but I think it also relates to the third factor: International container traffic has more than doubled in the same decade.

Most of intermodal's growth seems to have been the result of steamship line traffic — and the associated domestic repositioning of containers. Certainly there have been success stories with motor carriers, but these cases are limited to certain railroads in specific markets. They do not represent an industrywide solution.

What does the steamship segment look like? First, it is a low-cost, generally low-service business. It can absorb the vagaries of rail service. One- or two-day delays (on the water) are already common to these customers.

Next, it is an east-west, long-haul product that easily adapts to the existing rail networks in North America. Most movements are at least 750 miles. North-south movements, and hauls of fewer than 500 miles, are notably absent — and left to the truckload carrier market.

Finally, international business comes with its own assets. Containers and chassis are supplied by the steamship line. Terminal facilities, at least in the crowded West Coast and Northeast, are supplied by ports. Inland storage is often provided by third-party operators. Railroads need only hook and haul, and provide inland ramping and deramping.

International trade is essential to our economy. Rail intermodal has been a critical component of its growth, but this is a market entirely separate from that which is served by trucks.

For intermodal really to grow, it must develop a product competitive with trucks. I hope these concerns come up next week at the Expo.

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