Reaching for a railroad renaissance

Recent encounters with China and other nations have reminded many U.S. public policy experts of the not-so-distant past when the United States and the former Soviet Union were engaged in the Cold War. While the origins of this conflict were numerous, the issues seemed to be synthesized and articulated in one memorable speech on March 5, 1946. On that day, Winston Churchill received an honorary degree from Westminster College in Fulton, Mo. There, Churchill introduced the phrase “iron curtain” to describe the division between the western powers and the area controlled by the Soviet Union.

Today, some consider the relationship between railroads and their customers to have deteriorated into a situation resembling the Cold War. In the future, transportation historians may point to a speech almost 45 years after Churchill’s as a critical point in the resolution of this conflict.

On March 1, Ed Emmett, President of the National Industrial Transportation League addressed the Traffic Club of New York. In an address containing references ranging from Erma Bombeck to Jerry Garcia, Emmett outlined the changes brought upon our country, as a result of an encroaching global economy.

Transportation, Emmett asserted, will resemble the economy and become multinational. Intermodal freight will become increasingly common, with air freight being the fastest growing mode. Ports will be rationalized. And, while motor carriers will continue to be the predominant transport mode, motor transportation will continue to be constrained by congestion, driver shortages and size and weight restrictions. Emmett summed up the future by observing, “If the U.S. economy is going to continue its amazing growth, there needs to be a renaissance of the North American railroad industry.”

Emmett’s challenge is certain to generate lively discussion. The NIT League hired the firm of Barbour Griffith & Rogers to lobby for passage of rail reform legislation. In the meantime, most talk centers around railroad mergers. The U.S. Surface Transportation Board is expected this month to issue rules governing major rail consolidation procedures — the outcome of a process which began with the attempted merger of the Burlington Northern Santa Fe and Canadian National. These STB proposals were first circulated last year and generated opposition from all sides.

Railroads fear the STB firmly believes that further mergers would harm competition and could not be remedied without imposing structural changes. Such actions would go far beyond addressing anticompetitive impacts of a proposed merger. In addition, the STB would assess efficiencies of mergers. The rail industry position is to allow the market to encourage competition and innovation — without having the STB micromanaging transactions.

Shippers countered that by requesting increased pressure for rail-to-rail competition. They are also requesting that merger benefit claims be backed with financial compensation in the event that implementation does not go according to plan. To verify merger benefits, detailed transit time tracking (both before and after) was proposed as a condition for merger approval. Perhaps recognizing that justice delayed is justice denied, many rail customers have called for expedited dispute resolution methods.

Diane Duff, executive director of the Alliance for Rail Competition recently commented on the railroad merger situation by focusing on the plight of the captive shipper. Duff maintained that railroads rely on monopoly power over these customers (whose numbers are increasing as a result of industry consolidation) as a form of corporate welfare which is necessary to support financially weak companies — “in spite of the fact that any current financial frailties can be laid largely at the doorstep of poorly structured mergers and an unresponsiveness to customer needs.”

Emmett recognized this problem and noted that calls for competition cannot hide a desire for lower rates. Reform is not transfer of wealth. Furthermore, external changes (i.e., clean air regulations and development of new agricultural export sources) dictate that coal and export grain cannot be counted upon to be perpetual cash cows.

Some individuals advocate a look at alternative business models. The Internet is often cited as an example of an independent group of consumers and producers who trust free markets more than they do government, and have successfully prevented initiatives such as imposing sales tax. Yet, Internet player Amazon.com admitted to a policy of “dynamic pricing,” whereby customers who were perceived to have greater resources were charged higher prices than other customers for identical products. When the practice was disclosed, apologies and refunds resulted.

While pricing is important, the growth of supply chain management places increased importance on reliability, and therefore, additional focus on the railroad industry’s infrastructure. Railroads are probably the most complicated of the asset-based network-operating transportation carriers. The challenges are many. Traffic growth puts demands on a network which has mostly decreased in scope. For 20 years, railroads shed assets in an effort to bring supply and demand into equilibrium. In some cases more demand now exists than does capacity available to serve it. Additionally, the freight capacity shortage is to some extent exacerbated by a renewed demand for passenger services. (Railroads are being called upon to cooperate more with Amtrak and commuter rail authorities.)

The most pressing government concern may be supporting a possible rail renaissance — or revitalization. Many industry participants believe that public-private investment is a practical strategy to ensure capacity for industry growth. Such a plan implies government involvement on almost all levels and would most likely result in a major change in perception of the railroads, by themselves and others. But to guarantee an adequate transportation system in the future, big underlying changes seem necessary.

Emmett called the railroad industry effort “the most important legislative/regulatory effort in the league’s 94-year history.” This is quite a statement from an organization — and its leader — which waged a five-year battle finally to deregulate ocean shipping. Many shipping companies believed that the Ocean Shipping Reform Act would never pass — only to have change forced on them after failing to come to the discussion table. Two years later, the impact of this legislation is slowly taking shape — and its size may surprise some industry onlookers. It seems apparent to many that the June 11 ruling by the STB will only be the beginning for the railroad industry.

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