Fuelish outcomes

On March 5, President Bush declared that the U.S. has to “get off oil” to reduce dependence on foreign suppliers, and that “it should be obvious” that high demand is creating painful gasoline prices. On the same day, OPEC rejected the president’s contention that oil supplies were inadequate, and said “mismanagement of the American economy” was the major factor driving prices up.

This is a far cry from 2000, when then-presidential candidate Bush criticized the Clinton administration by stating “there is no plan in Washington to increase the supply of crude oil or natural gas” and that “there is no national energy plan.” Then, supporters of the Bush-Cheney ticket were quick to point out their petroleum industry bona fides.

Today, the three remaining candidates for president seem to view carbon caps and greenhouse gas limitations as a fait accompli — although the devil is certainly in the details. Many people have come to acknowledge Thomas Friedman’s claim that the war on terror is the first war in American history where American taxpayers are funding both sides.

The long-term implications of fuel for the U.S. transportation industry are significant. However, closer than the strategic horizon is the present. The U.S. transportation industry is the world’s largest consumer of petroleum, and across all sectors of transportation, modes are struggling.

Trucking is the most obviously impacted. A according to the American Trucking Associations, fuel has now surpassed labor as truckers’ largest expense category. The impact of fuel is highly leveraged: Every one-cent rise in the price of diesel results in $391 million in increased annual expense. With diesel prices pushing $4 a gallon, the ATA believes diesel fuel expense will increase by more than $22 billion this year.

On March 19, ATA President Bill Graves requested that Energy Secretary Samuel Bodman suspend filling the Strategic Petroleum Reserve. To illustrate the rapid growth of the problem, less than a week later, Graves wrote President Bush to release from the reserve.

Although the overall fuel expense for trucking is nearly three times that of the airline industry, some financial observers believe the impact on airlines could be even more traumatic. According to the Air Transport Association, U.S. airlines could be paying $20 billion more for fuel in 2008.

The outlook for the airline industry is not sanguine. Most airlines are cutting service, grounding planes and laying off employees. Mergers are being considered as a means of self-preservation.

Many industry observers fear that ATA Airlines could become a leading example of decline. That carrier has been shrinking since entering bankruptcy protection in 2004. It has eliminated all scheduled flights except some Hawaiian routes, and will concentrate on charter operations — where it believes that fuel costs are more fully recovered.

Ocean carriers face a similar challenge. Last November, the Transpacific Stabilization Agreement implemented measures seeking fuller recovery of fuel costs. The industry was caught short because large portions of import volume were moving under service contracts that did not provide for recovery of rapidly increasing fuel expense. Not only do liner operators need to deal with fuel’s impact on their vessel-operating expenses, but they also must deal with the impact of fuel surcharges imposed on their purchased transportation expense for rail and truck.

While fuel’s impact has the financial industry concerned about the ongoing nature of certain truck, ocean and air carriers, there is no such concern about railroads beyond the immediate impact on profitability. There are concerns about product mix: Will clean air lessen demand for coal? Will ethanol prove to be a passing fad? Can intermodal penetrate shorter (and more plentiful) lengths of haul?

Perhaps the larger concern for rail is whether shipper outrage about fuel surcharges will morph into a potent re-regulation threat. Airlines and air forwarders are under federal investigation about price fixing fuel surcharges — railroads “only lost” a Surface Transportation Board decision. However, the STB excluded contracts and exempt commodities that represent the majority of rail traffic.

Today’s transportation and energy policies are inextricably linked with economics, environmental concerns and international politics. Our industry will survive today’s challenges, but we need long-term solutions that transcend sound bites and address a complicated morass of issues.

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