n the preface to his 1996 book, “Only the Paranoid Survive,” then-CEO of Intel Andy Grove reflected on the book’s title: “I have no idea when I first said this, but the fact remains that, when it comes to business, I believe in the value of paranoia. Business success contains the seeds of its own destruction. The more successful you are, the more people want a chunk of your business and then another chunk and then another until there is nothing left.”

Grove’s business outlook could certainly apply to the current trans-Pacific service contract negotiations. While negotiations are always fraught with uncertainty, high stakes and another until there is nothing left.”

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 decides to concentrate its two vessel strings on the West Coast, and use rail to serve the East Coast.

The wisdom of this decision was not clear for nearly 10 years. In the interim, APL and United States Lines battled for commercial supremacy using different strategies: intermodal and all-water, respectively. It was only after the advent of stacktrains and the bankruptcy of U.S. Lines that rail intermodal became the preferred method.

This “victory” lasted for less than 20 years. Following the passage of the Ocean Shipping Reform Act in 1998, conferences disappeared and confidential contracting became the norm. No longer constrained by artificial pricing barriers on East Coast services, carriers began to offer all-water routings. West Coast labor problems, rail service problems and increased intermodal expense all encouraged this routing.

Today’s oil prices are obliterating the established wisdom. Many experts view as unsustainable the traditional, intact intermodal option. Not only have lines been unable to keep up with escalating base rail rates, but railroads also are imposing fuel surcharges of 30 percent. While certain markets might support such price levels (i.e., Chicago, which can reload every empty import container with export cargo), current rates make it almost impossible to imagine that the marginal revenue of inland delivery will ever come close to the related marginal expenses.

However, as bunker fuel rises above $500 per ton, the economics of all-water services face new scrutiny. Not only is the ocean transit approximately twice as long, but the smaller vessels deployed consume more fuel per-TEU-day than the newer, larger and more efficient vessels — which cannot yet transit the Panama Canal.

Some experts believe that current conditions make West Coast transloading into domestic equipment more viable. Not only are there transportation cost savings available, but such an arrangement can significantly reduce an importer’s inventory safety stock and expense.

More radical types believe a vessel-deployment option is to slow the steaming speed while increasing the number of vessels in a service string. This is attractive to some lines that have new ships arriving at a time of poor demand.

This “hide-in-plain-sight” strategy would keep increased capacity deployed without having to initiate a rate war (because weekly capacity would remain unchanged). When demand and better rates return, the vessels could be redeployed.

In years to come, May 1, 2008, when new trans-Pacific contracts start to take effect, may become noteworthy as a strategic inflection point. However, the stakeholders resolve their issues, it seems clear that “business as usual” will not work for much longer. Perhaps we should all be feeling a little more paranoid.

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