**LOST IN SPACE**

**SOME OF US** remember the robot from the 1960s television series “Lost in Space” sounding his famous words of caution, “Danger, Will Robinson!” If that robot were watching over today’s freight transportation industry, it would no doubt be flailing its arms to warn of an industry lost in space.

The world economy is in peril. Year-over-year GDP in the fourth quarter of 2008 was down 6.2 percent in the U.S., 12.7 percent in Japan, 1.5 percent in the European Union and was flat in China — where it had been growing 9 to 12 percent. With all the economic danger, we should be addressing the future of the freight transportation industry by looking hard at the challenges around us.

The air freight market has all but vanished almost overnight. According to Ascend Consulting, 2,300 aircraft are stored — 11 percent of total industry capacity and the highest level ever. After hemorrhaging billions of dollars, DHL this year abandoned the domestic U.S. express market. The two surviving integrators, FedEx and UPS, are struggling to overcome their first-ever Asian route contractions. Still anxious to develop new markets, their investment appears more attuned to non-asset-based logistics rather than to the asset-based side of their businesses.

The liner shipping industry is likewise struggling — with 10.6 percent of vessel capacity withdrawn from service as of April 27, according to AXS-Alphaliner. As with air freight, the precipitous drop in retail spending, ocean container trade’s predominant business driver, has reduced cargo volume.

The export boom of 2008 is a fond memory. Senator Lines has disappeared, and rumors are rampant about which line will be the next to fail. Some rumors may become self-fulfilling as shippers avoid carriers that may be vulnerable to bankruptcy.

Ocean carriers are re-evaluating their networks in a ruthless process of capacity cutbacks. Traditional feeder services are replacing dedicated services to new markets such as the Black Sea. The anomaly of low fuel prices during a recession (as opposed to 1991 and the early 1970s), along with plentiful capacity, has carriers avoiding Suez and Panama Canal tolls by taking the long way around the capes of Good Hope and Horn.

Intermodal routing of containers has grown more complex as lines consider port hinterlands, inland rail rates and canal tolls. Los Angeles, Long Beach and other U.S. West Coast ports are offering volume incentives to attract discretionary intermodal cargo, while East and Gulf Coast ports hope higher Panama Canal tolls won’t hurt their plans to become intermodal gateways.

While no significant railroad mergers are under way, some Class Is are taking a fresh look at their networks. In a move that could indicate a reversal of trends, Canadian National Railway is buying three short lines for US$40.3 million. In a twist, CN just 10 years ago spun off the 540 miles of track in the transaction. Other short lines might find such sales necessary if they remain saddled with the dual challenges of low volumes and high capital requirements to upgrade their lines for new technology.

The trucking industry also faces traumatic times. Capacity has fallen nearly 13 percent over the past 12 months as carriers downsized their fleets or went out of business. The reduction has been much more extensive for small companies with annual revenue less than $30 million. With excess capacity still high, there is a sense this industry will undergo a long-anticipated housecleaning.

The impact of these economic times also may change the nature of the brokerage business, which is estimated to encompass about one-third of the total truckload market. Again, smaller companies are more likely to go out of business. Less-than-truckload carriers, burdened with fixed networks that are difficult to downsize in low volume periods, are especially vulnerable.

**MARKET CONCENTRATION MAY RESULT IN MARKET PRICING DOMINANCE.**

To address the slowdown, companies have cut staff and drawn down inventories to immediately cut expense and conserve cash. Because freight transportation is a leading indicator, the slightest increase in demand should force rapid inventory replenishment. A larger concern is when — or if — consumer buying will return to previous levels.

Although volume will probably recover, the industry structure is not so clear. Many believe that, unlike past recoveries, the demise of small companies will be permanent. Depending on the transportation mode, the resulting market concentration may result in market pricing dominance.

Regardless, the danger light is lit throughout our industry. We should consider ourselves warned.

Ted Prince is principal, T. Prince & Associates. Contact him at ted.prince@atlarge.net.