INTERMODAL'S NEW FRONTIER

THE INTERMODAL INDUSTRY will convene next week for the annual Intermodal Expo in Anaheim, Calif.—literally in the shadow of Disneyland. For many years, intermodal represented the untapped possibilities of “Tomorrowland.” Today it faces the fears of “Frontierland” as it tries to navigate the “California Adventure.”

Intermodal data compiled by the Intermodal Association of North America for the first seven months of 2009 reveal some sobering trends. Most notably, volume for the period was down 18 percent compared to the same period last year. The magnitude of this decrease is staggering. When parsed, other trends emerge. Most obviously, the international sector dropped 24 percent, while the domestic sector was only down 8 percent. This correlates to the well-publicized travails of the liner shipping industry, an industry with more than 10 percent of its capacity “parked,” an industry expecting a collective loss of $20 billion this year.

Based on current market conditions, intermodal rail is a financial drag on most ocean carriers. The marginal cost of inland movement is less than the marginal revenue obtained for the movement beyond the port of discharge. Although lines might wish to avoid inland movement—and provide only port-to-port service—it is impossible to ignore customer demand for all-points service. The lines’ incremental inland profit destruction is offset by profit from the waterborne segment.

There are many theories behind the drop in intermodal business. In a well-publicized jawnbog exercise, West Coast ports have requested that western railroads examine their pricing policies. The implication is railroads have priced themselves out of the market by encouraging lines and shippers to route cargo to the East Coast by all-water services using the Panama Canal.

Such an assertion defies the economic reality. The price charged the importers is market-based, not cost-based. Lines declining to provide intermodal movement are up against competitors who will. The market share of transcontinental shipments via the West Coast (26 percent) is unchanged from 2008—all-water services have been canceled, too.

This East-West Coast routing will be an even larger issue after the Panama Canal completes its third set of locks in 2014. Industry leaders disagree on the potential inland diversion. Some believe markets as far inland as Chicago, St. Louis and Dallas are all viable through the East Coast, whereas others assert that anything farther inland than 200 miles will continue to move through West Coast ports.

The calculus is complicated by expectations of the manufacturing locus. Although there is consensus that eastern cargo moving from the Indian subcontinent (or farther west) is best served via the East Coast through the Suez Canal, there always was disagreement about when—or even if—this would occur.

The most resilient market segment has been domestic containers. Some experts say this trend is indicative of increased transloading on the West Coast from marine to domestic containers, but the data is inconclusive. Others believe the traditional transportation savings from transloading has been eliminated by the lines’ inland pricing, which encourages intact movement.

In the domestic market, domestic container volumes declined 5 percent in the first seven months of 2009—against a 24 percent decline in trailers. This demonstrates the continual ascension of the domestic box because of its line-haul economics from double-stack transportation. Some segments—eastern origins to Midwest and south central destinations, for example—were up almost 4 percent, indicating that intermodal is trying to expand its market into shorter lengths of haul.

This figure is especially impressive because the truckload market has been savaged. With the market for secondhand tractors almost nonexistent, there is no incentive for banks and lenders to push delinquent borrowers into bankruptcy. These zombie carriers are pricing at variable cost—sometimes even lower—to generate any cash flow they can. Even established intermodal markets such as Los Angeles-Chicago have seen pricing where trucks are cheaper than rail.

Such market conditions have raised questions about the long-term viability of intermodal marketing companies. Small IMCs, concentrated on intermodal and truck brokerage, might find their traditional intermediary role unsustainable. Asset providers (truckload carriers and others) as well as IMCs that are part of global transportation and logistics companies might be the only providers robust enough to survive.

Current economic conditions have created challenges without historical precedence in our industry. Yet, while some players may be dealt out by the economic downturn, intermodal transportation looks like it will be a transportation alternative over the long haul.