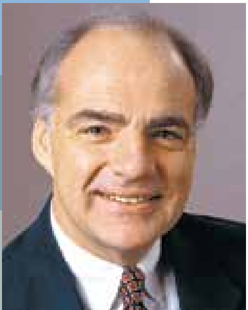
WHEN THE BOX BECOMES THE ENGINE

INTERNATIONAL CONTAINER BUSINESS has been a key element in the development of the North American rail intermodal transportation market for decades.



By Tom Finkbiner

Although truckers and domestic shippers were slow to adapt — perhaps that had something to do with 50-cent diesel fuel and paying drivers 18 cents per mile — international container lines literally swamped the railroads with traffic in the early 1980s during the key years of early intermodal development. Fed by the containerization of what once were bulk commodities and consumer goods, international shipments accounted for almost two-thirds of all intermodal traffic during the 1980s.

This traffic was critical to the development of the global market. It was round-trip business, regardless of whether the container was loaded or empty. It was stackable on railcars that were developed specifically for handling this business. It grew like crazy as a result of the movement of manufactured consumer goods from overseas that then required moving the imports domestically inland by rail. Containerization was built for rail intermodal and vice versa.

Today, however, the opposite is true. Market share has reversed, with domestic business now representing the majority of North American intermodal loadings and growing much more quickly. The ocean liner market, still affected by pseudo-government-sponsored capacity and showing little signs of discipline or pricing integrity, is unable to climb out of its financial mess long enough to support its North American infrastructure, leaving much of the service unsupported. Some freight diversion has occurred that takes inland North American business out of West Coast ports and puts it

in Atlantic or Gulf ports where trucking is either the delivery method of choice, or a much more competitive mode on shorter lengths of hauls. The Panama Canal expansion undoubtedly will cause more diversion.

With slow-steaming on the water causing container utilization issues that lead to a shortage of available containers, the ocean lines no longer want to move boxes inland, even if they have a better-than-ever chance of a return export load. The current strategy is to transload container boxes and run, or move, them to a portside warehouse and get the boxes back.

The refrigerated container market is even worse. That box is so valuable and the import rate so good the economic imperative seems to be to turn the empty as quickly as possible, creating capacity issues in getting temperature-controlled products from the U.S. interior to the port. That means there are no 40-foot reefers available to exporters in the interior and they can't use bigger refrigerated boxes because of the weight penalty.

Chassis management has gone from a maintenance and safety issue to a market embarrassment. Do international liner companies want to provide chassis or not (yes, no, maybe — depends on the day)? They certainly don't want the cost or responsibility to maintain and manage the chassis pools or the chassis. Inland delivery in North America has gone from a value-added service that all of the competitors had to bundle and offer to a generic service no customer will pay for. Simply speaking, the lines can't afford to do it, and they can't afford not to — thus the current mess.

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By contrast, two issues have converged to make domestic intermodal transportation a big attraction. The first is the rising cost of fuel. As oil prices escalate, the intermodal option looks better and better because of its fuel efficiency. Forget the non-fuel price; has anyone (or everyone) run the numbers on the cost-per-mile difference between truck fuel surcharges and the intermodal surcharge? That difference alone will move the freight to intermodal.

For those really thoughtful and ambitious supply chain operators, try looking at the difference between the boxcar fuel surcharge formula, the intermodal fuel surcharge formula and the truck fuel surcharge formula. Sometime in the near future, someone will put together a boxcar consolidation/unit train program (truck-railcar-truck) and REA Express — for decades, the pre-eminent intermodal ground and air service provider — will be reborn as a lower-cost intermodal product.

The second important issue in the growth of domestic intermodal is that the customer's expectations have finally been dumbed down enough to accept the intermodal alternative. We've seen lots of customers testifying to the improvement in rail intermodal service over the past 10 years but, frankly, I've seen no quantitative evidence that this has occurred. What has changed is that truckers have become more disciplined about offering long-haul truck capacity, but even in the cyclical downturns they don't get close to the intermodal price when the cost of fuel is included.

The rail intermodal long-haul service may be more predictable in terms of days in transit (although not recently because of the 500-year flood in the Midwest), but it certainly isn't any faster than it was 10 years ago and still isn't as fast as it was 80 years ago, when the two competing railroads, Pennsylvania and New York Central operated New York to Chicago in 16 hours.

What has changed in the domestic and international markets is that the more sophisticated customer, who runs a much more enlightened supply chain, has learned how to trade price for service. In an environment with lower interest rates, the customer can add some time to his inventory turn without adding the costs. Better predictive software on the part of the customer means fewer inventory shortages and leaves more time for restocking.

In summary, separate secular trends affecting the international and domestic markets and the increased sophistication of the customer may lead railroads to begin pricing "the cost of incompetence" into the international intermodal market. The self-inflicted problems in the international liner business are affecting the cost of handling international containers for the railroads.

But the industry has shown no signs of wanting to deal with them. The drive for price, price and price in the international intermodal business will have the opposite marketing effect and cause the railroads to properly account for those added costs. The result will be the repricing of international intermodal shipments to fully compensate for these costs, and that will further complicate the mess in the international intermodal market. **JOC**

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