

Intermodal Intends to Keep Running Strong

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Despite a challenging economy trailers and containers continue to move along North American railroads.

As global sourcing grows, the use of trucks to move cargo from coastal ports on one side of the country to the other is challenged. Rail has claimed an increasing role in the movement of that freight. Because it is restricted to the iron tracks on which it runs, rail freight movement still relies greatly on taking the cargo from one mode—ocean vessel or truck—moving it to another place where it once again goes onto a truck or ship.



As the softening in US freight markets has made itself felt in all modes, so there has been a lessening in the amount of freight being moved by Class I intermodal railroads in the US. However, because the structure of the intermodal market in Canada is different than that of the US market, the Canadian Class I's have not experienced as great a decline in their business.

Intermodal traffic is an important part of overall rail income, with traffic quadrupling in the last 25 years, according to AAR. With 3 million trailers and containers moved by intermodal means in 1980, more than 12 million units moved in 2006 and 2007. Today, intermodal traffic accounts for 23% of revenues for the Class I railroads.

While being both competitive and cooperative, North American railroads maintain independence and offer a variety of intermodal services. Here's a look at the seven Class I's serving the Continent and how they are conducting their business.

Norfolk Southern (NS). The railroad operates an extensive network of double-stack trains. It has on-dock rail at the ports of Savannah, Norfolk, New York and Jacksonville, as well as near-dock connections at Philadelphia, Baltimore, Charleston and Miami.

It has combined with other railroads to provide expanded capacity and service to intermodal shippers. An example is its Blue Streak service, a cooperative effort between NS and Union Pacific. It began as a sixth-morning product for moving freight from Los Angeles to Atlanta which has now increased capacity and reduced the amount of transit time.

"The Blue Streak started almost a year ago and has been running at 99% on time," claims Jim Bolander, NS assistant vice president Intermodal Pricing and Development "We intend to take a little bit of time out of the schedules and speed it up a bit more. We're pretty excited about the opportunities that is going to bring to us. We are going to be expanding a Blue Streak type product to some of our local

markets in the East to give people comfort that they can swing from highway to rail and not degrade service levels.”

While there has been great emphasis on The Heartland Corridor project in which NS is a major player, there are other capital improvement projects the railroad has undertaken.

“Service is going to be rather spectacular in 2008,” claims Bolander. “Volumes aren’t going to set records, but our capital investments and capacity gains are really going to kick in. We’re on dock in Savannah and they are expanding capacity there. In Norfolk, AP Moeller completed their terminal this past year and that’s a rail served facility. We’ve expanded our services in New York also.”

CSX Intermodal. For the railroad, 2007 was a year of preparing for future intermodal growth, according the railroad’s Gary Sease. “We, like the rest of the rail industry,’ he says, “see intermodal as a growth engine. We want to be prepared to leverage that growth.”

As a result, last year CSX opened its Chambersburg PA terminal which gave the railroad ability to serve the Mid-Atlantic region more effectively. It is also expanding capacity at current terminals, including Charlotte and Atlanta.

CSX is building a terminal in Central Florida at Winter Haven—roughly between Orlando and Tampa—to help handle its intermodal business in Florida which is growing significantly. Florida is more a consuming state with a great need to meet consumer demands.

“Probably our biggest success for us in 2007 was the improvement in our rail service,” claims Sease. “CSX Transportation continues to show upgrades in key measures that include velocity, cars on line, right train connections, just all of the major service metrics show significant and continued improvement.” The railroad added track capacity in 2006 and 2007, particularly on its Chicago to Florida line. It has been adding capacity with new and more reliable locomotives at the rate of 100 per year.

CSX Intermodal is increasing use of technology in its terminals with an initiative called Smart Gate. “The analogy I use,” explains Sease, “is that it’s like the new toll systems on highways that use transponders.” CSX uses Smart Gate to log inbound and outbound trucks within terminal confines. The technology delivers the ability to locate and quickly move shipments or equipment to proper places.

Kansas City Southern (KCS). A particular strength for the railroad is its two premium intermodal service lanes. One of those strengths is the connection KCS has to the Port of Lazaro Cardenas in Mexico which represents a viable alternative to West Coast ports further north. C. Doniele Kane, KSC assistant vice president Corporate Communications and Community Affairs, says the railroad has been

pleased with the progress at the port.

Although trailer traffic was down slightly in 2007, it was not significant. While the railroad has made great strides in upgrading its infrastructure over the past year, Kane sees no correlation between those upgrades and shipment volumes. "Volume in Mexico, the US and haulage traffic is actually almost flat with last year through the first weeks of January," she says, "in spite of haulage traffic on the Meridian Speedway off over 40%."

The KCS Meridian Speedway between Shreveport, LA and Meridian, MS is a joint venture between KCS and NS. The Speedway provides a direct rail link between the Southeast and Southwest US. The increased capacity has provided both railroads with the ability to handle greater volumes and improve service for intermodal customers.

As far as plans for 2008. Kane explains KCS will continue to grow the intra- Mexico business through the Port of Lazaro Cardenas; enhance awareness in the shipping industry of its ability to serve the Asia/US market through the Port of Lazaro; and grow cross-border business between the US and Mexico that moves in 53-foot containers.

Burlington Northern Santa Fe (BNSF). "Last year, in large part because of our size, and because we are the biggest intermodal carrier, the slowing of the US economy hit us maybe a bit harder than the rest of the rail carriers," observes Steve Branscum, group vice president, BNSF Consumer Products Marketing. In particular, he feels, that is because container shipping companies are struggling, for one because they have been unable to collect fuel surcharges from customers.

"We have basically three types of intermodal services," explains Branscum. "Two of them we consider expedited or time sensitive and one is a more value added service. So the vast majority of our intermodal volume utilizes the value-oriented services. It's shippers that are looking for good transportation service at a lower cost that offers a good value. That's containerized international trade, containerized domestic trade and that drives most of our volume."

The railroad has an expedited service it sells and markets to full truckload motor carriers and an expedited product it sells to LTL and parcel carriers which is a little bit different than the TL product.

Early last year BNSF began a new service to the Southeast, in and out of Atlanta. It was created in conjunction with Eastern rail carriers, although it's marketed, operated and sold as BNSF Direct. "It carries both domestic and international product," notes Branscum. "While carriers were beginning to serve the Southeast US markets from Asia through the Panama Canal, now there is more interest in continuing to serve that freight off of the West Coast and use the service into Atlanta."

Union Pacific (UP). One of the focuses of the railroad has been to grow its on dock facilities. “In the future what we’re really focusing on is in adding capacity in the near dock facilities,” says Zoe Richmond, director, Corporate Relations and Media for UP. “In looking at the trends we are understanding that we need increased capacity away from the docks. As we are modernizing some of these facilities, we are doing that with an eye to the environment. All of the upgrades are very focused on how we lower our environmental impact.”

She points out the UP invested in the first hybrid locomotive. It uses both diesel and battery power. The diesel fuels the battery and when the power runs out, it fuels the battery once again. The railroad is testing this technology in the intermodal facilities in the Los Angeles area and has been seeing some very positive results.

Another measure has been to put Gensets to work in the traditional locomotive yard. Three Gensets have replaced one large locomotive with their smaller horsepower engines. The result has been an 80% reduction in fuel use because of them.

“We are working together with our international partners to expand into Mexico and Canada,” continues Richmond. “As trade has become more important, even Mexico is being more aggressive in the market. One thing UP has done that’s helped move products more efficiently from Mexico to the US is to use new technology to satisfy issues of Homeland Security and Customs. “We are making sure we have the technology available for Customs so they know what container contains what.”

Canadian Pacific (CP). The railroad’s intermodal product is made up of two components, explains John McBoyle, vice president Marketing and Sales, Intermodal, One is domestic, the other international. For Canadian Pacific Intermodal 2007 was a good year.

International growth, both at the Port of Vancouver and the Port of Montreal was particularly strong for the railroad last year. McBoyle saw very strong growth in CP’s export business, both out of the East and West Coast. “To Asia,” he says, “we are seeing strong growth with a lot of it in specialty grains and we can’t keep up to the demand. Export growth represents a big change over the last four years.”

Intermodal growth has come over the past three or four years in the railroad’s domestic cross border business in its EMPs (Equipment Management Program). “We decided about five years ago that to be competitive in cross border business we had go from a trailer operation to a double-stack 53-foot container product,” recalls McBoyle. We were the first carrier that made the conversion from trailers to double-stack. That provided the cost basis to make us competitive in the market and provide a better service to the customers by going with the EMP 53-foot box.”

In Canada, unlike the US, the majority of the domestic part of the railroad’s business is a door-to-door product. “We charge the customer one rate to move freight from their dock to the receiving dock,” notes McBoyle. “That includes the truck on either

side and the rail in between. We don't own trucks but we subcontract out for the track and trace services between the railhead and the customers. Then we provide them with the door-to-door pricing."

Not resting on its laurels, CP is in the process of rolling out a new intermodal operation system called Triex. "It's an end-to end management system that includes dispatch and appointment making, billing and customer visibility tools such as ETAs," says McBoyle. "It will really provide a full gamut of value added type services for our customers"

Canadian National (CN). The railroad, too, offers a domestic door-to-door retail product to its Canadian customers, which is very different than the US model.

"We serve the Port of Halifax and Port of Montreal and also the Port of New Orleans, the Port of Vancouver and the Port of Prince Rupert," points out CN's Mark Hallman. "We think that since we have a three-coast network we are well positioned to take advantage of the growing supply chain distances where you have products produced overseas and imported to North America."

While the railroad had strong performance from the Port of Vancouver in the latter part of 2007, it received a real boost in October when the Port of Prince Rupert opened its new container terminal. "We think that one of our strongest opportunities for 2008 is intermodal, largely because of Prince Rupert," observes Hallman. Across Western Canada CN has been investing over the years in extended sidings that accommodate longer trains more efficiently. CN is also looking at its proposed acquisition of the Elgin Joliet and Eastern Railway, which is on the western arc of Chicago, as a means of improving the quality of its service. It will fill in missing links in connecting all of the railroad's lines in the Chicago area while removing its traffic from the congested Chicago area.

About four or five years ago CN re-engineered its intermodal service, now calling it IMX, for Intermodal Excellence. Hallman explains, "that means that to get freight onto the train the shipper has to have a reservation. We also require reservations to get into the terminal for loading. So we've been able to improve the balancing of loads and to take some of the peaks and valleys out of it. By virtue of the reservations, we've improved."

Most Class I's feel they have intermodal products to compete effectively with and augment truck movement of freight. Despite a relatively weak freight market the rail provider continue to beef up their offerings and to be ready when the market turnaround comes.