BY FRED W. FRAILEY

The myth of intermodal growth

For this to actually happen, railroads need better ideas. So where are they?

It has been said so many times that it has become a mantra: The future for railroads is intermodal. Bye-bye coal, bye-bye crude oil, bye-bye carload traffic (CSX Transportation carload volume is off 20 percent from 2000). All that doesn't matter, the mantra goes, because we have intermodal, and intermodal is the growth engine that will save us. That promise was Norfolk Southern's chief line of defense in 2016, when Canadian Pacific tried to nudge it into a merger.

But it appears to me that all this is hokum (a nice H.L. Mencken word). Intermodal growth has matured or stalled. I've been mining the numbers, and they suck. In the West, both BNSF Railway and Union Pacific topped out on intermodal volume a dozen years ago, and carried fewer containers and trailers last year than they did in 2007. In the East, CSX and Norfolk Southern did a good job increasing their intermodal volumes through 2013 and 2014, and then hit plateaus as well. The same is true of Kansas City Southern after 2012. Canadian National went on a tear starting in 2010, as Pacific Rim containers began pouring into Prince Rupert, B.C., but now it, too, is treading water. CP's numbers are too erratic to interpret, but last year it carried fewer intermodal loads than it did in 2002.

That's the big picture. The short term is no more encouraging. Last year, North American carload traffic fell 7.2 percent (led by coal, down 19.5 percent). Take away coal, and the carload loss was a far more modest 2.1 percent. Could intermodal make up that loss? Nope. Intermodal volume in 2016 fell 1.5 percent. Through May 2017, North American carload business went on a sharp rebound, up 7.8 percent from the first five months of 2017. This reflects the fact that the economy is recovering from what amounted to an invisible industrial recession during late 2015 and early 2016. But intermodal volume rose a far more modest 3.2 percent, failing to lead the way.

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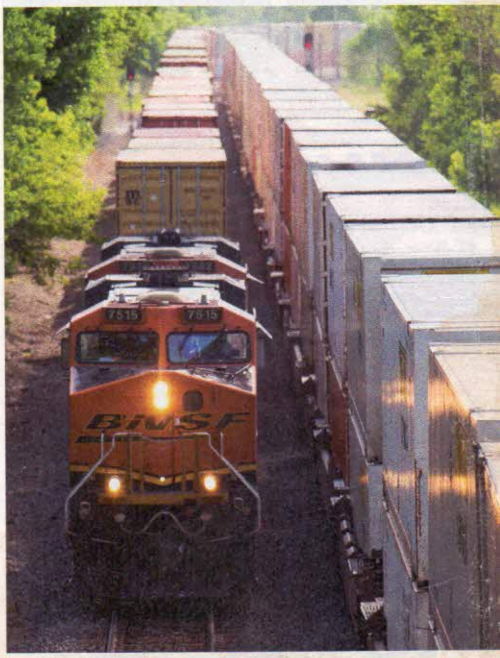
There are seven railroads and seven different stories to tell, but the overriding themes may be these:

First, the international container boom that began about 2003 has played itself out. The trade that's to be had has largely been gotten. To get more international container traffic, we need more international trade — it's that simple. Otherwise, it's a matter of relative advantage, or beggar thy neighbor. The high costs and inhospitality of the ports of Los Angeles and Long Beach do not help BNSF and UP. CN is aided by the fact that Prince Rupert is the closest North American port to China; if you flatten the globe, Shanghai to Chicago is nearly a straight line through Prince Rupert. Can eastern ports entice business through Suez or Panama that has been landing on the West Coast?

Second, the industry appears to have run up against a wall on domestic intermodal. It has the easy business. The potential remains enormous, but the great bulk of it is in shorter-haul markets. Something has to happen. Either service has to improve or the profit margins railroads demand have to be relaxed. Accept this fact: Low operating ratios do not necessarily equal maximum profit. You also get there by hauling more boxes at lower margins, which is pretty much what shorter-haul markets demand and Class I railroads steadfastly refuse to consider. As matters stand, railroads are unwilling to take chances.

Third, maybe we should come up with a new mantra. Perhaps it goes like this: The future of railroads is to work like mad and price aggressively to find new customers, be they carload or intermodal or bulk shippers. There is no easy way out.

So how do you entice truckers to take their business off highways in markets of less than 500 or 600 or 700 miles? To begin with, the markets have to be viable for rail. For example, Chicago to Cleveland is about 350 miles, Chicago to Pittsburgh roughly 450 miles. Those are distances that trains can cover overnight. But is there enough traffic to be had in both directions, so that the revenue going one way isn't eaten up by empty return moves? The ideal is two producing areas that zap goods back and forth, but there are fewer of those than you think. And are the customers at each end close to the terminals, so that drayage expenses are minimized? I don't see a lot of intermodal activity between these two city pairs, and perhaps we now know two reasons why.



An eastbound BNSF Railway stack train passes its westbound counterpart at Edelstein Hill, west of Chillicothe, Ill., on June 9, 2017. Steve Smedley

The other imperative is to reduce terminal costs to the bare minimum. BNSF built a splendid intermodal terminal in Memphis a few years ago. I toured it and was impressed. But the overhead cranes that travel back and forth on rails to move boxes cost millions and are slower than old-fashioned sideloaders that cost a fraction as much. And then I learned Memphis was working like three trains a day. North Baltimore, Ohio, the sorting yard for CSX intermodal trains, also impresses me as unduly expensive to run, despite the fact that it was designed to put CSX into shorter-haul markets.

Finally, an operations idea. Florida East Coast, with an intermodal haul of 350 miles, cleans out its Jacksonville and Miami terminals three or four times a day. Each departure carries everything, and then doesn't stop until it reaches the other end. Why must an intermodal train be exclusively intermodal? This habit only adds crew starts.

I'm not saying that intermodal isn't the future. I am saying that God didn't will it to happen. **I**

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