The Changing Role of Freight Transportation Modes and Intermodal Freight

SUMMARY OF WORKSHOP
in
Kansas City, Missouri

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WORKSHOP WELCOME — Don Oman, Wheat Marketing Manager, Atchison, Topeka and Santa Fe Railway

PROGRAM OVERVIEW — Thomas H. Maze, Project Principal Investigator and Associate Professor, Civil and Construction Engineering, Iowa State University

PURPOSE

The purpose of the overview was to review the finding of the research project's first year and provide the charge for the workshop. The research project is a two year study funded through the Midwest Transportation Center.

The workshop capped the first year's work. The workshop had two purposes: 1) to bring transportation professionals together to discuss current industry issues, and consider and predict likely issues for the 1990s; and 2) to provide the researchers with direction for the second year's study. The mission of the project is to identify impacts of the changes in the freight transportation industry and in transportation regulation in the 1980s and, based on the results of the study, suggest strategies to: 1) promote economic development in the region, and 2) improve the competitiveness of the region's goods and services in national and international markets. The first year was largely devoted to collecting information on changes to the freight transportation system in the region during the 1980s. The second year will identify public policy strategies and will be capped with a workshop for public policy decision makers and business leaders.

In advance of the meeting, all attendees were given a paper summarizing the first year's findings. Because of the limited time available, the workshop focused on three key transportation issues: 1) regulatory reform and economic regulation, 2) regional railroads, shortlines, line sales and the role of the states, and 3) intermodalism and intermodal strategies for the 1990s. The charge for the workshop attendees was to provide input on:

- The accuracy of the preliminary findings.
- What lies in the future for the three focus areas?
- What are the key freight transportation issues for the region in the 1990s?
- What impact will the changes in the freight transportation market have on economic development?

The preliminary findings of the first year were briefly reviewed. In summary, the most significant findings were:

- The business and economic trends for the region have been sluggish and below national trends.

- Freight traffic trends in the region include: 1) a tripling of intermodal traffic either originating or destined to the region between 1980 and 1987; 2) railcar loadings in the region have increased by 23% between 1980 and 1987; and 3) truck traffic is largely concentrating on interstate highways upon which truck traffic volumes in the region are increasing at a rate of 3.5% per year.

- Regulatory reform has left the four states in the region with greatly varied systems of intrastate truck regulation. Nebraska has the most traditional system, while Kansas has made the most substantial reforms.

- A survey of trucking shippers found that they are: 1) reducing the number of carriers they use; 2) increasing their use of electronic data interchange; and 3) more frequently contracting for transportation services.

- An analysis of financial reports of a representative set of motor carriers during the years between 1980 and 1987 found that: 1) motor carriers were tending to use more short-term debt; 2) motor carriers' profits declined during the period; and 3) financial performance tended to weaken during the 1980s.

- Interviews with trucking firms found four major concerns: 1) greater difficulty in driver recruitment and retention; 2) more self-insurance of risk; 3) survival in a highly competitive environment; and, 4) frustration over varying state regulations and requirements.

- A review of the rail systems in the four states showed the effects of reorganization, although Kansas' and Nebraska's systems have been affected the least. In addition, the public rail assistance programs varied from Iowa's strong program to the other states having either less active programs or no financial assistance program at all.

- Interviews with rail firms found four major trends: 1) carriers appeared to be quite market niche oriented with small carriers being more dependent on narrower niches; 2) carriers are taking varied approaches to marketing intermodal services; 3) Class I carriers are attempting to downsize and concentrate on fewer lines and facilities; and 4) restrictive labor rules are viewed as a major barrier to further cost efficiencies.

After the project overview, workshop participants broke into two discussion groups.

BREAKOUT SESSION

Economic Regulation
and
Regulatory Reform

GROUP CO-LEADERS	Jim Winkler, Traffic Manager, Chemtech Industries David Woodside, General Counsel, Missouri Department of Economic Development, Transportation Division
FACILITATOR	Benjamin J. Allen, Director, Midwest Transportation Center
ATTENDEES	David Ellrich, Payless Cashway Barbara Meeks, Motor Carriers Division, Iowa DOT Vernon Van Wyk, Van Wyk Trucking Virgil Umthun, Umthun Trucking Harvey Sims, Iowa DOT Jim Werner, Hallmark Oscar Albrecht, Kansas DOT Barry Butzow, C. H. Robinson Bill Giles, Ruan Transportation Management Systems George Michalson, Middlewest Freight Bureau Al Maxwell, Kansas SCC

PURPOSE

The breakout session on "Economic Regulation and Regulatory Reform" had two basic purposes. First, the research conducted during the first year on economic regulatory reform was to be reviewed and appropriate changes in the results identified. Second, to discuss issues specifically related to state economic regulation of intrastate trucking, in general, and by each of the four states in the region, in particular.

In order to provide a focus to the discussion, two professionals involved in the Matlack case provided an overview of that case which has significant implications for intrastate trucking regulation by the states. The case involved the state of Missouri. The ICC ruled that transportation from distribution points in Missouri to customers in Missouri is part of a continuous interstate operation originating outside of Missouri. The U.S. Supreme Court upheld the ICC decision in October, 1989. The decision is viewed as providing encouragement to shippers and carriers to go directly to the ICC to seek a declaratory judgement that a particular movement within a state is a part of an interstate movement. It is feared by certain state officials that a more liberal interpretation by the ICC of the term "essential character" of a movement will lead to more and more federal preemption of state regulations.

Presentation by Mr. Jim Winkler

Mr. Winkler, a strong advocate of economic deregulation, believes that deregulation has decreased costs and increased service. After briefly describing his background and experience with transportation and transportation law, Mr. Winkler focused his comments on three main areas.

Mr. Winkler first reviewed Chemtech and its products, markets, competition and its transportation requirements. Chemtech's distribution division has bulk warehouses in Kansas City, St. Louis and Springfield, Missouri, and Memphis, Tennessee. All of the bulk products are received from out-of-state sources. Products are reshipped from the distribution center in the same form as received or after packaging into drums. Chemtech's transition from using private to contract carriage was described. Included in this discussion were the factors that led to the change, the preparation within Chemtech to accommodate the change, the carrier selection and bidding process, and the actual award of the contract business to Matlack.

Mr. Winkler then discussed the background and major issues of the Matlack case from his perspective. Points included in this discussion were assembly and staging of required equipment, preparation and training of drivers and dispatchers, performance standards and delivery experience, and challenges to the operation by the state of Missouri. Chemtech believed that the movement of material was a continuous interstate movement and not an intrastate movement. After consulting with a Washington, D.C. attorney, who agreed that the movement was interstate, Chemtech invited carriers to bid for the traffic. When the State of Missouri gave Matlack fines and citations for operating without a proper license, Matlack filed a petition with the Interstate Commerce Commission (ICC) to determine that Matlack's operations were interstate in nature.

The ICC decided in favor of Matlack. Its decision was appealed by the Missouri Department of Economic Development, Transportation Division, in conjunction with other carriers (some of which did not operate in Missouri), freight bureaus, and the states of Alabama and Texas. The decision of the ICC was subsequently upheld through various appeals to that agency as well as to federal courts. The U.S. Supreme Court also refused to consider the issue on appeal from the State of Missouri.

Mr. Winkler concluded his remarks by stating his views on what the future of economic regulation will be:

- With respect to intrastate regulation, he expected slow change. The issue is not a high priority with the state legislators. Safety regulation, on the other hand, has high priority.

- He thought that the Matlack case might have put the usefulness of state public service commissions in question.

- With respect to interstate regulation, he considered future economic regulation of railroads to be necessary to protect captive shippers as well as captive traffic.

- The issue of trucking regulation at the federal level will not be a visible issue.

- Changes in the trucking industry will take place by default. The marketplace, not regulatory commissions, will dictate prices, entry, services offered, and standards.

Presentation by Mr. David Woodside

Mr. Woodside indicated that the decisions in the Matlack case and other similar cases have had a great impact on a state's jurisdiction, both in form and operation. His primary concern was that the process of the public agency involvement in regulation or deregulation might not fall properly under the democratic process in the U.S.

Mr. Woodside discussed four different situations which question the level of government, state or federal, which might have primary jurisdiction in the area of trucking regulation. Citing statutory and case law, Mr. Woodside expressed his opinions on which situations fell within the state jurisdiction and which fell within the federal jurisdiction. In this context, Mr. Woodside argued that the ICC misapplied the jurisdiction issue, particularly if certain controlling cases, e.g., the Atlantic Coast Line, Penn. R.R. v. PUCO, were followed.

Mr. Woodside also believed that the ICC rendered its decision based solely on the point of view of Chemtech and Matlack; no other information was allowed. Therefore, Mr. Woodside believed that many other relevant facts were not presented in the case. He argued that the administrative/adjudicative system failed in part due to the administrative cut-backs and an overloaded trial schedule.

Mr. Woodside concluded with some basic concerns resulting from the Matlack case:

- The ICC will deprive the states of exercising their jurisdictions if the ICC claims primary jurisdiction.

- If intrastate related cases decided by state regulatory agencies were routinely appealed to the ICC, this already overloaded, deficient system with limited manpower and resources would not be able to handle the case load.

- The ICC tends to base its decisions on the facts of the petitioners alone and not from other parties, and thus, impartiality becomes an issue.

- This trend is another example of centralization of power which is inconsistent with the basic concept of federalism.

Discussion of Issues Raised by Attendees

A discussion focused on issues related to state economic regulation of intrastate trucking followed the presentations by Mr. Winkler and Mr. Woodside. The basic points made during the discussion are provided below without attribution.

One issue on which disagreement existed is the difference inherent in Less-than-Truckload (LTL) and Truckload (TL) operations. One attendee stated that there is a big difference between LTL and TL in terms of appropriate regulation, policy and need for deregulation. Another attendee disagreed, indicating that the same regulatory environment can be applied to both sectors.

Another issue discussed was the role of an administrative agency, e.g., the ICC, in establishing regulatory policy in lieu of or in addition to an elected body, e.g., Congress. One attendee expressed the view that the ICC had gone far beyond what Congress intended in the area of regulatory reform. This attendee noted that the federal government responded more quickly than the states to industry issues as illustrated by the 1980 legislative action by Congress versus the substantially later 1986 changes in the Missouri trucking regulations. Another attendee indicated that the federal government has to interfere with state regulatory operations because the states are too slow and would not move to reform their practices.

The possible impact of changes in state regulation of trucking on the level and cost of trucking service was discussed. A carrier representative expressed concern that deregulation might cause small, rural communities to lose their trucking service. He stated that the large trucking firms are providing service in his area of the state only because of competition provided by his firm in that area. If there were no small carriers, these large carriers would not serve these more rural, remote areas. The same attendee indicated that he had to modify his operations because of deregulation.

His firm has done well in the deregulated environment with the modifications. Another attendee indicated that the smaller trucking firms provide better service. A shipper representative revealed that his firm uses smaller, regional carriers because they are more cost competitive. He does not believe the larger carriers can drive out the smaller operators. One attendee from the public sector indicated that keeping smaller state or regional carriers economically viable was a goal of the state's regulatory program. The concern was that the smaller communities being served by these carriers would lose trucking service if these carriers left the industry.

The issue of how restrictive and/or burdensome state regulations are for carriers was discussed at some length. One shipper indicated that he abides by the law. There are legal, if not somewhat time-consuming ways of working in the framework of the law to achieve the certain efficiencies. One ploy is to have distribution centers located across the state borders so movements will be classified as interstate movements. Several state government officials said that due to changes in their state regulations, the burden was not substantial. One state requires only that a carrier be "fit, willing, and able", while another state recently changed its entry regulations to put the burden of proof on the protestant and not the defendant. An attendee from a third state commented that his state's public need standard is now less a burden than it was in the pre-deregulation period.

The relationship between economic regulation of intrastate trucking and economic efficiency was discussed near the end of the session. One attendee believed strongly that efficiency is lost with economic regulation. A state official indicated the ease or complexity of a carrier in his state of getting an operating authority depended upon the type of operation. Obtaining a certificate to operate as a TL carrier was much easier than obtaining a certificate as a LTL carrier. Thus, fewer constraints and related inefficiencies were related to the regulation of TL carriers.

The summary issue discussed was the importance and the nature of the relationship between economic regulation of intrastate trucking and economic development. Several of the attendees indicated that a study of the effect of economic regulation on economic development of the states would be important. Attendees representing several states indicated that the study by the Midwest Transportation Center would be needed since, due to politics, individual states would not conduct such a study. One attendee argued that the term "economic development" was somewhat vague and that it would be better to use the phrase "competitiveness and a state's economic regulation." Most of the attendees agreed with this different terminology.

Summary and Tentative Conclusions

The breakout session focused on state regulatory issues with the emphasis on the trucking industry. The recent and significant U.S. Supreme Court decision in the **Matlack** case was used as a vehicle for reviewing the key issues. Two participants in that case, Mr. Jim Winkler, Traffic Manager for Chemtech Industries, and Mr. David Woodside, General Counsel of the Missouri Department of Economic Development, provided their different perspectives on the case and related issues.

Several issues, including the following, were identified and discussed at the session:

- Regulatory reform and its impact on small communities
- Regulatory reform and increased efficiencies
- Jurisdictional issues--state versus federal
- Nature of regulatory reform--administrative vs. statutory
- Regulatory reform and viability of regional carriers

The attendees confirmed the preliminary findings of the research in year one with respect to the nature and extent of regulatory reform at both the federal and state level. Some of the material on the Kansas experience was modified slightly to be more accurate. The attendees agreed that Kansas had undertaken the most significant regulatory reform of intrastate trucking and that Nebraska had undertaken the least amount of regulatory reform. The states of Iowa and Missouri, primarily through administrative actions, have undertaken some regulatory reform since 1980.

The attendees concluded that it was important to conduct further research in this area. The focus of the research in the future should be on the relationship between the region's competitiveness and the state regulation of transportation including intrastate railroad movements.

BREAKOUT SESSION

Regional Railroads, Shortlines, Line Sales and the Role of the States

PANEL MEMBERS	Les Holland, Director, Rail and Water Division Iowa Department of Transportation (DOT)
	James W. McClellan, Director of Corporate Development Norfolk Southern Corporation.
PANEL MODERATOR	Clyde K. Walter, Associate Professor and Interim Chair Department of Transportation and Logistics, Iowa State University
ATTENDEES	William Haggarty, Chicago and North Western Transportation Co. Larry Parsons, Kansas City Southern Lines Alan Elliott, Kansas City Southern Lines Steve Smith, Union Pacific Railroad Marc Bernhardson, Soo Line Railroad Co John Scheirman, Kansas DOT Sam Masters, Missouri Highway and Transportation Dept Mike Goings, Nebraska Dept of Roads Tracy Mack, Farmland Industries, Inc Paul Nowicki, The Atchison, Topeka, and Santa Fe Railway Co Pat McCardle, Burlington Northern Railroad Bill Creger, Iowa DOT Dr. Paul Banner, Iowa Interstate Limited Charles Scheiderer, Volume Shoe Corp Phil Miller, Federal Highway Administration

PURPOSE

To explain and discuss the origins of local and regional railroads compared to Class I railroads and to identify strategies that state governments may pursue to preserve and improve rail transportation in the region.

<u>Presentation by Mr. Les Holland</u>

On the specific topic of states' roles in preserving and improving rail transportation, Mr. Holland noted that the mode, to many people, was invisible when compared to road and airport facilities many personally use. Hence, many do not appreciate the importance of the region's rail network. The importance was demonstrated by truck-rail trade-offs if rail were not available. For example, 20,000 to 25,000 trucks per year would be required to replace one branch line shipping five to six thousand cars per year.

If more rail freight were moved on highways, there would be adverse impacts on the life cycles of highways, highway wear, congestion, and pollution. Energy use would rise and dollars spent for energy would flow from the region. Net farm income would fall 3 to 11 cents per bushel (for millions of bushels). Regional shippers would lose the ability to compete in world markets because economical long-haul transportation is vital. Conversely, states receive these benefits of a rail network: lower road costs, less traffic congestion and air pollution, lower energy use, increased net state income, and greater access to markets. In Iowa, the state favors private ownership of the rail system to promote infusion of private dollars into the management of branch lines, yet admits that it is better for states to invest versus suffering a loss of line.

Mr. Holland discussed several underlying problems contributing to the loss of regional rail service. These included: burdensome labor contracts and federal laws, competition from other modes, lack of traditional bulk traffic, necessity of earning commercial rates of return on capital; and a shortage of capital funds available (and increased threshold return on investment) for short line investment, because highly leveraged railroad holding companies have borrowed a larger share than in the past.

The results of these problems are that low-density lines do not earn required returns and capital funds for investment in branchlines are not available. Even the current "slimmed down" rail network will have additional abandonments unless government takes action. Mr. Holland sees Class I railroads shedding branchlines and specializing in high speed, mainline operations.

He sees a new philosophy among Class I roads of forming shortlines, rather than abandoning them, to retain the long-haul traffic. The shortline and regional operators can "start fresh" with a new labor agreement and operate the former branchlines more efficiently than could the Class I line. The new operators could also provide more customized service, regaining lost traffic.

Several obstacles block the potential success of this movement, such as the high cost of rail lines, high interest rates and short repayment schedules on commercial loans (when they are available at all), the condition of the purchased track, and the lack of rehabilitation loans. In addition to these financial obstacles, there is uncertainty over possible requirements of separation payments to former workers not re-hired and uncertainty over traffic. These problems have led to some abandonments of lines which might be needed in a later network.

States can be a low-cost source of capital, in the form of low-interest loans or partial grants, for the rehabilitation of branchlines. Class I railroads could continue service on these branchlines with lower target rates of return, because of this low-cost capital. Iowa has assisted 1383 miles of rehabilitation in this way, losing only 241 miles later through abandonment or reorganization. Similarly, purchase and rehabilitation funds may be provided for shortline operators if the Class I railroads give up on the branchlines. Iowa has supported the purchase of 756 miles and the rehabilitation of 162 miles of shortlines. Another part of this strategy is organizing shippers as a source of rail assistance funds at zero-interest. The loans are repaid on a carload basis, thus creating an incentive for these shippers to use the line.

The second state strategy is to provide information to shippers, meeting with them to discuss the needs of their rail lines. Another information-related tactic is a study of the financial viability of the branchline network, identifying those needing assistance for preserving rail service.

Helping hold the system together during transition periods is a third strategy states may use. Rail segments that lack sufficient current traffic may be needed in the future. Rather than dismantling these lines, 19 states have "railbanked" 1,382 miles for future use.

Mr. Holland described the fourth strategy of states as assisting in the construction of intermodal facilities. Although there is a risk in committing funds to this new market, states' economic development efforts at attracting new industries may be helped by the lower shipping costs that intermodal services provide. For example, Iowa has a revolving fund which provided a $750,000 zero-interest loan which partially funded a double-stack container terminal in Davenport.

The fifth and sixth strategies, respectively, were examining state policies that look at all modes, and encouraging federal policies that allow economical rail operations. Mr. Holland concluded by relating the influence on a state's rail system, hence its economic health and competitiveness, to a minimal investment of state resources.

Presentation by Mr. Jim McClellan

As a lead-in to the eighties, Mr. McClellan reviewed industry and Norfolk Southern (NS) data for the twenty-year period before. In 1960, the industry was fragmented, with many regional and small lines forming a 217 thousand mile network. By 1988, rail route miles had decreased 35 percent and the rail workforce was down 70 percent. During this period Class I ton miles were up 75 percent (largely coal) while industrial production was up 180 percent.

The old "regional" railroads have been acquired by larger systems, resulting in a rail network that is highly concentrated: three carriers Burlington Northern (BN), Union Pacific (UP), and CSX produce 55 percent of the ton-miles and eight companies account for 91 percent of the total.

Mr. McClellan said that "something bigger" was happening: railroads were the go-everywhere common carrier in the 1960s but became a niche carrier in the 1980s, exchanging roles with trucks (and airplanes). Many shippers no longer think of railroads as relevant to their transportation needs.

The modern shortline era began with the collapse of the Penn Central. The restructuring, leading to Conrail, eliminated 7,000 miles which provided a lot of shortlines. While most were not economically relevant, the political process was "still geared to the notion that railroads were essential" and they were propped up with subsidies. The concept of substituting lower cost operators for Class I rails was established.

In the midwest, the Rock Island and the Milwaukee were restructured, with some parts going to Class I carriers and some creating shortlines. Mr. McClellan felt that the midwest restructuring "made better economic sense" than in the east, because of the longer distances involved, somewhat more traffic, and lower subsidy levels.

In the east, the changes in the economy and pervasive truck competition led to increased losses for Conrail (which led Congress to pass the Staggers Act), and more cuts in employees and trackage. A difference in the second set of cuts was that some of the lines cut still had traffic that might be meaningful to a lower cost operator and could feed into the mainline. Abandonment would also lead to even more political problems. This combination changed "big" railroads' view of shortlines from that of being a nuisance to potentially a benefit. As subsidies were reduced or eliminated, another important phenomena was the need for shortlines to be run as businesses with traffic and connections to Class I railroads.

Mr. McClellan cited the more recent cases, including the Illinois Central Gulf (ICG) which had a poor traffic and labor situation, and competition from the river system. ICG decided its only choice was to get out by selling its busier lines as regional railroads.

The economics of light density lines that had affected the weak rail companies first eventually caught up with even the healthy railroads, such as the CSX, BN, NS, and UP. They came to the same conclusion: don't put scarce capital into the "edges" of your business. This "downsize/rationalize/transfer" pattern was the same one passenger service had followed years earlier. His major conclusion was that the rationalization and shortline movement is "simply one more step in the necessary process of changing the railroads from a common carrier system to a market oriented system."

The main issues now begin with urgency of change; railroad management can't wait 20 or 30 years. Second is an awareness of playing an "end game": if railroads keep abandoning, they will be out of business.

For the future, Mr. McClellan foresees most significant economic development along the Interstate Highway System corridors. With the fallout of feeder lines, the Class I rails need trucks as their feeders. Additional feeder route rationalization will be due to double stack and Roadrailers, described as superior products for service and reliability.

Mr. McClellan also expects more mainline rationalization, in terms of coordination and sharing. Duplicate mainline trackage will be reduced to make assets more productive. Local traffic alone won't support these duplicate lines as shortlines. Once the UP, Santa Fe, and CSX reach their rationalization goals, the pace of regional and shortline transfers will slow. Railroads will get better work agreements from their own employees, limiting a key economic reason for line transfer.

The final issue approached by Mr. McClellan was the role of the states. If states do anything, they should push railroads toward a niche, not toward preserving common carriers (as Michigan did). This may be done through funding only capital improvements, not operating subsidies, and assuring the selection of smart operators of shortlines. He encouraged states to use their influence and funding to promote change.

Discussion of Issues Raised by Attendees

Following is a list of the topics, with brief comments, that were discussed during the ensuing question-and-answer session:

- Twin 48-foot trailers on Interstates. Iowa and Missouri are not supporting twin-48 legislation as they could affect the highway life cycle; Kansas and Nebraska were reviewing the issue. Mr. McClellan noted that if the US goes to twin-48s, railroads must be strategic managers of their capital and get out of the railroad business quickly.

- Main line coordination. Although railroads have always said it's nearly impossible to run on somebody else's track, they will find as the expense goes up, "we can share" (McClellan).

- Customer service, salesmen. One shipper noted that railroads need salesmen who listen to their needs and offer a menu of possible services.

- Leased lines. NS program is only for lines that connect with the NS. A $50/car lease cost is a strong incentive for the shortline to feed traffic to the NS. The NS provides cash for the shortline to operate, in exchange for carloads in the future.

- State policy directions. An example is Iowa's Quad Cities Container Terminal: cost was $1.4 million, expected to handle 12 to 15 thousand car loadings annually. The Soo Line guarantees the availability of trailers and boxes there and runs some mini-stack trains.

  Paul Banner of Iowa Interstate (IAIS) had "mixed feelings about the propriety of the whole deal." The IAIS has its own terminal and pays its own expenses; it has piggyback ramps in Chicago, Iowa City, Newton, and Council Bluffs. He cautioned the state to make certain that public interest is not at the expense of private industry. Les Holland explained Iowa's position: if a project meets the economic development criteria, it should be done.

- Motive power for shortlines. When the track wears out or when the second-hand power market shakes out, shortlines may collapse. There is a need for experimentation and development of smaller units of motive power.

- Model of state assistance. With Kansas and Nebraska looking at rationalization, the Iowa system of focused money was suggested.

- Labor. The Pittsburgh and Lake Erie case and labor union affect on line sales were questioned. Jim McClellan noted that work rules were the key. He suggested support for the rails to take a strike and get the labor cost fixed.

- Roadrailers in the region. NS will use Roadrailers in Kansas City (by road) in 1990. Discipline and good management are required.

- Other state policy issues. Missouri has more opportunities for non-Class I lines and will look at some urban area rail issues. In Nebraska, a task force is determining what the role of the state will be. The state has the possibility of losing 1000 track miles in the next 10 years if they do not have a program.

- Taxation and insurance issues. Mentioned were lower real estate rates for railroads and rapid depreciation for locomotives. Insurance has increased in cost and decreased in availability.

PANEL PRESENTATION AND DISCUSSION

The Roles of Intermodalism and Intermodal Strategies for the 1990s

PANEL MEMBERS	Paul Banner, Chairman and Chief Executive Officer Iowa Interstate Railroad
	Charles Scheiderer, Director of Domestic Transportation Operations Volume Shoe Corporation
	Paul Nowicki, Marketing Manager Atchison, Topeka and Santa Fe Railroad
	Barry Butzow, Vice President of Transportation C. H. Robinson Company
PANEL MODERATOR	Thomas H. Maze, Associate Professor Civil and Construction Engineering, Iowa State University
ATTENDEES	All workshop attendees

PURPOSE

The major purpose of the panel presentation and discussion was to provide the perspectives of a Class I railroad, a regional railroad, a trucking firm, and a shipper on what is the future of intermodal transportation, and the identity and nature of the key intermodal issues in the 1990s.

Presentation by Dr. Paul Banner

Dr. Banner began his presentation by stating shortlines would not exist if the labor rules in the Class I rail industry were to change. He noted two phenomena in the Class I rail industry. First, Class I carriers are substituting capital for labor, even in the marketing area. Second, they are becoming more like wholesalers. He supported these statements by noting that over 50 percent of rail carloads are coal and grain, and all the labor-intensive activities of railroads have been or are being discontinued. For example, railroads have removed themselves from LCL business, passenger service, and even are moving out of marketing their own services. Railroads are becoming technical movers of trains and are becoming more homogeneous. He believes this trend will make railroads less important and the marketing party or third party the driving force for the railroad. In contrast, the shortlines, like the Iowa Interstate, still market and deal with what is in each TOFC unit.

Shortlines have some key problems or issues facing them in the 1990s. In the short run, the key issues are the following:

- FELA - it's like a lottery. Because of the potentially large pay out in these cases, the shortlines in particular find the FELA to be an extreme burden.

- Access to capital - shortlines are finding it difficult to access the capital markets and when they can, capital is extremely expensive.

- Grade crossings - to maintain a level of required safety, maintenance costs are high, and the insurance costs are troublesome.

In the long run, the key issues are the following:

- Power - At present shortlines buy power in the second-hand market; as this supply disappears, the cost of acquiring power will increase significantly and the shortlines cost structure for power will approach that of Class I carriers.

- Research, Development and Innovation - shortlines have distinct issues and problems that need to be researched but only the Class I carriers can access the capital to conduct such research.

Dr. Banner did disagree with the preliminary assessment report that indicated Iowa doesn't have an intermodal hub. He did indicate that the report was correct in a technical sense, in that the hub he was alluding to is not on a Class I railroad, but on a Class II railroad (the Iowa Interstate Railroad), and thus might not be technically within the definition of an intermodal hub.

Presentation by Mr. Charles Scheiderer

Mr. Scheiderer began by providing an overview and some insights into the nature of the Volume Shoe operations and key distribution issues facing the firm. For example, 75 percent of all of its shoes are imported each year with most of these coming through the Long Beach, California facility. All of the 40-ft. international containers are transloaded into larger boxes (48 or 53 ft. containers).

For two years Volume Shoe did not use rail services, but has returned to the rail industry because of competitive prices and improved services. He categorized transportation services from the West Coast into several levels (a menu of services), ranked from best to worst:

- Truck service using teams of drivers
- Intermodal rail service
- Truck service with one driver
- Double-stack train service

Mr. Scheiderer noted that he was looking for eastbound intermodal service out of Topeka, Kansas. He is using some Roadrailer service.

He agreed with the conclusions of the preliminary assessment report. In particular, he agreed that there will be a reduction in the number of carriers used by any shipper, and that long-term contracting will grow. He also noted that to reduce the requirements placed on shippers to monitor transportation and coordinate shipments, partnerships must be fostered for increased dependability. He also thought the use of EDI would become more widespread, but cautioned carriers about developing their own EDI software.

He concluded by stating that he does not agree with the position that railroads will become niche carriers. He believes that railroads are the primary long-haul carrier, and trucks are the primary short-haul carrier, or highly specialized long-haul carrier. He also encouraged railroads to stay in the marketing business.

Presentation by Mr. Paul Nowicki

Mr. Nowicki discussed four major areas in his presentation: 1) diversion of traffic between truck and intermodal, 2) marketing issues, 3) operations/technology issues, and 4) legislative issues. In his discussion of traffic diversion, he noted that there are constant diversions of loads from truck to rail and vice versa. He does believe that the shift to double stacks are at the expense of trucking service. There is a potential diversion from truck to intermodal of 3.5 million loads per year.

Mr. Nowicki stated that railroads generally wholesale their intermodal service. In order for intermodal to reach its potential, however, Mr. Nowicki believes that railroads must market through multiple channels. In addition, he believes intermodal presently serves the price sensitive market segment, not the service sensitive market. To grow, this service sensitive segment must be penetrated, through tighter coordination among the parts of the movement. This will involve greater discipline by the participants, more dependable train operations, and fewer and more sophisticated agents. Improvements in networking are also needed. He cited the work of

American President Lines in taking advantage of an integrated operation which creates the capability to network railroads.

In the area of operations and technology, Mr. Nowicki predicted that the closing of low volume terminals will continue. He also indicated that the BN, UP, and SP appear to be headed to all double-stack operations. He finished his comments with a reference to the importance of truck size and weight regulations in determining the diversion of freight from truck to rail. Any liberalization of the truck size and weight restrictions would devastate the railroad industry, in his opinion.

Presentation by Mr. Barry Butzow

Mr. Butzow provided a brief overview of the operations of the C. H. Robinson Company. In 1988 the firm transported over 300,000 truck loads of freight. The main concerns of C.H. Robinson are: 1) the driver shortage, 2) single commercial licensing, 3) fuel cost increases, 4) difficulty in finding and keeping long-distance drivers, and 5) increases in federal and state highway taxes. He also indicated that C. H. Robinson has just joined the third party category with respect to railroads and now has agreements with all major railroads. Mr. Butzow noted that shippers are demanding a trucking company mentality toward the movement of intermodal freight; the shippers want it to look and smell like a truck.

Mr. Butzow illustrated how intermodal movements are or can be arranged by referencing several examples of how C. H. Robinson has worked with over-the-road carriers to expand their intermodal movements. Included in the examples was a movement involving a just-in-time production operation.

Mr. Butzow alluded to the following points in the concluding section of his presentation:

- Intermodalism will be necessary to help solve the congestion problems in major cities.

- Railroads must continue to work towards true EDI capability for an accurate, uniform tracing of TOFC and container traffic.

- C. H. Robinson is a strong proponent of state deregulation of transportation. The marketplace demands that firms have freedom to move about the industry.

- Efficiencies offered by intermodalism help keep midstates manufacturers competitive within their industries.

- Railroads have improved quality of intermodal service.

<u>Discussion of Issues Raised by Attendees</u>

A question and answer period provided an opportunity for a discussion focused on issues related to intermodal transportation. The basic points made during the discussion are provided below without attribution.

The use of boxcars for the grocery business was discussed. The congestion on the roads and highways and the waiting time at grocery warehouses were seen as factors promoting the use of boxcars. This market was seen as particularly attractive for shortlines and for railroads to use in the truck backhaul lanes.

Additional discussion took place on the shortage of motive power for the shortlines. One panel member indicated that there was not a shortage, but the price of used and rebuilt locomotives had increased dramatically during the last five years.

A concern was expressed about the lack of information on what is being shipped in containers or trailers involved in international movements. The problem relates to the possibility that hazardous materials are being transported without the appropriate people being informed. A related issue is the fact that trailers are being used to haul waste material and then are being used to haul food and food-related products. One panel member indicated that the railroads do not keep adequate records on the free-moving trailers to know which ones contained trash.

The potential of using intermodal transportation (containerized shipments) of agricultural products was explored. Certain problems, including contaminating the product and the load often exceeding the highway weight limitations, were discussed.

The session ended with a discussion of the effectiveness of states' efforts at promoting intermodal transportation. The opinion of one panelist was that sharing piggyback or double-stack terminals does not work well in practice. Another commented that individual state efforts are limited by the local market for the service. The question about the role of state initiatives remains to be resolved.

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