REACTING TO SHIPPER EXPECTATIONS

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There is a radical difference between Jim Lamb's and Steve Lucas' presentations in terms of the way they are making transportation choices.

Jim clearly articulated a carrier selection and transportation selection process that focuses on a limited number of alliances. First, he defines them by a broad set of service criteria, which probably didn't come as a surprise to anyone. After all is said and done, they will negotiate for good prices, but they will do long-term pricing, etc. Steve was equally blunt that price, price, and price is the key. To those of you who aren't as involved in the grain transportation business, I don't know if you understand how serious that is.

They trade both barge transportation and ocean transportation on a commodities market alongside pork bellies and bushels of corn, so you go buy and sell barge freight for delivery next October for a set price just like that. Also to a limited degree rail capacity, although you only have one person making the market, so it is not quite as fair. It really is a price-driven transaction in many respects.

Beneath the surface of those discussions I heard a couple of comments that led me to believe that, as diverse as those approaches seem to be, my guess is they are moving together rather than apart. Jim tried not to use the buzz word of price at all in his presentation but he did have some things in there about negotiating about continuous cost reductions. From the carrier's point of view that is continuous price reductions. What he was really saying, in some respects, as I heard it, was that they have gone from a comfortable situation in their business—(which may be common to American manufacturers) in which they had a dominant share of a marketplace—to a situation that is intensely competitive. One of the results is that Kodak film is more like a commodity with Agfa film and Fuji film than was true in the past. He alluded to the example of the port tax. Well if Fuji is going to ship through Montreal and is getting a price reduction, I may have to do the same thing, my historic partnerships notwithstanding. Steve suggested that he would prefer to move more in the direction of Jim as well. We trade barge freight like a commodity but the service that is behind that freight really does have an impact on Steve's ultimate cost of the transaction. It is a commodity in the sense that it is priced that way, but the service characteristics are relevant. The system really prevents us as carriers and shippers from trying to deal with those service issues in a way that is really going to reduce the total cost of the transaction. How can you marry these two concepts together?

Finally, two additional items are particularly relevant in the public-private perspective. Steve was open about the fact that infrastructure issues are very important issues to him. The lock and dam improvement process is clearly of concern because it directly impacts the capacity of his network. Because that network has been pressed to operate in some cases beyond its realistic capacity level, the shippers get acutely aware of it. Because of this, it has allowed the industry to develop a coalition to do the improvements like Lock and Dam 26. Maybe there is a lesson there for everybody who is trying to deal with the same set of infrastructure issues in the more traditional intermodal context. Obviously, Jim isn't really in touch with or concerned about the infrastructure questions (i.e., the fact that Los Angeles-Long Beach may go to container gridlock). We probably need to find a way to make sure he understands that before it becomes a core issue for his transportation choice process because that is an important part of developing the constituency—to make sure we get the infrastructure improvements we need.

I was real interested in the commentary on the government levies. They were both consistent on this one, at least. Government levies are perceived as bad. Jim talked about the question of a port tax in New York harbor and that he has an option, perhaps, through Montreal. Steve talked about the user fees and the payment for the improvements of locks and dams and that had a direct effect and impact on the farmer. You can also turn that around. The impact of the new Lock and Dam 26 has been to virtually eliminate congestion on the upper Mississippi River. By some estimates it has led to reductions in the price that barge companies are earning from the movement of barge grain transportation by 10 percent to 15 percent or even 20 percent. How do we properly assess beneficiaries if the beneficiary is really the farmer?

REACTION AND GENERAL DISCUSSION

Kathleen E. Stein-Hudson
Steering Committee Chairman

We have heard from providers and shippers and touched on the role of government. We have been discussing our relationships as competitors and partners and we seem to be redefining the nature of competition. This is one of the key parts of a strategic perspective. What follows are questions, answers, and comments on the key issues that were discussed.