DAY 3: PLENARY SESSION (TOWN HALL MEETING PANEL)

Progress Since the 1994 Commission Report

Private Sector Assessments

C. Michael Walton, *University of Texas at Austin, and* M. John Vickerman, *TranSystems Corporation, Moderators*
Joseph Nievez, *Quikway Trucking Company*
Paul Nowicki, *Burlington Northern Santa Fe Railway*
Donald Cameron, *The Cameron Group and BOSE Corporation*
Theodore Prince, *Kleinschmidt, Inc.*

OVERVIEW

Our town hall panelists, each of whom represents a particular stakeholder viewpoint on intermodalism, have been asked to reflect on the commission report, the responses of the current administration, and the conference events and discussions of the past 2 days. Our goal is to identify and focus on specific items and issues that can be taken from this conference and perhaps translated into some specific action recommendations. Each panelist will make some opening remarks and then we will open it up for discussion.

TRUCKING PERSPECTIVE

Joseph Nievez

Joseph Nievez is President of Quikway Trucking Company and past President of CTA—the California Trucking Association—which many of you know is one of the more prominent trucking associations in the United States. Quikway operates in and out of Los Angeles–Long Beach, providing daily pickup; delivery, distribution, and consolidation; and container and piggyback services.

I want to welcome you all to California. I was in Sacramento earlier this week at a CTA function that included an appearance by California Governor Gray Davis, who indicated that transportation is Number 4 on his list of priorities. The Number 1 priority is education, Number 2 is education, and Number 3 is education. Clearly, transportation is near the top of the list.

Lately, the terms congestion and California have been going hand-in-hand. From a congestion management standpoint, it does not really look too good for the next 20 years. Within the next 20 years, it is estimated an additional 7 million people will locate in Los Angeles County. That is equivalent to a city the size of Chicago moving into this county. Governor Davis's priorities also include the economy, and to have a good economy we have to get people to work on time. It is going to be a real management issue.

From my trucking perspective, we deal with the routine congestion on the highways and the freeways, and then we have port congestion in the Los Angeles–Long Beach port complex. I do not think we are prepared to meet the anticipated growth predicted over the next 10 years. The port of Long Beach grew 175 percent in the 10 years since 1990. In January 2000, the port of Los Angeles had a 41 percent increase in 20-ft equivalent units over January 1999, and January is generally one of the slower months for imports.

It is particularly troublesome to me that we do not have adequate infrastructure or facilities. We do not have the highways, but to some extent that may be the easier part of the problem to fix, because that can be financed through tax dollars and tax revenues. The greatest deficiency I see is a lack of cooperation with respect to facilities. We have 14 individual terminals and each terminal considers itself its own separate business, which is true to a certain extent. The ports of Los Angeles and Long Beach are viewed as a "port complex" by trucking companies and by importers. Yet, here in the two ports, trucking companies cannot get a common ID system to identify drivers—it makes me wonder where the spirit of cooperation is. Improved cooperation would also enhance security.

Another thing we can improve on right now is productivity. I have talked to the steamship lines and hear that, when it comes to productivity, it is a labor issue. Labor is not productive. I talk to labor and they say the fault lies with management and the way labor is managed. In my view, productivity is a function of labor and management working together. It is the synergy that is created that increases productivity. To a certain extent, we have seen it with the Teamsters and the truck drivers. I would really like to see it with the longshoremen and the Pacific Maritime Association here all along the West Coast.

I am afraid we are not ready to handle the anticipated growth for this Los Angeles–Long Beach port complex. Importers and exporters, our clients, are very smart businessmen. They cut their lead time to the shortest amount of time because usually they are buying goods and they are paying interest on borrowed money. But they have many options. They can go to another port. They can go to Seattle. They can go down through the canals and go to the East Coast. The funny thing about that is when an importer does not come to the Los Angeles–Long Beach complex and opts instead for Seattle, it is the same steamship line that takes it to and from Seattle. It is the same union that handles the merchandise in Seattle, and we consume that merchandise in California.

I mentioned earlier the need to get people to work on time. The complex here in Los Angeles–Long Beach is a major national economic force. It is probably one of the last "golden geese" we have here in southern California. Aerospace left us a few years ago. The Silicon Valley is going strong; but in southern California, it is the ports that are a gold mine for us. The port is a major origin and destination point for traffic. While you are here you may get on the Long Beach Freeway, you may get on the Harbor Freeway, and you will find it is a mess.

We need productivity improvements here also because of the environmental impact. You all know that California is one of the leading states in seeking clean air. While we are waiting in line to pick up our containers or deliver our containers, our trucks are idling—often for 2 and 3 hours at a time. Idling is not the most efficient level of operation for a diesel engine. Currently, the ports are working only in daylight hours—8 a.m. to 5 p.m.—for truck deliveries. As the emissions go into the air, they bake in the sunlight and that is what hurts your eyes. At night, you do not have that baking effect. The other offshoot to our trucks is diesel fuel. Is diesel fuel truly the fuel of the future, or is it a carcinogen? Here in California, we are very much involved in that issue.

We also need productivity because, at this time, we have an extreme shortage of drivers. I saw a gentleman from the Government Affairs Department of Consolidated Freightways earlier this week. Consolidated Freightways is having a difficult time recruiting drivers. This is the full union package, top money, with benefits and everything—$30.00 or $32.00 per hour. They are having a hard time finding drivers. For the most part in the ports, we use independent contractors who are paid basically on a piecework basis. That is primarily because with each trip that you go into the port, there are so many variables involved that for price and for simplicity of pricing, it is much easier to just pay on a piecework basis. Our industry and our importers are not quite ready to receive a base price and then a variable cost, depending on time consumed waiting at the ports.

I do not want to just sit here and tell you we need productivity and then walk away. The Intermodal Conference of the California Trucking Association is involved in a work group with the Steamship Association that represents terminal operators and steamship lines. We also work with the customs brokers here in southern California. We meet about once a month and have been doing so for almost 5 years now. We have come up with what we think will help productivity here in the port. However, I have to tell you our idea has not been embraced by the Steamship Association or the terminal operators. In any case, the trucking ideas are as follows:

- We need a 24-hour fully manned operation at the port, just like the railroads. Railroads can get in there on Saturdays, Sundays, and anytime—24/7. As it now stands, the terminals are not doing anything differently in February, which is a relatively slow month, than they are doing in October. And if you are busy in October, that means we are going to have a Christmas rush. Usually that is good. But the terminals do not do anything differently in October than they do in February. There is not an extra person out there. There are no extended hours.
- We need a communications system now that the Internet and e-commerce are a standard way of doing business. We need a communications system that is used for port operators in the terminals for availability, for conditions at the port, for driver ID purposes. We have been working on the intranet system—we call it the dispatch system—for about 3½ years. We had one vendor who did not quite make the grade. Another company by the name of e-modal stepped up to the plate 4 or 5 months ago, and they just launched the new dispatch system about 2 weeks ago. There are only two terminals that have signed up for it so far. Everyone wants to use their own Internet system

for this operating system. The trucking community is saying, "That is great, but I am really not interesting in seeing the American President Lines (APL) ship going across my screen. I want to know if my 10 containers at APL are available." We want something for operators who work in the port, not a marketing web page.

- As mentioned earlier, we need a standard ID card. We are going into 14 different terminals and there are about 10 different ID systems. This means our drivers basically have to carry 10 credit card commercial drivers' license-type documents with them. If they lose one, drop one, we do not get into the terminal.
- We need depots stationed throughout southern California and the Inland Empire. All the major distribution centers are moving out to Ontario, Fontana, and so forth. This includes major retailers like Target, which has a distribution center out there. It is ridiculous that I have to take a full container out there and bring that container right back to APL, when there is an export load sitting in Fontana—a trucker can pick up my empty, take it to the same city, Fontana, and bring it back full. If we would do something like that, it would cut out a complete round on the freeways and there would be less gate activity at the ports. We really need a depot yard out in the Inland Empire, out in the San Fernando Valley, Orange County, and down in San Diego—a yard that is open 24 hours a day.
- Somehow we need to reach out to the importers and exporters and educate them about the process of the ports here. I understand that everyone is working on borrowed money and each day is *X* amount of dollars in interest fees, but retailers especially appear to never in their lives have done anything on time. Consequently, when we get that Christmas rush—anytime in November is just crunch time—a lot of the retailers receive 55 percent of their goods in a 60-day period. It really stretches the facilities here in southern California.

That concludes my trucking perspective, which again is strictly a view from southern California, although I think often southern California is offered as an example for both good things and bad things. Thank you very much.

Railroad Perspective

Paul Nowicki

I am going to focus on what I think were extremely provocative comments made yesterday by Charlie White of the Federal Railroad Administration. I want to make it clear before I say anything at all that I was not offended at all by those comments. In fact, I found them quite insightful. He brought up some things that railroaders often do not like to talk about, but they are things we have to face up to.

The first point Charlie made was that Wall Street does not want another rail merger. He is probably right about that, but of course the stock price problem in the railroad industry is not as simple as that. You certainly cannot blame the plunging railroad stocks over the past 18 months on our December 20th announcement. There are two reasons and a lot of subreasons why railroad stocks are in the gutter. You probably noticed the headline or subheadline on the newspaper that came under your door this morning. The NASDAQ hit another high yesterday and the Dow Jones took another dive. Railroads are no different than a lot of the other traditional companies on the Dow Jones—companies like McDonalds, Sara Lee, Walgreens, Abbott Labs—who are all trading at 52-week or worse levels in their stocks.

Of course, we have a special story that has been depressing in the rail industry. Union Pacific, CSX, Norfolk Southern, and maybe Burlington Northern paid too much for their rail acquisitions. After they made those acquisitions, they found that the need for capital investment was even greater than was predicted before the mergers took place and, of course, there are the unanticipated operating problems and run-up in operating expenses that we have seen. The bottom line is that the railroads have not shown the bottom line impacts. They are just beginning to show the bottom line benefits from these mergers.

In the case of Burlington Northern Santa Fe, we have to wait and see what the shareholders say. As Rob Krebs mentioned at lunch, our shareholder vote is going to be in mid-April, and the belief at our company is that shareholders who did not want our merger have left. They have sold their stock and moved on to other investments. Those who have confidence in the company and in the Burlington Northern Santa Fe/Canadian National merger stayed with us.

Why do you care, or why should you care, about this unless your college fund or retirement funds are invested in rail stocks? The key is that rail stock prices are a sign of how much capital investment the railroads can put into their systems for the future. With low stock prices, the pressure is to buy back our stock with our free cash flow and not put it back into the company. That is why it is a public policy problem.

Charlie also posed a series of financial questions. He said that as the economy grows, railroad capacity needs are going to increase. How are we going to finance the needed expansion? Why are the returns on investment not there for railroads? Then he said the days of private railroading may be coming to a close. He mentioned that word nationalization, which we have not really heard a lot since the

Staggers Act. I want to respond with my own question: How can privately financed railroads be expected to compete over the long term with publicly financed highway and waterway systems? We have 50 years of evidence staring us in the face saying that just cannot work. That is the decline in market share by the railroads.

Railroads showed glimpses of promise in the late 1980s and during the early and middle 1990s; however, I think that was a bit of false hope. The benefits of the Staggers Act were kicking in and there was this big leap forward in intermodalism. But guess what—we are headed right back to where we were in the 1970s. We are struggling again and railroads are increasingly become niche players instead of general movers of freight as we used to be.

Railroads invest about $2.50 of capital to generate $1.00 of revenues. Truckers invest about 50¢ in capital to generate a dollar of revenues. As long as there is this enormous discrepancy, the railroads' slice of the market share pie is going to decline. It is that simple.

One big change that is occurring responds to another point that Charlie made yesterday and that Rob mentioned at lunch today. The railroad industry's long-standing reluctance to participate in government financing partnerships is changing. We do not have any choice. I think railroads are going to be there with the federal government in a way we have not been in the past.

My last point relates to short-line railroads. Charlie pointed out that short lines are increasingly troubled. He raised the 286,000-lb issue. It should not be a surprise that this issue is coming up. The Class I railroads spun off their weakest routes. The new owners came in with lower costs. They were able to sustain operations for awhile, but guess what? Eventually the bridges wear out, the ties rot, the rail needs to be replaced, a big shipper leaves or switches to truck, and you have a problem. Then an innovation comes along like 286,000-lb cars. It is all just part of evolution. I think Rob made it clear at lunch, when there is an innovation that comes along, we share the benefits—the lower costs—with our customers. However, the old ways become relatively more expensive and that is why the branch-line issue is with us today.

Shipper Perspective

Donald Cameron

I want to start off with what somebody said earlier. It is a lot easier to look at the past than it is to guess the future. I also want to say that deregulation has been something that certainly has advanced what we do today. You remember the days when we used to have tariff files. Nobody even knows what those are today, but back in the old days, it took 6 hours to find one freight rate, particularly rail. We have come a long way in funneling what we do every day, focusing on productivity and infrastructure. We have talked about technology. We have talked about human involvement. We have certainly heard about the problems in southern California. What I want to make clear is that, as a shipper, whatever problems there are at one particular location, we can always pick up and move to another location.

Consider what happened to the textile industry in the United States. It was in the Northeast. It moved to the South, and now it is for the most part offshore. We are going to see an evolution of all those things coming in the future, and I have to point out that what I see continually, and you see it here, is trade imbalance. What we carry in these containers, on the rails, how much of this is international and where is it coming from? Are we exporting jobs?

In an earlier session, Ed Emmett had a goodie bag that he was giving out. He pulled out each piece in that bag and said this hat was made in Taiwan, this shirt was made in China, and on and on. The fact is, that is where we are going. From the point of view of American industry, what do we do if we cannot compete? We pick up our plant and move it somewhere else. Those are the things we need to focus on in the future, working with the U.S. trade representatives in Washington.

Let me give you a concrete example. BOSE is a manufacturer of high-quality sound systems. We make a product that we send to China. The duty on that product is 50 percent. We make the same product in China and bring it to the United States. Guess what? No duty. Our problem is that the United States has been and will continue to be a free trader. But what happens with our trading partners—we are not on the same level. We are not into handing out graft to anybody in the world; however, that is part of the culture of some of our trading partners. That is how they operate.

We have to compete with all those kinds of things and when we talk about the good life we have in the United States, the wages, the environment, the taxes we get to pay, the subsidies that other countries give their industries aboveboard or belowboard—all this makes it difficult for us to compete. If given the chance on a level playing field, U.S. business can compete and compete very well in world trade. One issue I have not heard brought up at this conference is the trade imbalance. We have to go after that trade imbalance in the years to come, and I think if you dig underneath what is going on in Washington and around the world, we will find that U.S. businesses are at a disadvantage. We have to change that.

INFORMATION TECHNOLOGY PERSPECTIVE

Theodore Prince

Let's look at some good news and some bad news. The good news is nine million plus intermodal loads, four straight, five of ten, whatever, year after year growth of intermodal traffic. However, if you back out the international trade—all those containers that are moving with import goods, export goods—and then reposition with domestic and empty, then I would dare to say we really have not seen any growth in the true domestic intermodal market. What we have done is taken the easy pickings—the low-hanging fruit—to grow the intermodal business. Then, when there is a problem, instead of looking at the fundamental issues, we always have a list of externalities to blame. We have mergers. We have labor. We have the Asian flu. We have the economic issue. Then there are weather problems. Starting in 1993, everybody missed the fact that equilibrium had been reached between the supply and demand and that we could no longer fill excess capacity mindlessly and grow the business.

I think we really have to look at fundamentals. Let's look at one of the great historical success stories of this region—John Wooten, the wizard of Westwood and the UCLA basketball dynasty. Here was a guy who went out and was recruiting all those that would be today's McDonald's All-Americans. I remember reading an interview with Bill Walton, one of the most famous recruits, and he talked about the very first day of practice when he was a sophomore. Wooten took him in and said this is how we put on our socks. It went from there. There was a focus on operational excellence. I think there is a lesson there.

We have heard a lot of talk about supply-chain management and logistics and e-commerce and we have had all sorts of consultants up here telling us about what the future is going to look like. The basic fact is that until Scottie starts beaming stuff around, we have to move it from A to B and we have to get to the fundamental execution of the transportation business. Beneath all the other buzzwords and things we can hear about, we have to execute on basic fundamental performance of transportation services. We are not doing that.

Let's just talk for a moment about this event. This conference has been a very successful event in terms of the dialogue, in terms of the ideas, and in terms of the thought-provoking material that has come out of it. Unfortunately, we may have a case here of a tree falling in the forest and there is nobody from industry here to listen to it. If you go back and look at the report card this morning, once you get past the number of consultants, the major thing that stands out is the fact there are few industry people here—carriers and shippers. That is just not enough. We cannot sit here and talk among ourselves and ignore industry, because industry is the one who has to deliver the goods. We have to recognize that the industry today, with downsizing, consolidation, immediate stockholder pressures, and other things, has an attention span very close to the expected life of a fruit fly. They are not interested in grand policy discussions and reviews and listening sessions. They are interested in things that will get them results—operational focus, maybe some tactical concerns about how we are going to handle next week or next month or the next peak season. That is their focus.

The government and a lot of the academics are going to want to talk about the strategic issues because that is their focus, and the consultants just want to keep the meter going and they will keep talking. The fact is if we do not reach out to industry and bring them into this forum, events like this risk becoming irrelevant. At the beginning of this conference, we were asked how many of us were at TRB's first intermodal conference in 1994 in New Orleans. I was, along with about 600 other people, many of them from industry. Why? Because it was of interest to them, it was of immediate concern to them, and it had practical benefit to them that they could go back to their boss and say, "Yes. I was in New Orleans and here is what we discussed. We got a lot of good ideas and look at the papers that came out of that. There were a lot of great ideas."

We need research, but we need it in a time frame that addresses issues of immediate interest to the industry. If it does not start paying back benefits, financial flexibility, mobility, whatever, within 3 to 6 months, it is not going to get industry's attention. There are a lot of practical applications that can do that. We are an asset-based network operating entity, yet we do not understand how the entity works. We do not understand how the network is put together. We do not understand how it flows. We do not understand the intermediation, and we do not understand the substitution and transfers that happen within it. I suggest that is a great place to start.

There are a lot of good ideas here, but we have to bring it home and we have to focus on what industry needs. If we do not give it to them, they will not do it and we can sit here forever.