



Combined Transport – What's Next? The North American Perspective

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Today's Agenda

Current economic impact

Initiatives and their impact

Future expectations

Factors Likely to Impact All Modes



Current Economic Situation

GDP

- Significant deceleration since 2008Q3
- Recession is global – no decoupling

Housing

- Sub-prime mortgages = WMD
- Inventory at all-time high
- Housing starts can't get less than zero (0)

Industrial

- Manufacturing sector collapsed as exports disappeared
- Auto sector in dire trouble

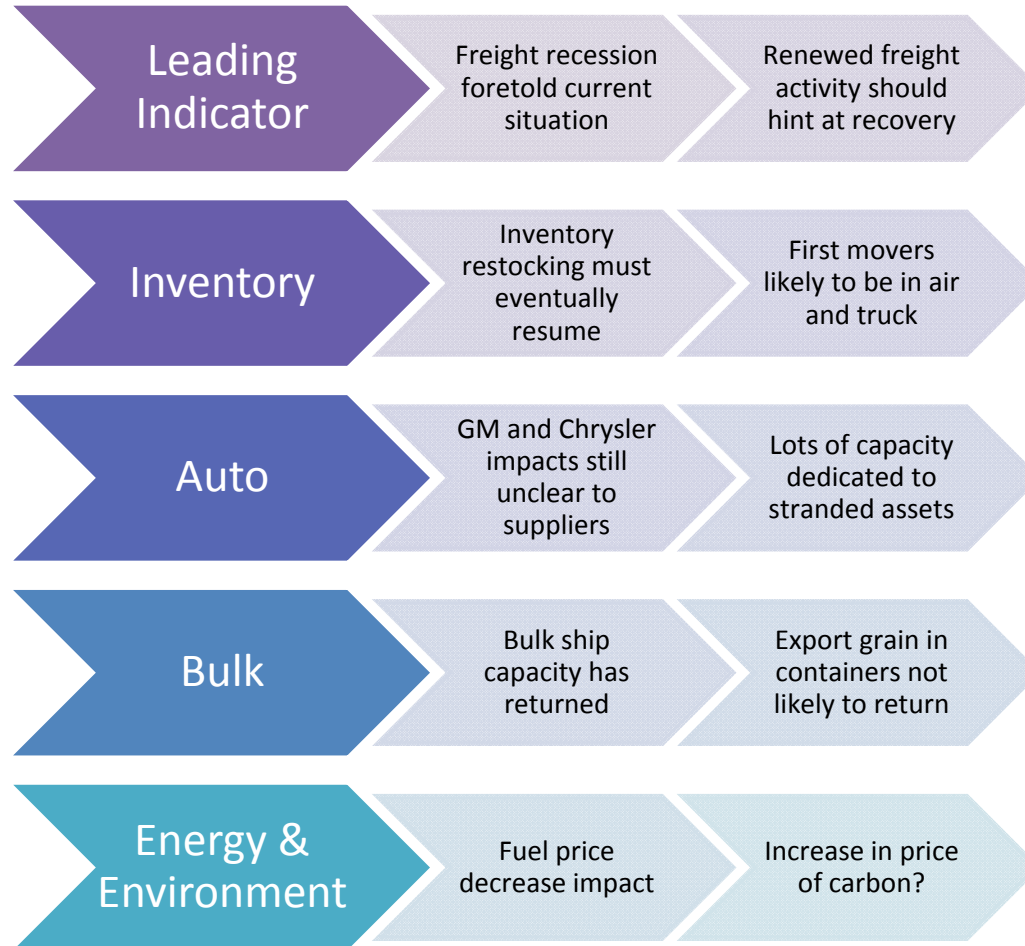
Consumer

- Retail sales affected by fuel and recession
- Multiple bankruptcies
- Inventory destocking to save cash

Fuel

- Has it hit bottom?
- Low price has helped expense and hurt [surcharge] revenue

Current Economic Situation



Measures Taken in Response to Economic Environment

	Rail	Ocean	Truck	Combined
Significant customer changes	Yes	Yes	Yes	Yes
Capacity reduction	Yes	Yes	Yes	Yes
Capital investment deferral	Yes	No	Yes	Yes
Price wars	Some	Yes	Yes	Yes
Service cutbacks	Yes	Yes	Yes	Yes
Innovative product development	No	No	Some	No
Carrier bankruptcy concerns?	No	Yes	Yes	Yes
Regulatory impacts?	Yes	Yes	Yes	Yes
Impact from network changes	Yes	Yes	No	Some
Benefit from lower fuel costs	Yes	Yes	Yes	No

Government Activity

America Recovery and Reinvestment Act

- Some “shovel ready” projects affect freight network
- Funding for transit and high-speed passenger
- \$8 billion transfer to Highway Trust Fund

Surface [Re]Authorization

- Probably ten times (10x) size of stimulus funding.
- Primary focus for transportation (current law expires September)
- How to fund system (increase fuel tax, VMT, etc.)?
- Increase in truck size and weight?

Other issues

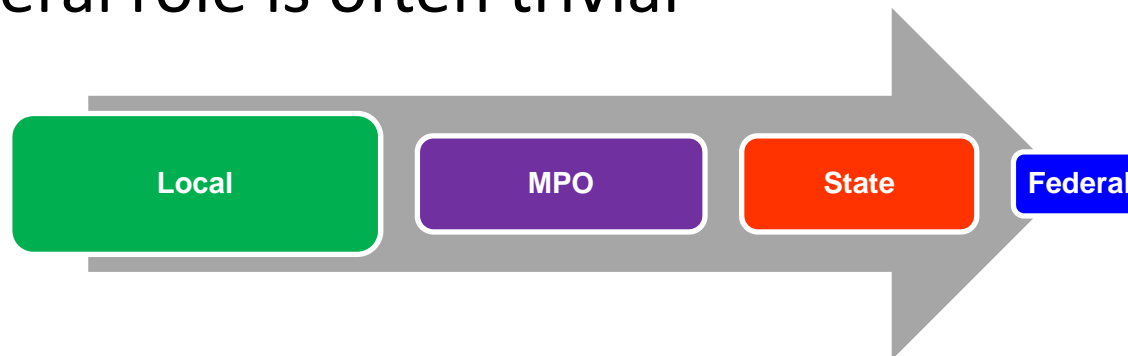
- Railroad anti-trust
- Possible re-regulation?
- Railroad investment tax credit

Government Activity

- Government's role is fragmented
 - Freight moves through countless jurisdictions – often opposed to it

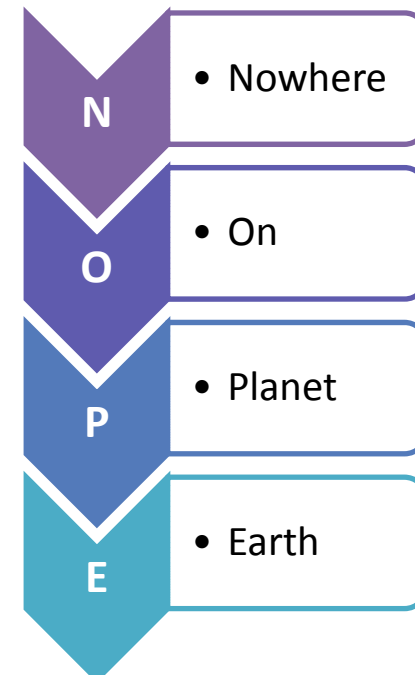
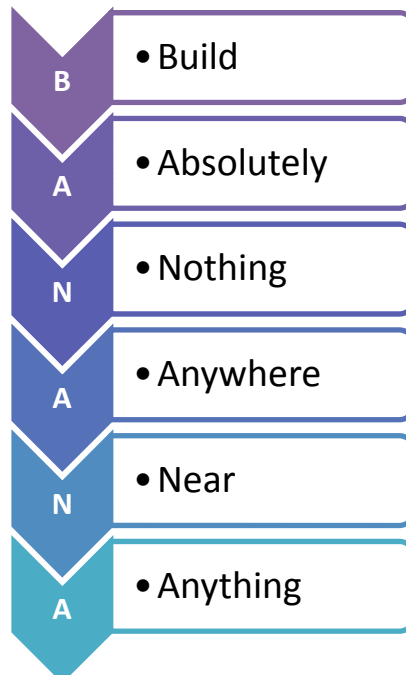
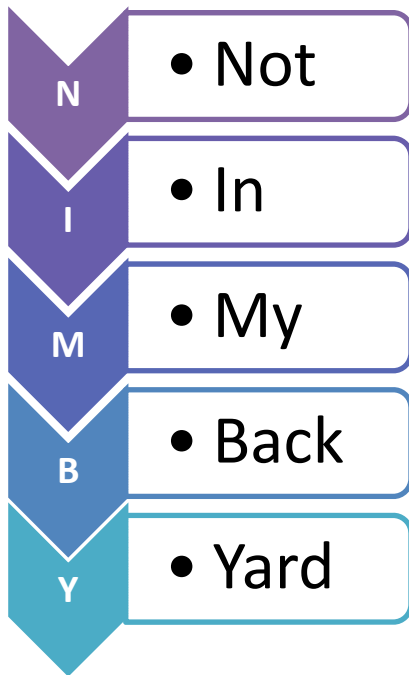


- Federal role is often trivial

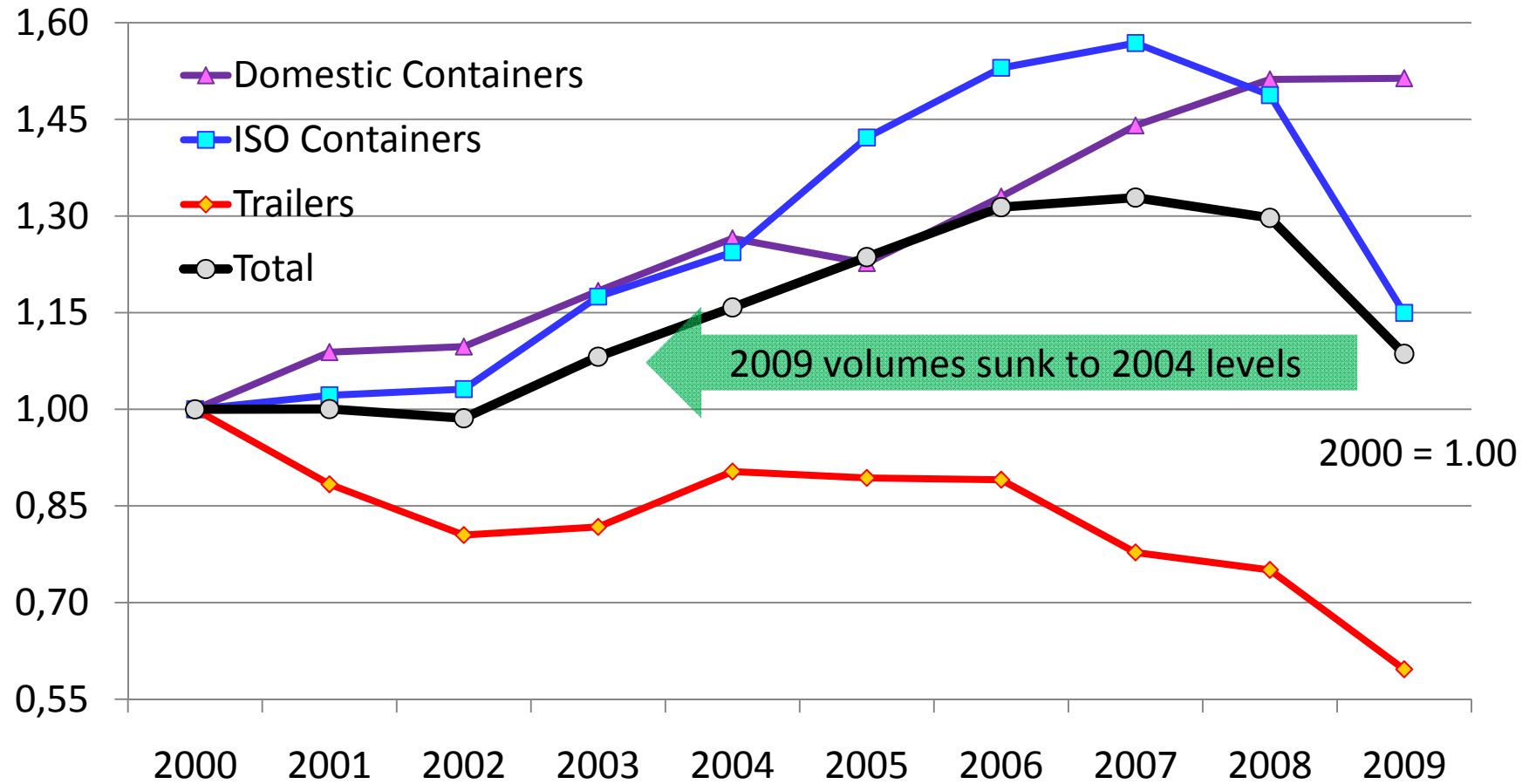


Government Activity

- The new political reality – freight stay out!

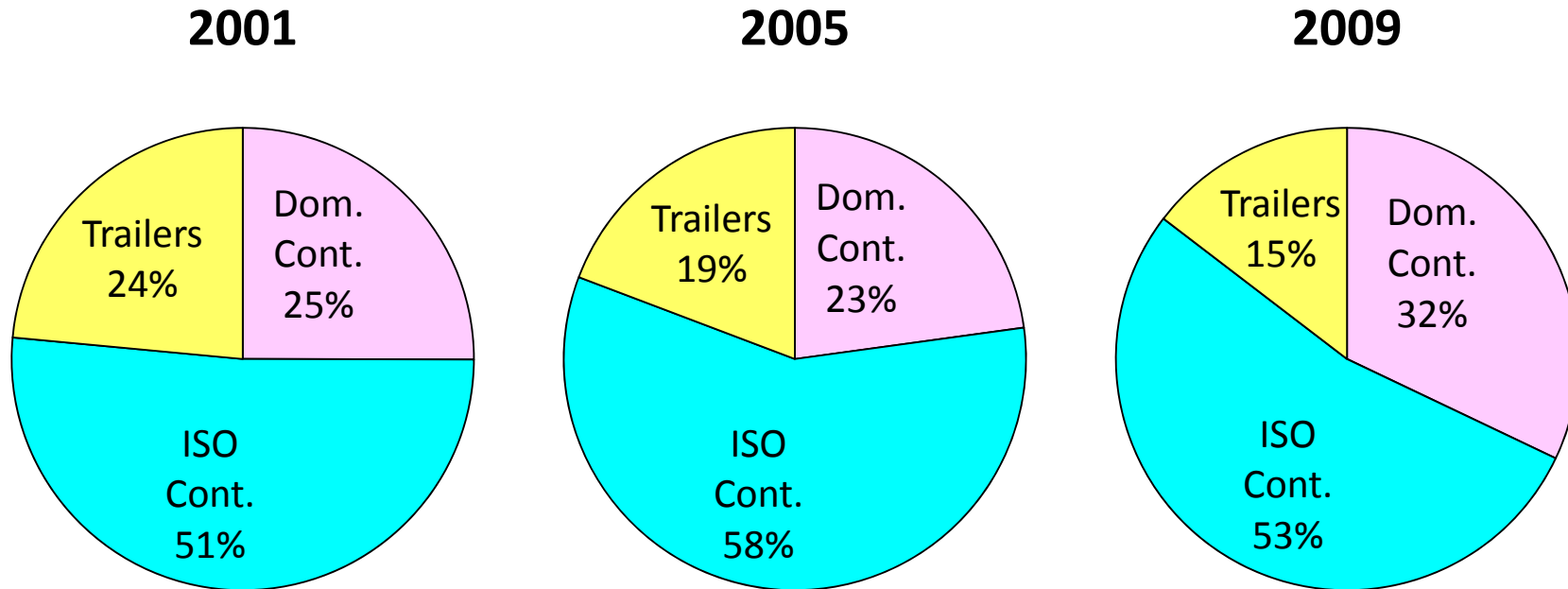


North American Total Rail Intermodal 1st Quarter



Source: IANA

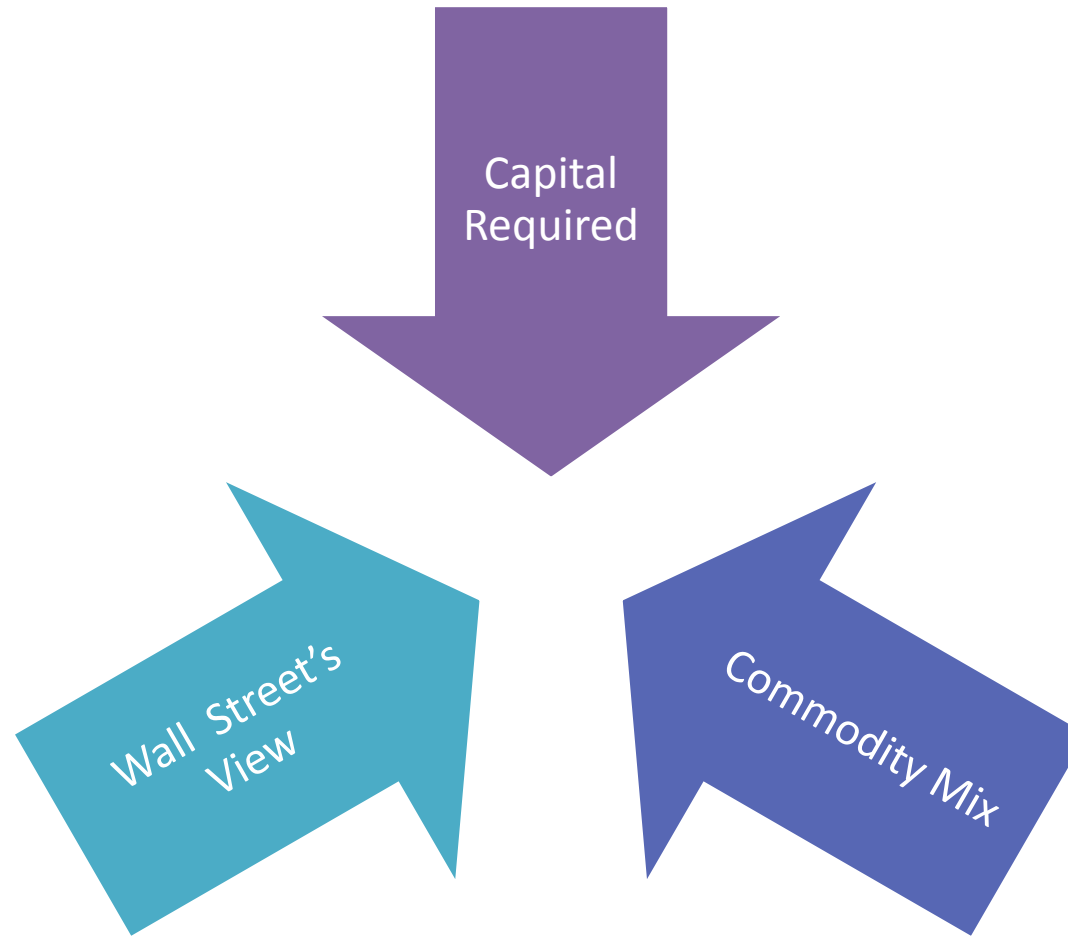
1st Quarter Rail Intermodal



- Market share continues to change
- Trailers being replaced by domestic containers
- Ocean containers maintaining market share

Source: IANA

Factors Likely to Impact Rail



Rail Market Outlook

Market Trends

- Coal and grain markets offer some support
- Housing and industrial weakness hurt other segments

Industry Factors

- Increased regulatory burdens (environment and safety)
- Wall Street's focus on pricing strength vs. revenue growth

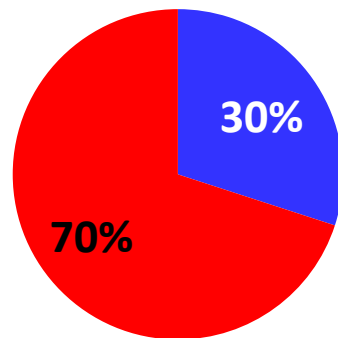
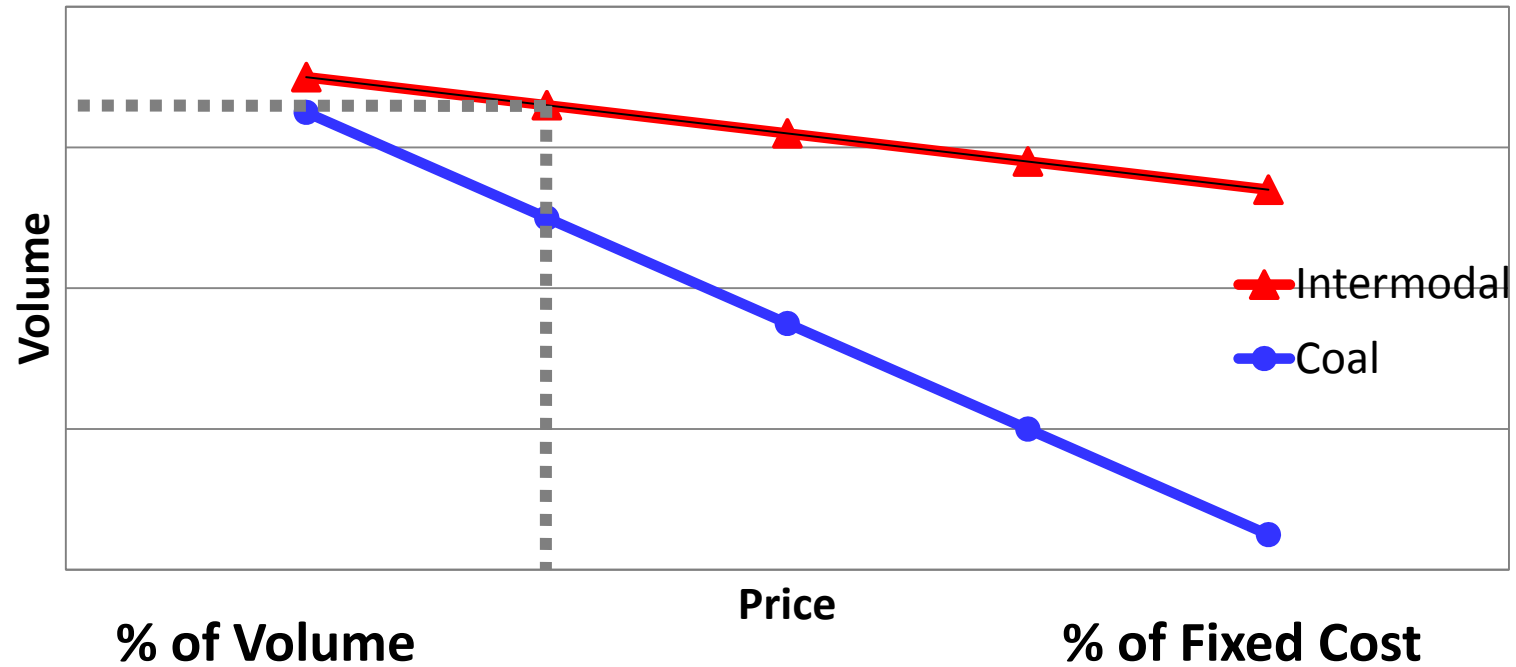
Likely Outcomes

- Most railroads have financial strength to survive
- Smaller railroads subject to merger and acquisition

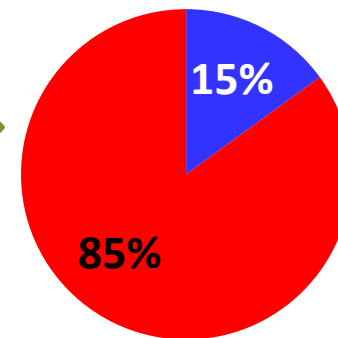
Unknowns

- Impact of auto industry
- Trade policy
- Customers develop new distribution networks

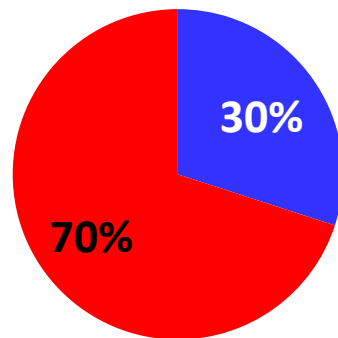
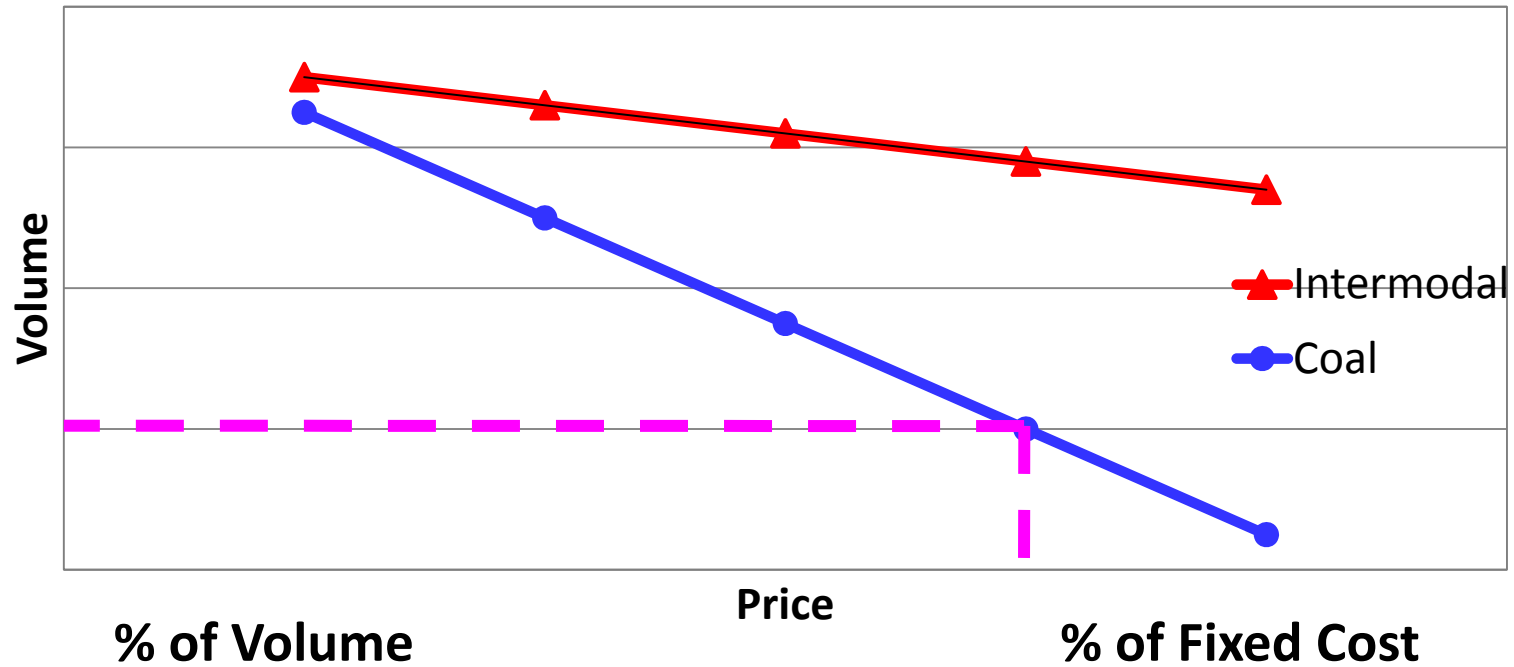
Impact of Deregulation



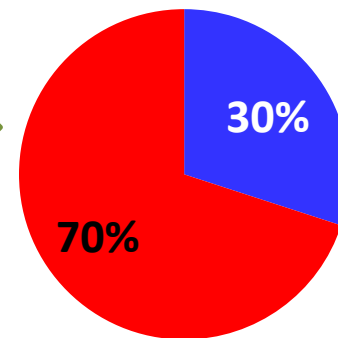
Allocate costs to customers without modal alternatives



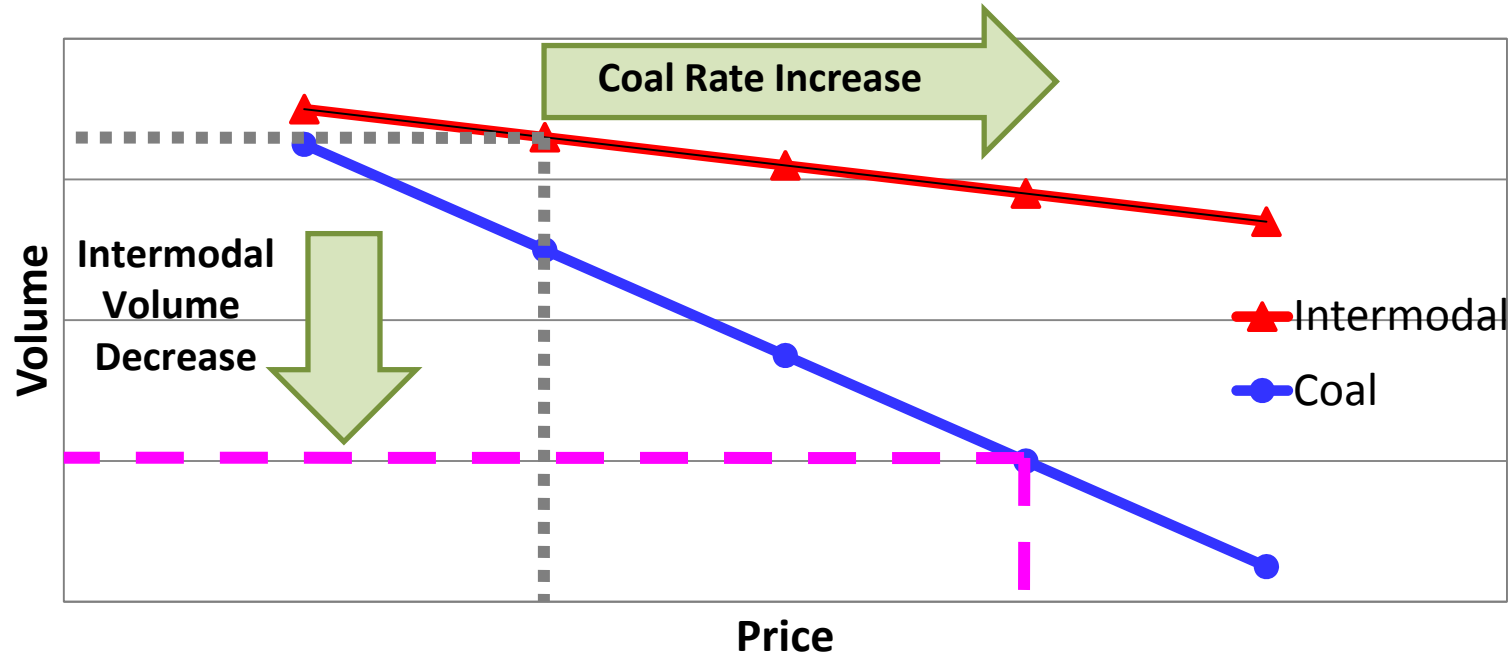
Impact of Re-regulation



Formulaic pricing purports to "fairly allocate" fixed network expenses

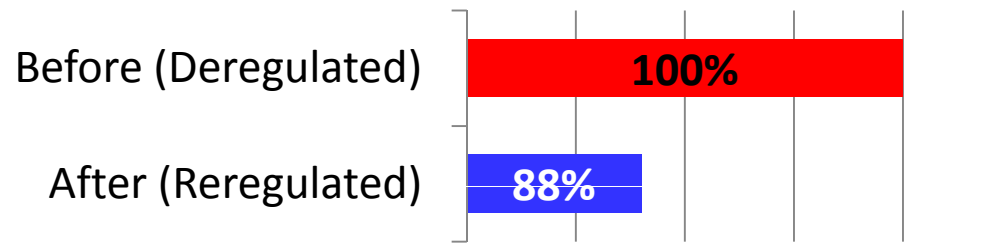


Impact of Re-regulation

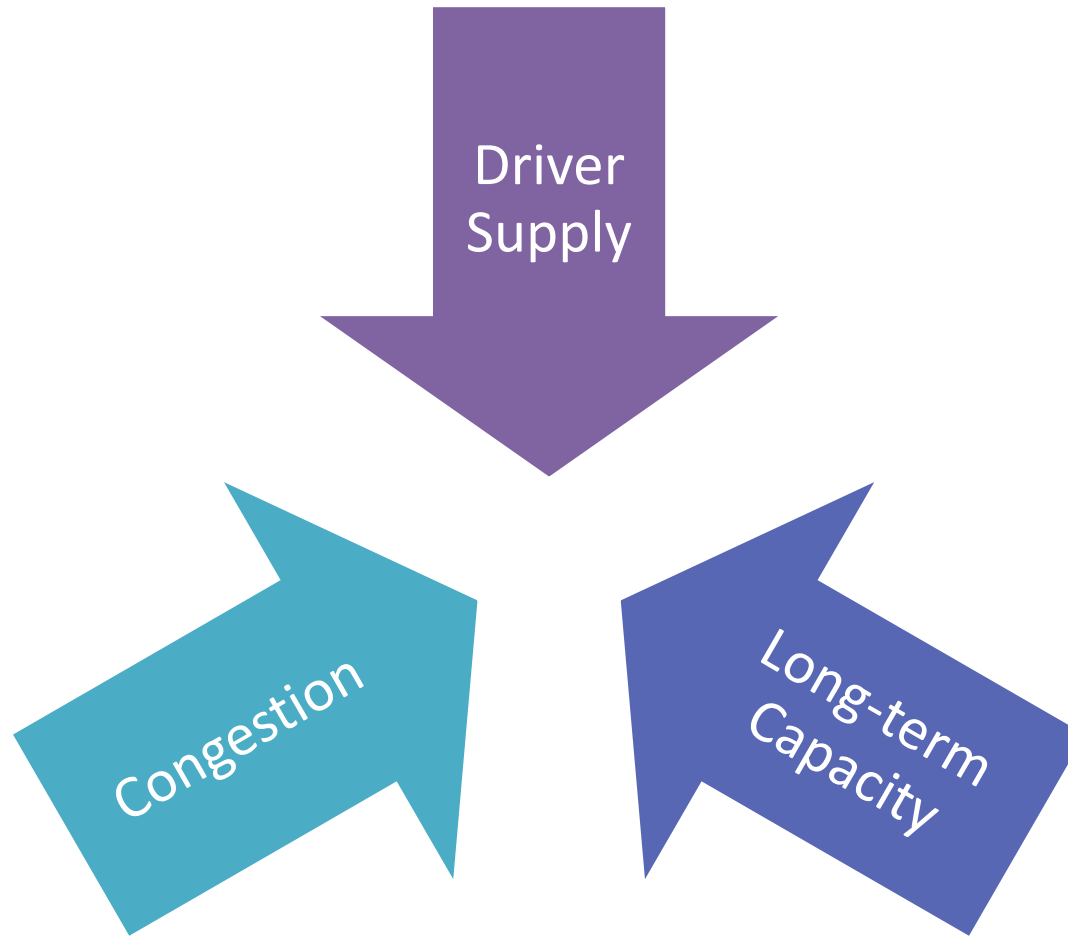


Formulaic pricing increases price on elastic cargo – which diverts to other modes. Ultimately, price to coal increases to recover lost intermodal volume

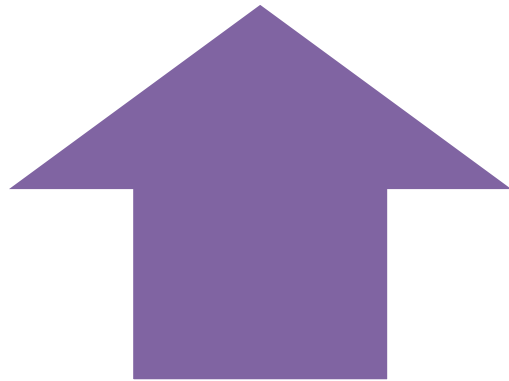
% of Fixed Costs Recovered



Factors Likely to Impact Truck



Truckload Market



Large Firms
Annual Revenue
> \$30 million

Capacity is about equal between the two segments

Small Firms
Annual Revenue
< \$30 million



Truckload Market Situation

Large firm fleets down 3% since
2004 peak

Small firm fleets down 12% since
2004 peak

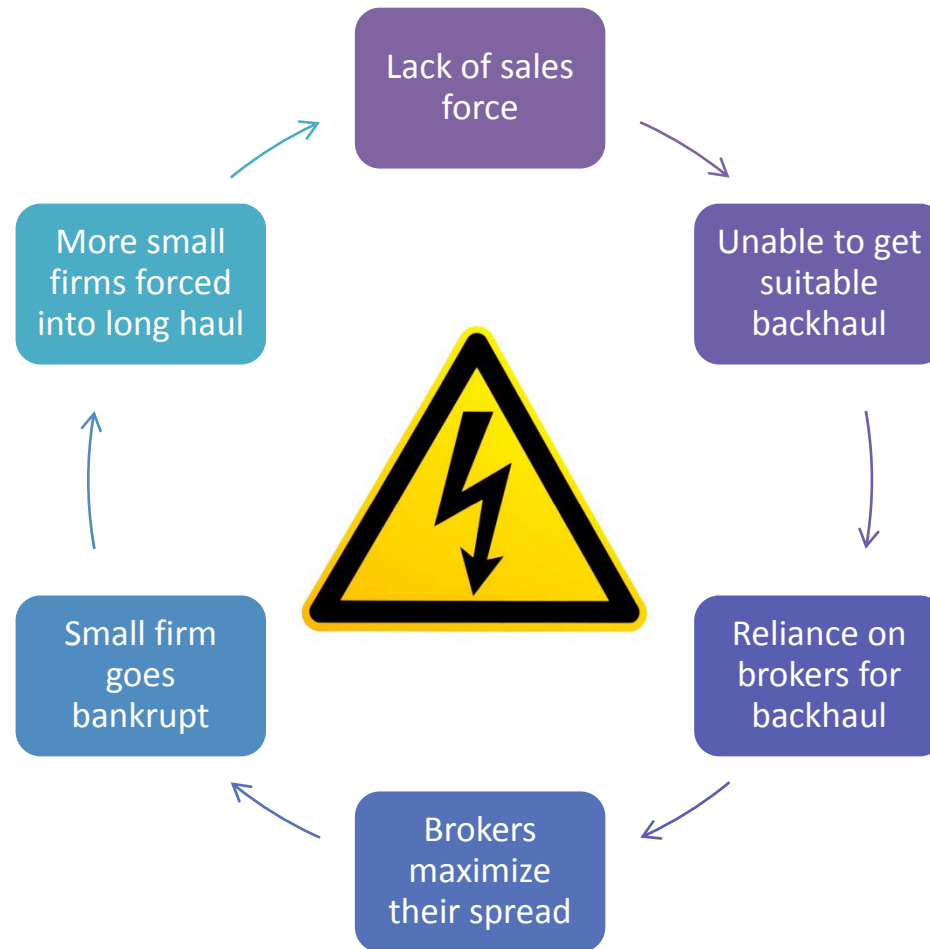
**Capacity continues
to decline**

Trucking failures down but 130,000
trucks removed by bankruptcy in
2008

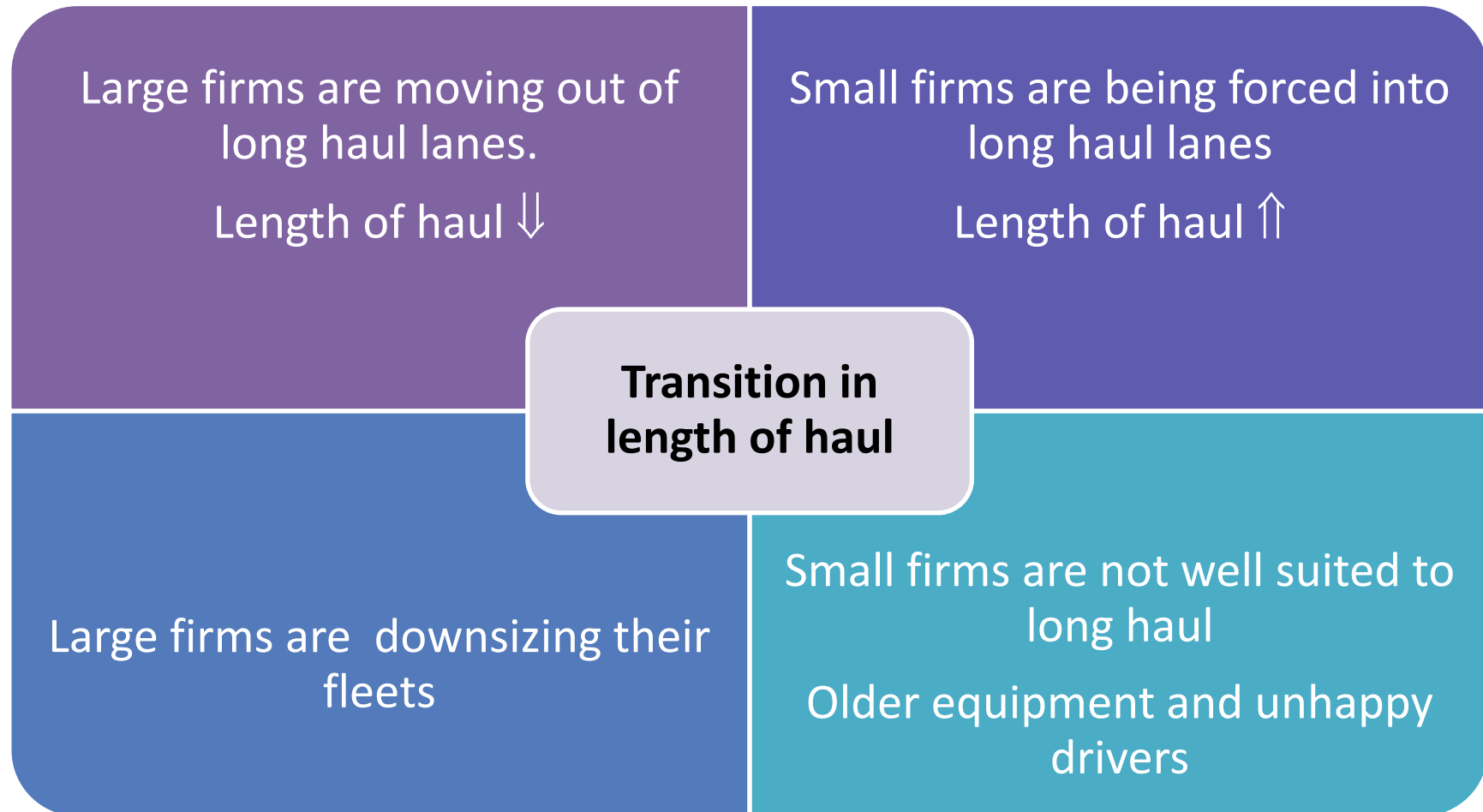
Fuel price decline probably spared
many companies.
Wholesale-retail price gap has
raised revenues

Truckload Market Situation

Market conditions imperil small firms



Truckload Market Situation



Truckload Market Outlook

Market Trends

- Likely increase in fuel
- Continued economic weakness – maybe through 2010
- Congestion: a hidden – but significant -- cost

Industry Factors

- Increased regulatory burdens (environment and safety)
- Depressed driver demographics
- Lack of tractor financing

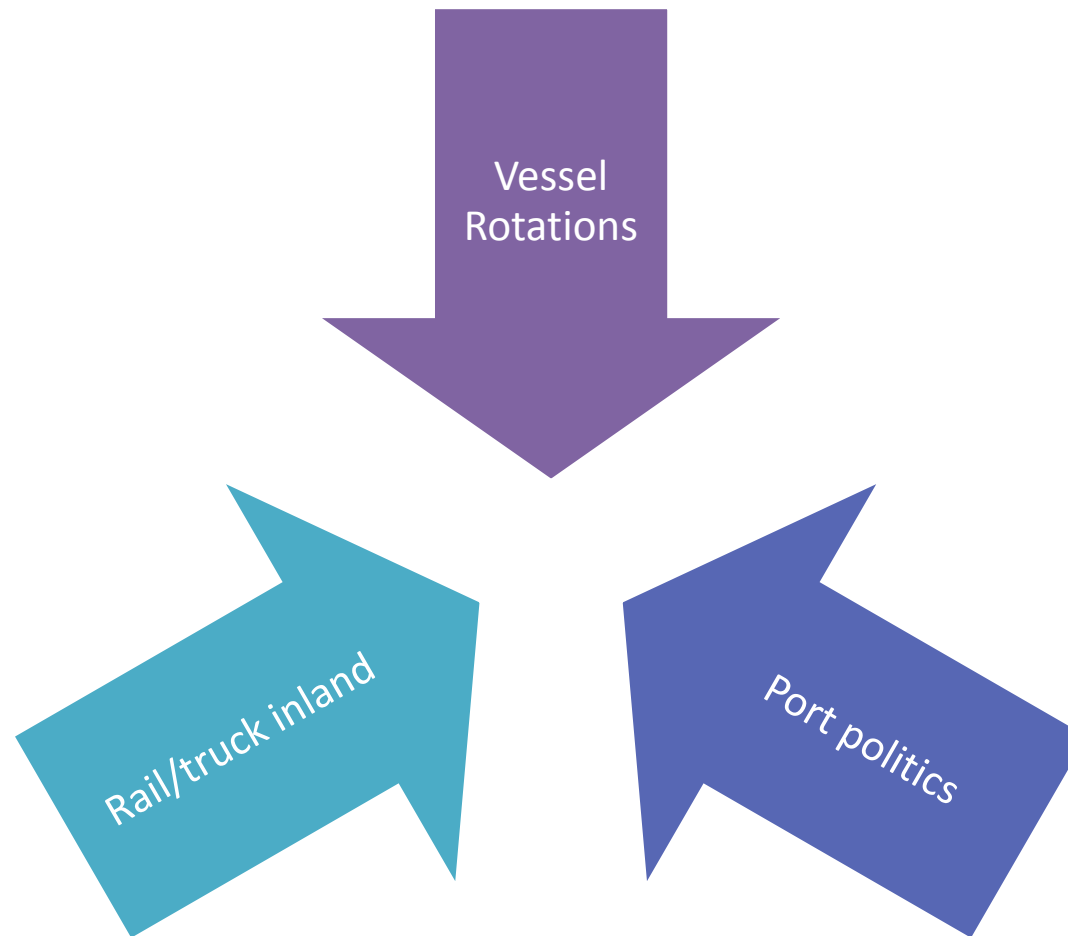
Likely Outcomes

- Capacity will not keep up when demand returns
- Intermodal will increase market penetration as asset owners and brokers seek solutions

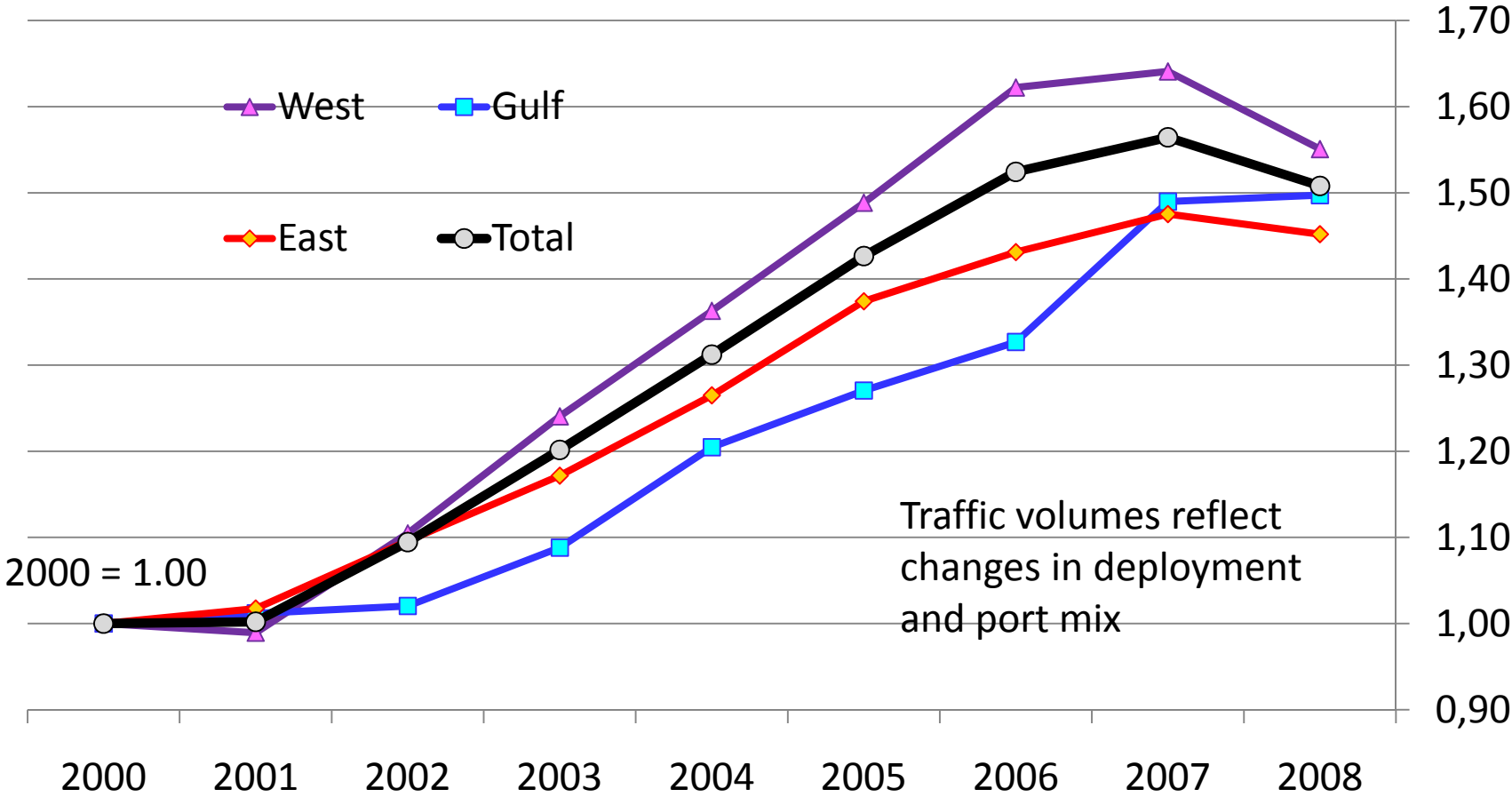
Unknowns

- Carbon reduction results in increased distribution points
- “Getting closer” dramatically shrinks length of haul – can intermodal compete?

Factors Likely to Impact Ocean

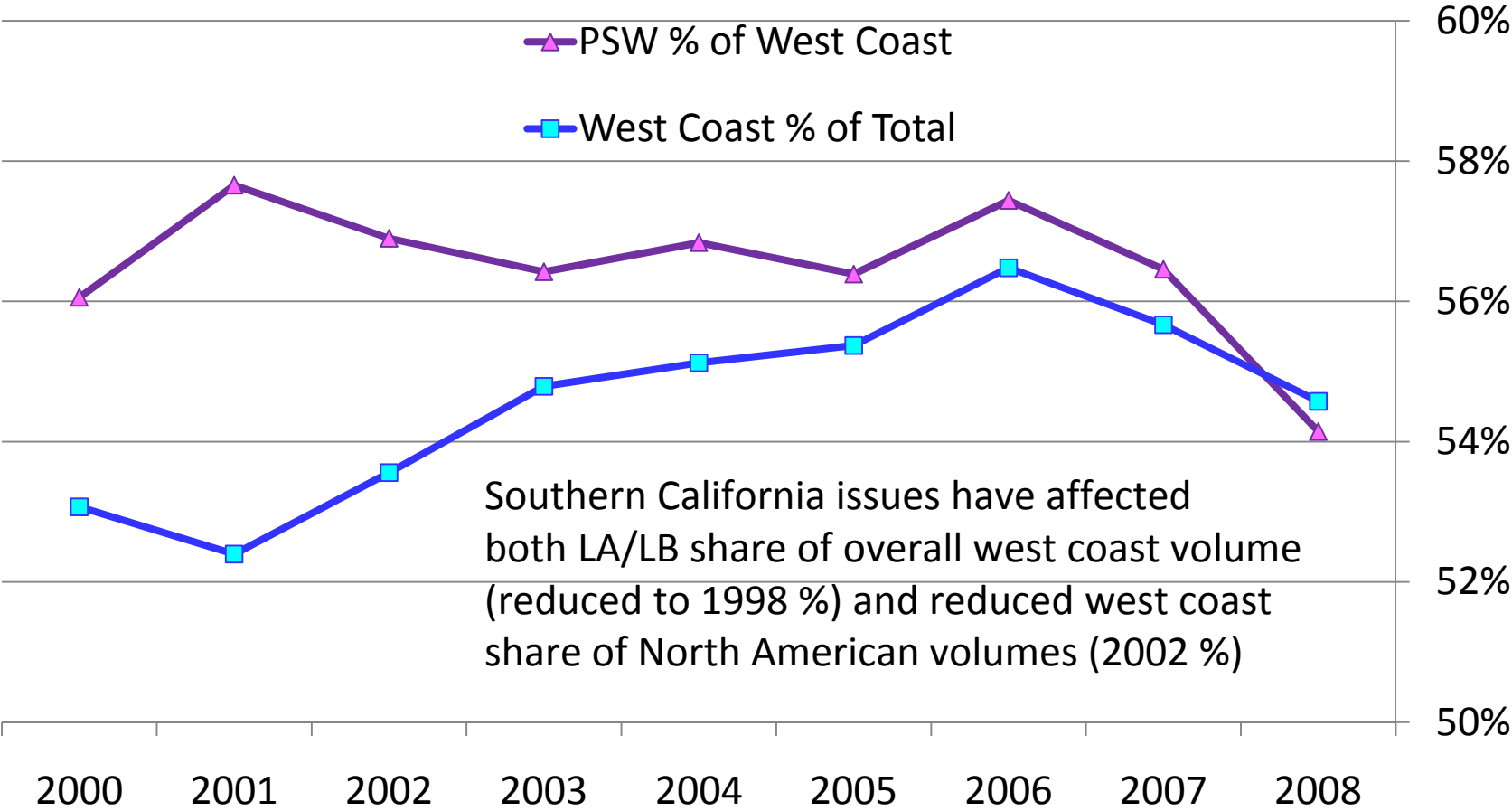


North American Port Volume



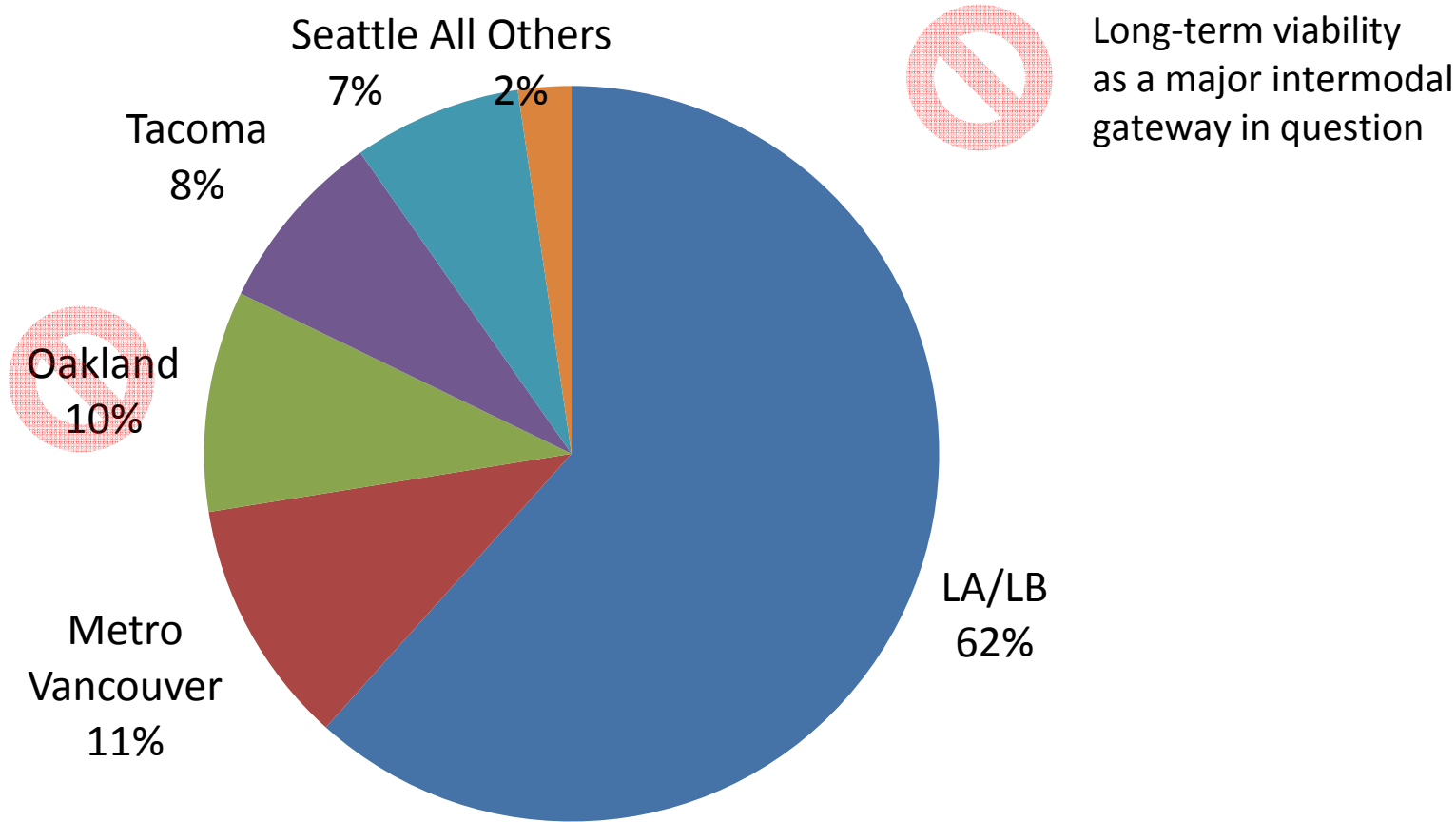
Source: IANA

North American Port Volume



Source: IANA

West Coast Port Volume 2008



Ocean Market Situation

PSW ports viewed as “unfriendly to liner business

Ports are trying to respond – but is it too late?

Local market is major attraction (20% of US total) within 400 miles

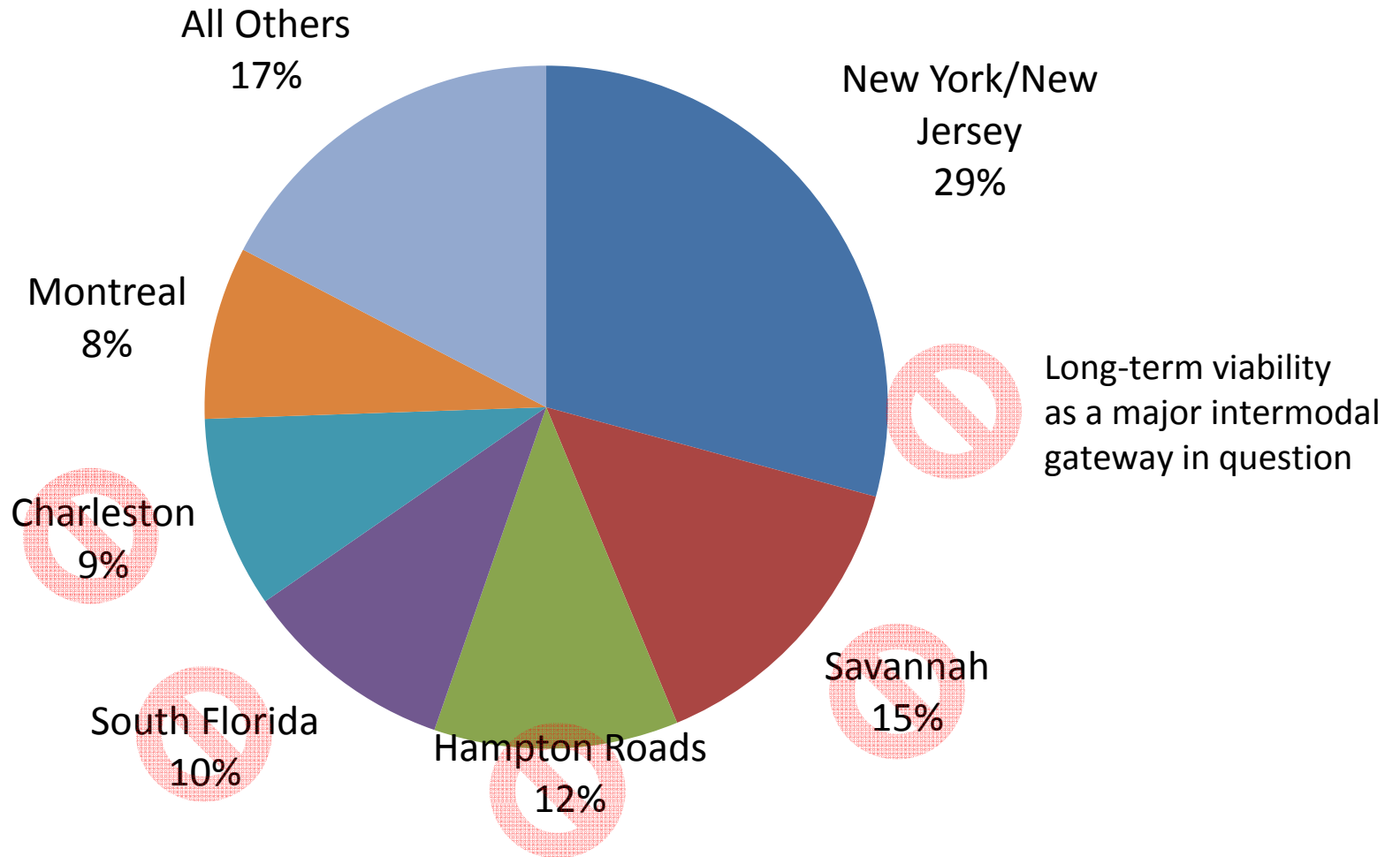
If transloading for inventory deferral persists, PSW is likely to remain attractive to lines

Future of Los Angeles and Long Beach (PSW) Ports

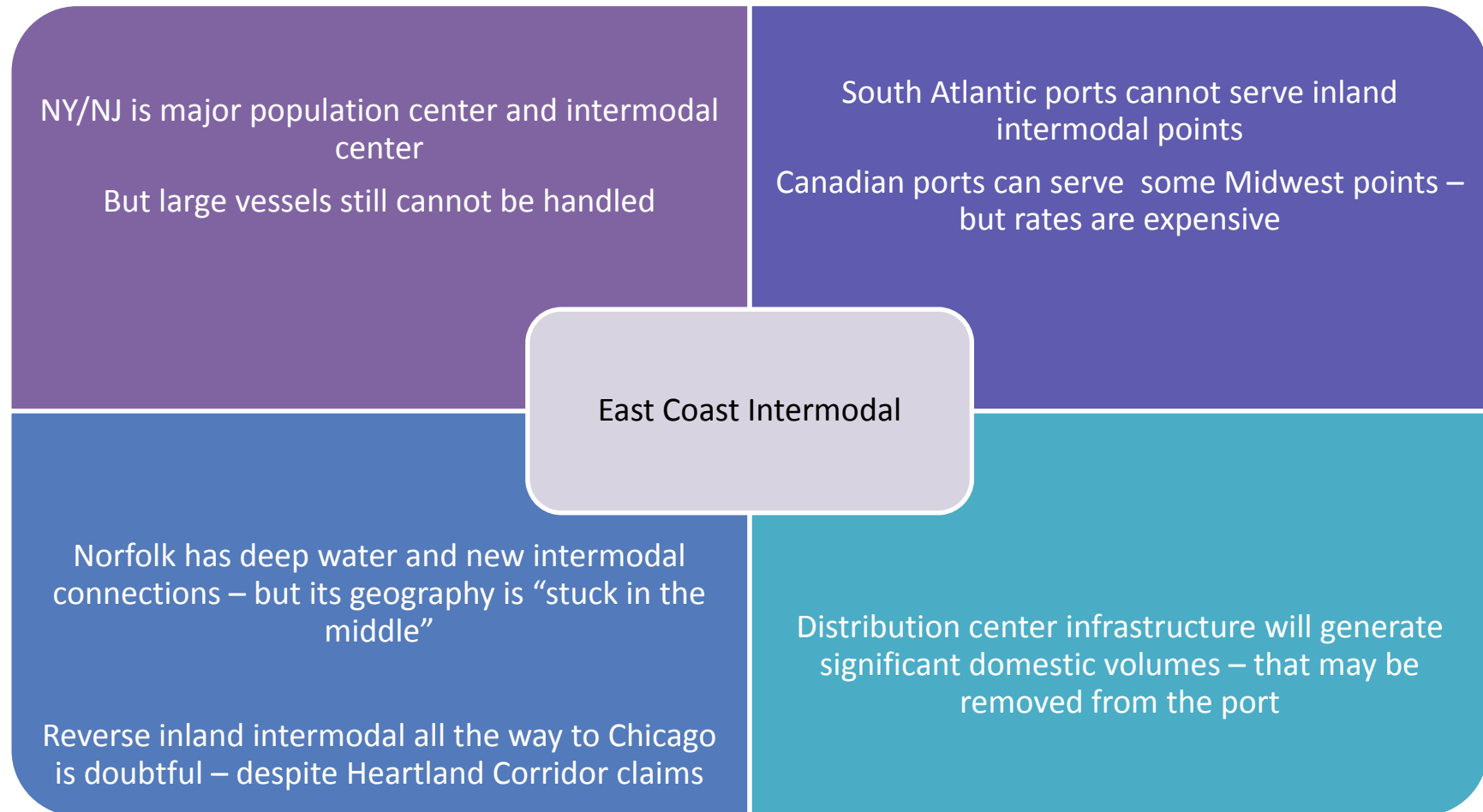
PNW ports would love to attract PSW business, but terminal and intermodal viability is lacking

Possible paradigm shift is using 53-foot domestic containers in international movement

East Coast Port Volume 2008



Ocean Market Situation



Post-Panama Canal Vessel Deployment Options

Scenario #1

- NY/NJ solves aerial clearance problems and dredges
- Lines maintain 3-port calls on ECNA

Scenario #2

- NY/NJ solves aerial clearance problems and dredges
- Lines reduce ECNA to two-port calls

Scenario #3

- NY/NJ fails to solve aerial clearance problems and dredge
- Lines reduce ECNA to two-port calls

Scenario #4

- NY/NJ fails to solve aerial clearance problems and dredge
- Lines reduce ECNA to one port call

Post-Panama Canal Possible Port Outcomes

Current	Port	Scenario #1	Scenario #2	Scenario #3	Scenario #4
Major	NY/NJ	Load Center	Load Center	Load Center*	Load Center*
	Norfolk	Load Center	Local port	Load Center*	Local port
	Savannah	Load Center	Load Center	Load Center	Load Center
Local	Baltimore	Local port	Local port	Local port	Local port
	Charleston	Local port	Local port	Local port	Local port
	Jacksonville	Local port	Local port	Local port	Local port
	Miami	Local port	Local port	Local port	Local port
Miniscule	Boston	No factor	No factor	Local port	Local port
	Philadelphia	No factor	No factor	Local port	Local port
	Wilmington	No factor	No factor	Local port	Local port
Trans-ship	Colon	Local port	Local port	Local port	Load Center
	Freeport	Local port	Local port	Local port	Load Center
	Kingston	Local port	Local port	Local port	Load Center

* Vessels < 5000 TEUs

Ocean Market Outlook

Market Trends

- Significant supply/demand imbalance – for how long?
- Everyone in an alliance?
- Intermodal: yes or no?

Industry Factors

- Increased regulatory burdens (anti-trust)
- Impact on ship owners
- Most lines still don't know their costs

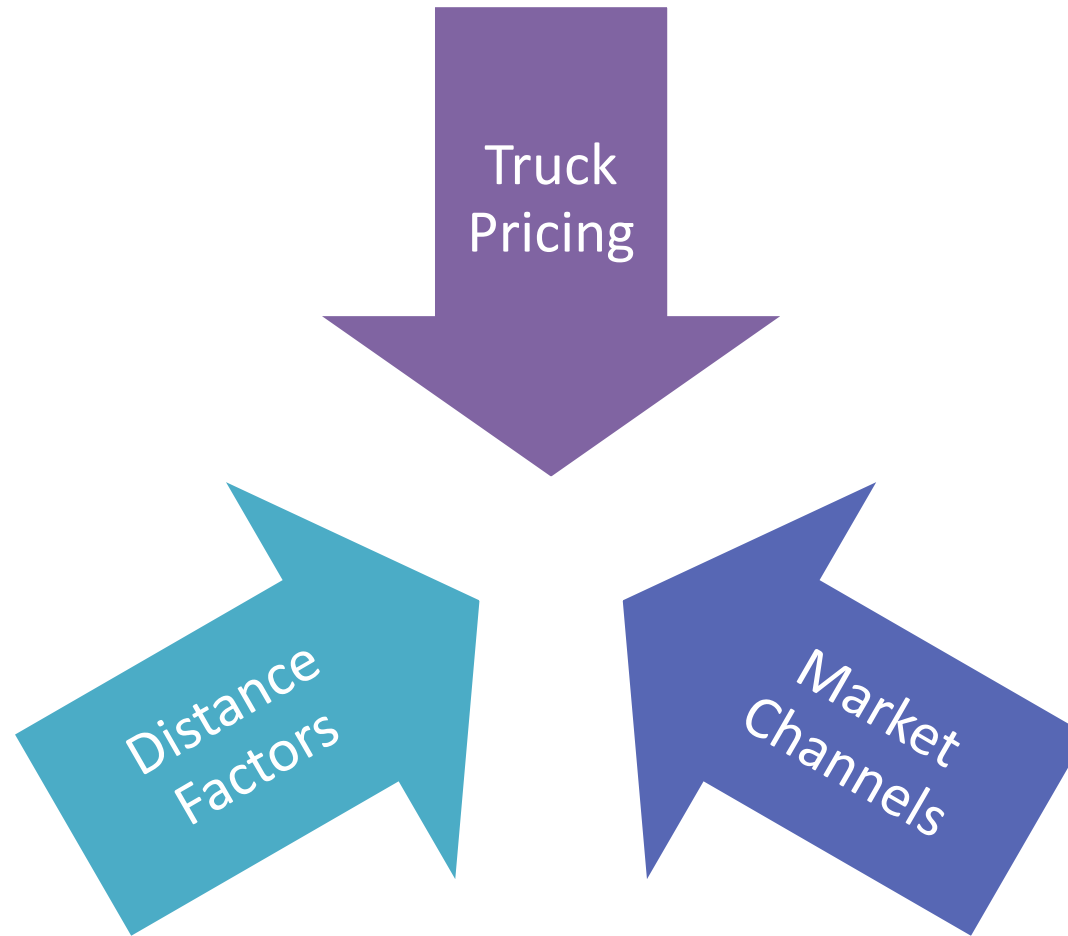
Likely Outcomes

- Long-term capacity problem
- Panic pricing by one ensures trouble for all
- "If we go broke – we will do it with full ships!"

Unknowns

- Impact of Panama Canal
- Will sub-Continent supplant China in manufacturing?

Intermodal Market Situation



Combined Market Outlook

Market Trends

- Railroads increasingly anxious to control transactions
- Fewer legacy contracts

Industry Factors

- Increased regulatory burdens (environment and safety)
- Wall Street's love affair with non-asset companies

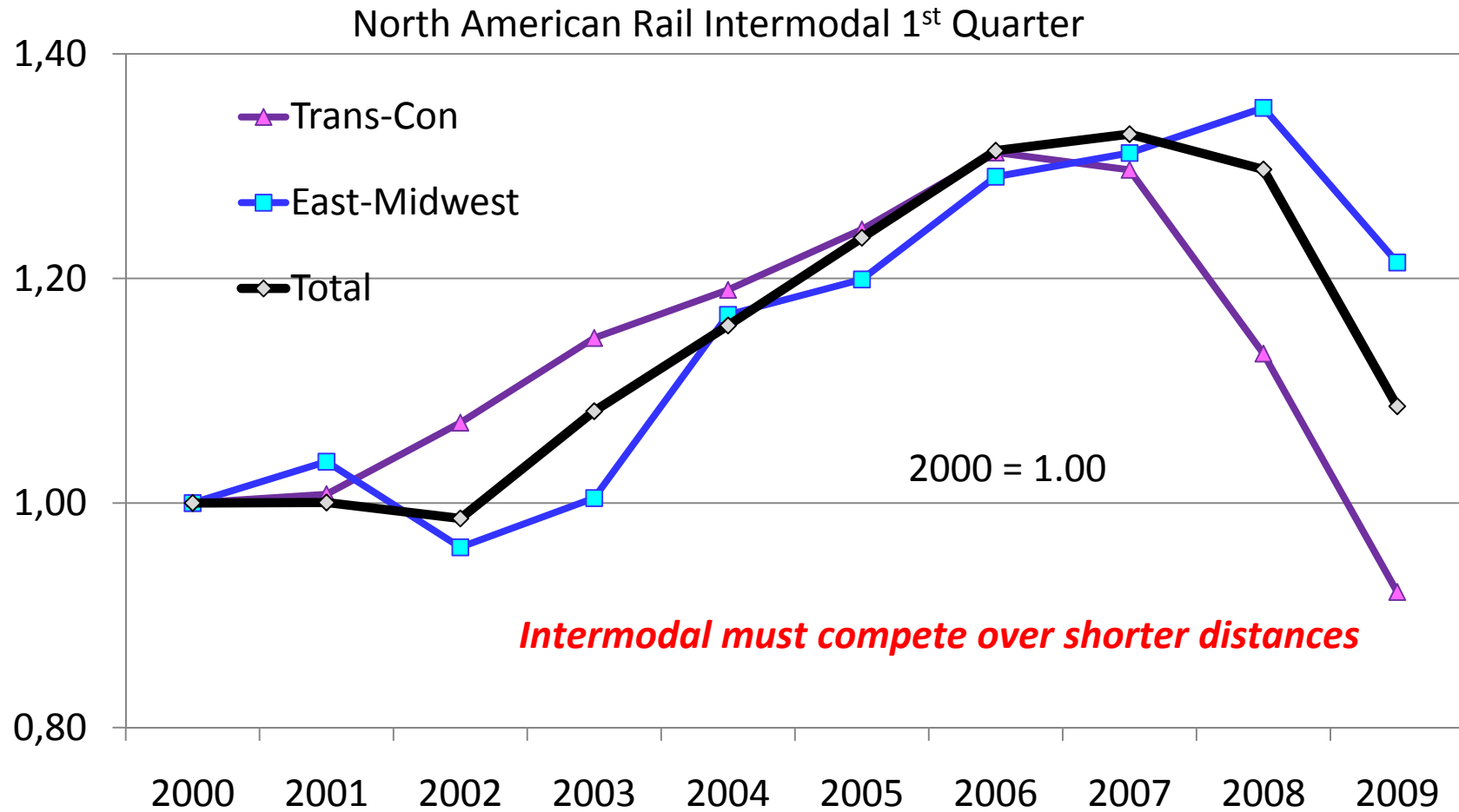
Likely Outcomes

- Increased role for asset based providers
- Technology can solve seemingly intractable issues

Unknowns

- Ocean carriers' view of through intermodal
- Trade policy
- Customers develop new distribution networks

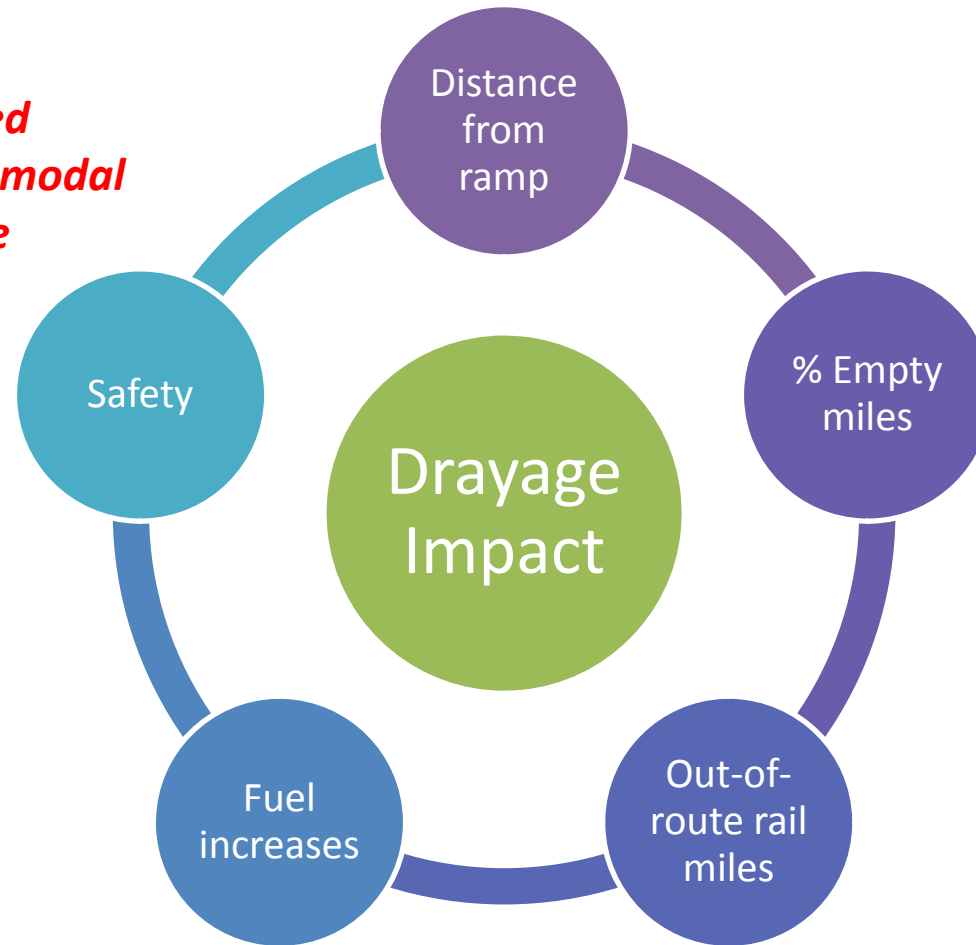
Intermodal Market Drivers



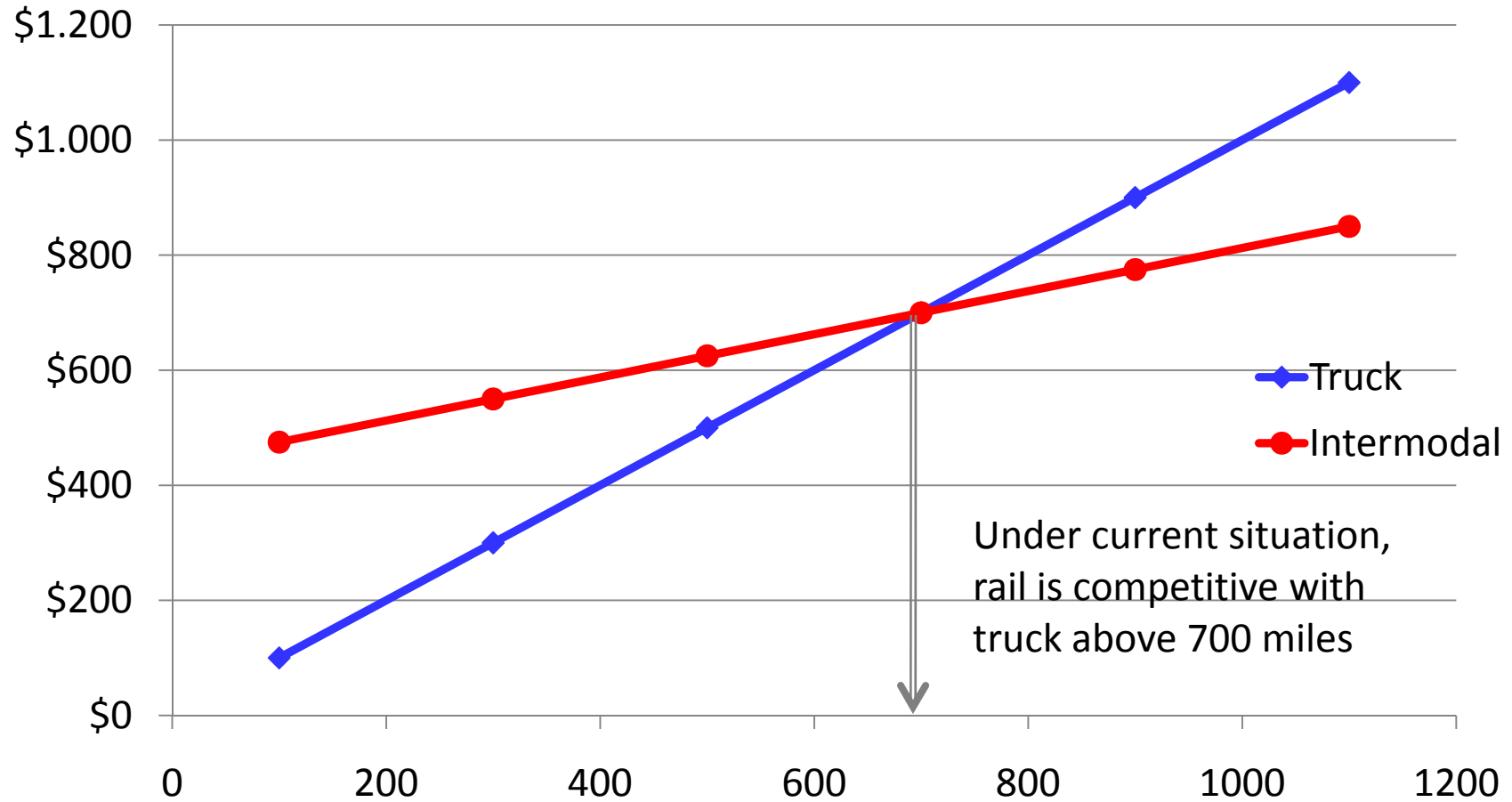
Source: IANA

Intermodal Market Drivers

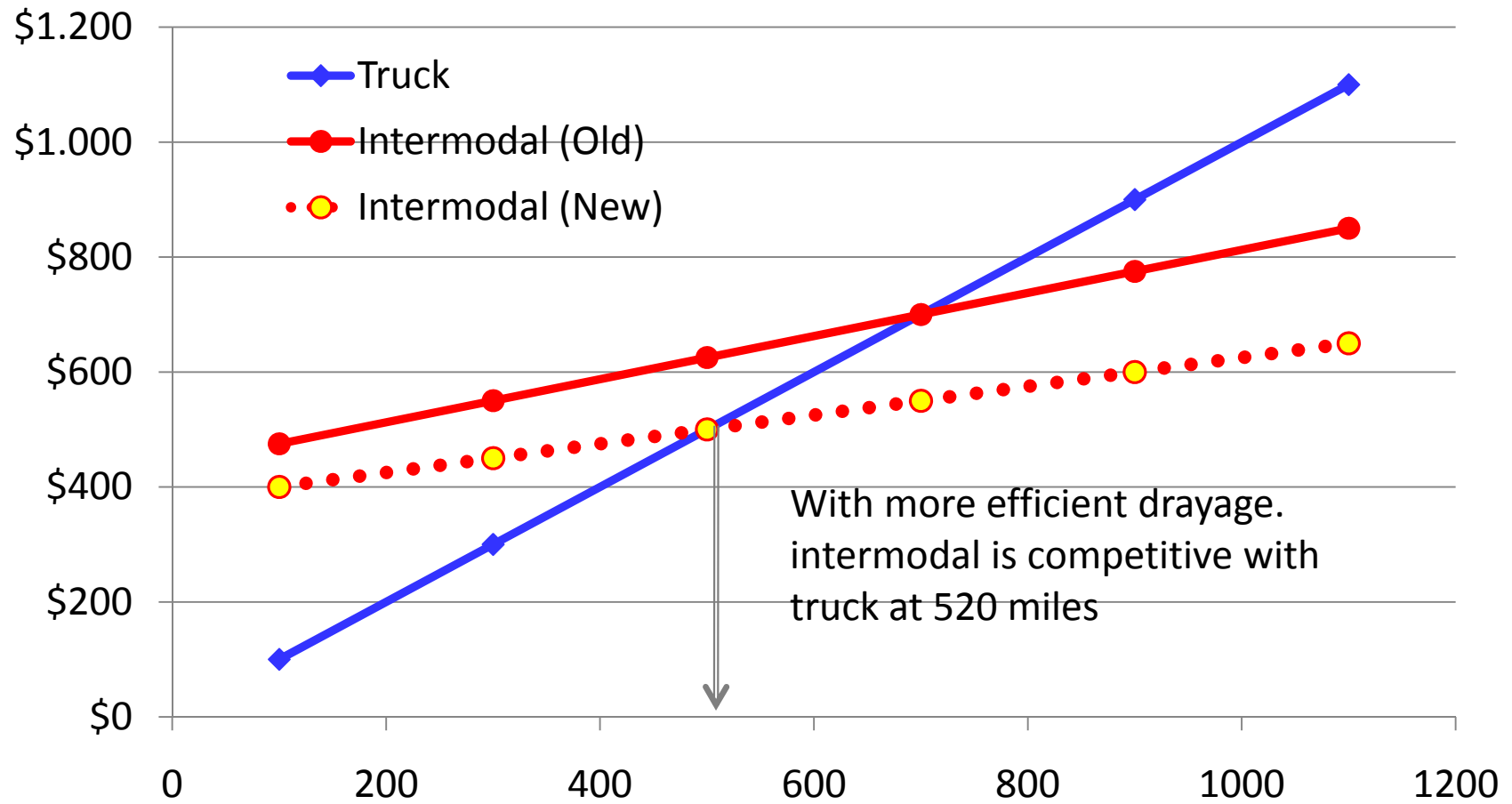
Drayage expense must be controlled in order for intermodal To be competitive



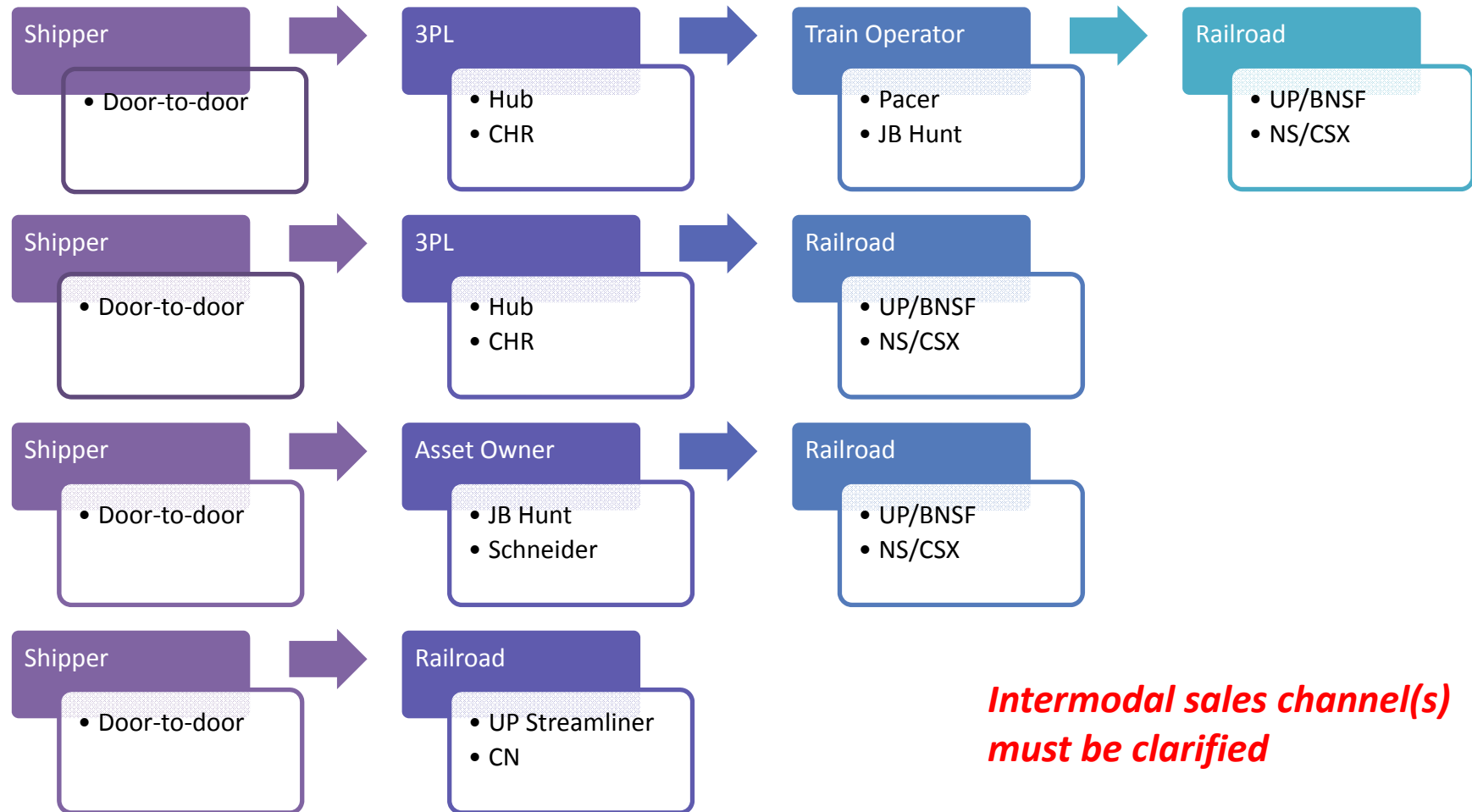
Impact of Drayage



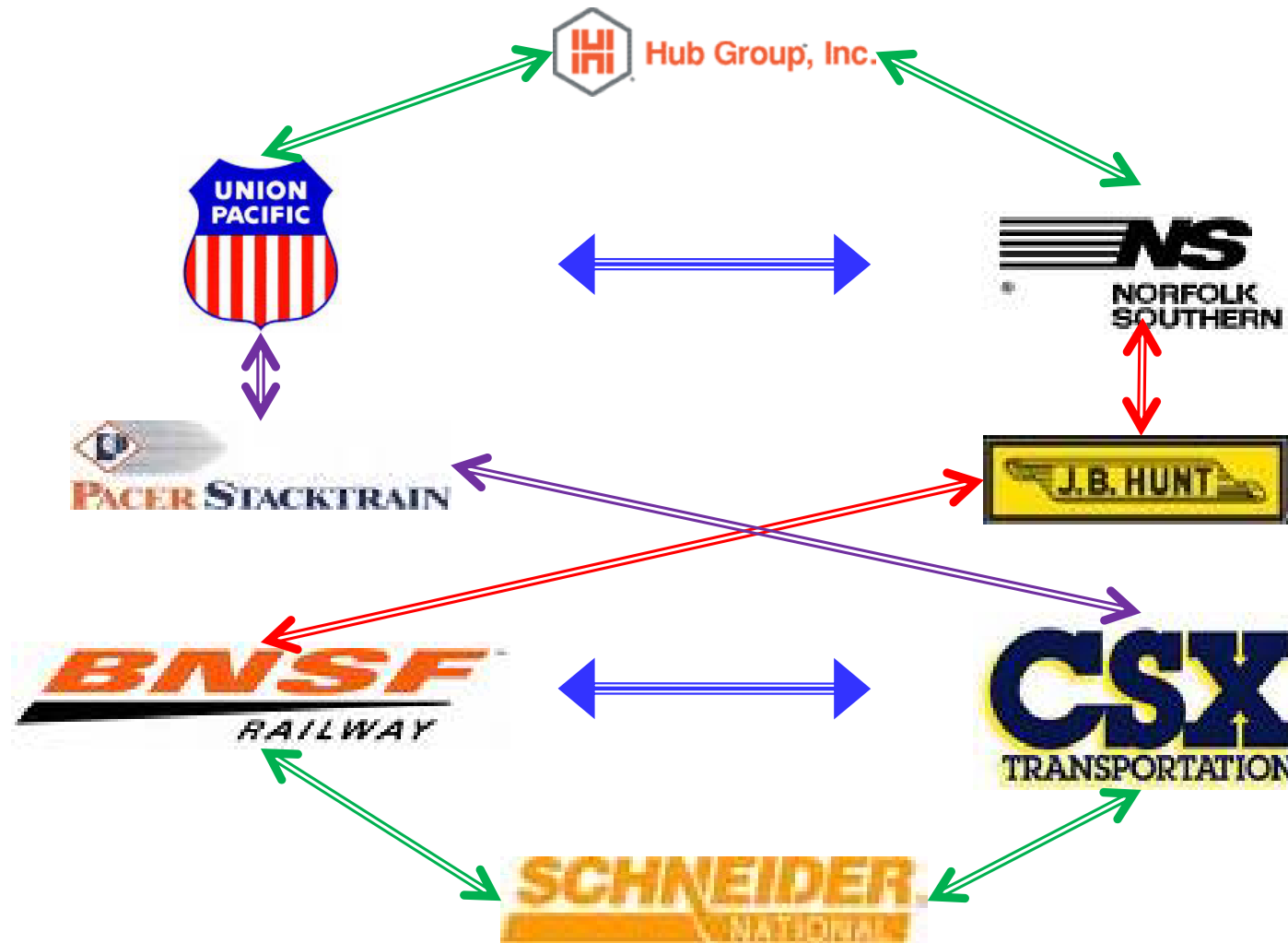
Impact of Drayage



Intermodal Market Drivers



Intermodal Alliances of Railroads and Asset Providers



Intermodal Market Drivers

The role of intermodal players keeps changing

Intermodal Volume			
		Low	High
Intermodal %	Low	<u>No Intermodal Interest</u> Expeditors International* FedEx* UPS*	<u>Global Transportation & Logistics</u> CH Robinson Worldwide* Exel Transportation (Deutsch Poste)* GST (NYK)*
	Middle	<u>Intermodal & Truck Brokerage</u> Coyote Logistics Matson Logistics* Re Transportation	<u>Intermodal as Portfolio Complement</u> Landstar* Optimodal
	High	<u>"The Old-Fashioned Model"</u> Many small IMCs	<u>Pure Intermodalists</u> Hub Group* Pacer International*

* Publically traded