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Executive Overview: New Intermodal Hubs Add to Marketability for Inland Ports

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There's been an undeniable shift in U.S. import flows lately, and it seems to have happened gradually without much fanfare. Most notably, it hasn't been the result of some breakdown along the West Coast due to labor, or service issues related to one particular mode of transportation or another.

More freight from Asia is coming into East Coast ports (while West Coast port volumes are flat and/or are in decline this year) and intermodal rail is expanding, in some cases at the expense of the trucking sector.

Norfolk Southern Railway (www.nscorp.com) reported last month that intermodal traffic now accounts for 22 percent of the railroad's revenue—a close second behind the 25 percent market share held by coal—and intermodal is now the railroad's fastest-growing freight category.

According to a Norfolk Southern executive, 51 percent of the railroad's intermodal volume is comprised of international freight, and of that amount, about half is coming from the East Coast as opposed to a few years ago when roughly two-thirds originated on the West Coast.

Meanwhile, the Virginia Port Authority (www.vaports.com) said that for the 2007 fiscal year that ended June 30, rail traffic to and from its markets in the Midwest increased to more than 430,000 TEUs. The port's executive director, Jerry A. Bridges, expects rail volumes to continue their upward trend. "A series of external factors combined with the Heartland Corridor coming online in the next two years, we believe, will really begin to drive some heavy rail volumes. Overnight service via the Heartland Corridor to some of our primary markets is going to draw even more attention to this port," he said in a previous interview.

The Heartland Corridor, a joint venture between the Norfolk Southern Railway and the Federal Highway Administration, is a $150 million plan that will facilitate more efficient travel on the rail lines between the Norfolk, Virginia port region and Chicago. One of the goals is to allow trains to stack intermodal cargo containers for increased capacity and to cut down on truck traffic, while encouraging construction of shipping terminals at key points for intermodal connections.

Columbus, Ohio is one of those key points and a major inland port along the Heartland Corridor. "In 2006, we began work on a $62 million public-private partnership that we call the Rickenbacker Intermodal Terminal in Columbus, Ohio," said Henry C. Wolf, Vice Chairman and CFO of Norfolk Southern, during an investors' conference in June. "Developed in conjunction with the Columbus Rickenbacker Airport Authority, Rickenbacker will almost double our intermodal capacity in the critical Columbus region, which is a key logistics hub. Rickenbacker will serve as our first fully integrated logistics park, with more than 20 million square feet of distribution space surrounding the intermodal facility. Rickenbacker's proximity to a vast amount of distribution space will create new efficiencies for customers locating adjacent to the facility."

Norfolk Southern is busy working on several other expansions to its network, too. The railroad's "most ambitious corridor initiative," says Wolf, is the Crescent Corridor, which will run from New Jersey through the Southeast and terminate in New Orleans.

"This project is intended to make Norfolk Southern more competitive for freight moving primarily on the I-40, I-75 and I-81 interstates. This project also will link in with the Meridian Speedway and allow Kansas City Southern and Norfolk Southern to expand their market reach along this corridor in and out of Texas via Dallas," says Wolf. "Intermodal services in these corridors are largely underdeveloped, and in some cases non-existent, and highway congestion on the parallel interstates is increasingly severe. Overall, it is estimated that there are over a million divertible truckloads in this corridor."

The Meridian Speedway, a $300 million investment project together with Kansas City Southern (www.kcsouthern.com), will offer the shortest possible rail routes from Southern California to the Southeast when completed in 2010, as well as provide track speeds of 60 miles per hour on more than 80 percent of the route.

The other Class I railroads are pursuing similar projects to accommodate more freight volumes and improve service to inland ports.

BNSF Railway (www.bnsf.com) is nearly finished double-tracking its 2,239-mile long Transcon route between Southern California and Chicago. Close to 40 percent of all goods imported through Los Angeles-Long Beach are transported along BNSF's transcontinental route, which passes through Kansas City. Late last year, BNSF and real estate developer Allen Group (www.allengroup.com) announced plans to build a 1,000-acre intermodal park in Gardner, Kansas, nearby Kansas City.

In fact, Kansas City has seen a flurry of activity in the construction of new intermodal and logistics parks. Recently, Kansas City Southern and CenterPoint Properties (www.centerpoint-prop.com) unveiled their plan for a new intermodal park on the site of a former Air Force base there. The CenterPoint-KCS Intermodal Center will feature a 370-acre intermodal facility operated by Kansas City Southern and an 830-acre industrial park developed by CenterPoint Properties. Phase I of the redevelopment plan will include any necessary ground remediation, in addition to infrastructure and utility installations, to prepare the site for up to 3.5 million square feet of warehouse and distribution facilities.

"Kansas City is in an ideal position at the intersection of the nation's freight transportation network, to become a significant distribution hub for international trade," said Fred Reynolds, Senior Vice President of Development at CenterPoint Properties. "As import and domestic traffic volumes continue to grow both south from Mexico and north from Canada, CenterPoint-KCS Intermodal Center will become an economically viable location for a variety of distribution-related customers."

Imported freight can move in-bond to Kansas City for clearance by U.S. Customs and Border Protection, and the area is also designated as a Foreign Trade Zone.

CenterPoint Properties is making significant investments in the Chicago market as well, including the CenterPoint Intermodal Center, a redevelopment project of the former Joliet Arsenal. The project is one of the largest private developments ever undertaken in the U.S., encompassing 2,200 acres with a total investment approaching $1 billion. The intermodal and industrial business park features a 770-acre intermodal yard, BNSF Logistics Park Chicago, and has the capacity for up to 12 million square feet of industrial and distribution facilities.

In Dallas, the Allen Group has started construction on the first industrial buildings in its Dallas Logistics Hub (www.dallaslogisticshub.com). The two warehouses now being built contain 827,000 square feet and will kick off the 6,000-acre industrial park located near Interstate 20 and Interstate 45.

The Dallas Logistics Hub is adjacent to Union Pacific's (www.up.com) Southern Dallas Intermodal

Terminal. BNSF has plans for a similar facility in the area. Construction on the buildings is scheduled for completion in April.

Evidence of shifting import trade flows are found elsewhere. Perhaps the biggest development recently has been the opening of the Maher container terminal at Canada's Port of Prince Rupert. China Ocean Shipping Company (COSCO) has been the first ocean carrier to sign on for the newest Pacific gateway, which boasts a two-day shorter sailing time from Asia to the West Coast of North America.

Canadian National Railway (www.cn.ca) has already invested $250 million in Prince Rupert and is pouring more into logistics parks and operations in Chicago and Memphis. For starters, CN and U.S. Steel Corp. have bought a significant portion of Chicago's Elgin, Joliet and Eastern (EJ&E) Railway Company, which will eliminate a full 24 hours out of the transit time between Chicago and Memphis for CN. The double-stack intermodal service from Prince Rupert to Memphis began last month and includes daily service on 117-hour schedules.

Business leaders in Memphis are upbeat not only because of increased import volumes, but better prospects for exports, too.

"What's good for coming in is good for going out," said an official with the Memphis Regional Chamber in an interview with The Commercial Appeal. Chinese companies already do more business in Tennessee than any other state, in part because they buy hundreds of millions worth of cotton from Memphis cotton merchants. Furthermore, the cost for exporting cotton through CN's gateway at the Port of Prince Rupert may be cheaper, because as it is now, importers have to pay to move empty containers back to China.

"That price is built in. What we're saying is that it might be cheaper to piggyback on those goods coming in," explained Barry Bartlett, spokesman for the Prince Rupert Port Authority.

Meanwhile, during a trade delegation visit to Beijing last month, Tennessee Governor Phil Bredesen opened an economic development office there to help promote trade between the two cities. wt

Sidebar: Port of Houston Grows Its Gulf Coast Box Business

The Port of Houston (www.portofhouston.com) handles roughly 75 percent of the container business in the Gulf of Mexico, with most imports coming from Western Europe, followed closely by Asia, and most exports likewise destined for Western Europe, and secondly, South America.

In 2006, the port handled 1.6 million TEUs, which put further strain on Barbours Cut terminal, already operating at 150 percent capacity. Fortunately, the new Bayport Container Terminal began operations in February, adding 360,000 TEUs of capacity. Another 300,000 TEUs of capacity will become available once Phase 2 opens up later this year or early in 2008. Eventually, the Bayport Container Terminal will be able to handle 2 million TEUs upon full build-out in 2015.

Earlier this year, the Port of Houston and the Port of Galveston (www.portofgalveston.com) signed a memorandum of understanding to develop a master plan for a new 1,200-acre container terminal on Pelican Island, which is located near the Port of Galveston and about 30 to 40 miles south of the Port of Houston. The proposed facility would cost roughly $1 billion and depending on financing and permit issues, would not be up and running until 2016 at the earliest. However, Pelican Island offers several advantages, including a 40-foot deep shipping channel. Additionally, the widening of the Panama Canal, which is expected to be done in 2014, would boost container traffic to Gulf Ports such as Houston (about 12 percent of the port's current throughput travels through the Panama Canal, but this is likely to rise to as much as 23 percent once the third set of locks are built).

And while 2016 seems like a long way off, the proposed Pelican Island terminal is at the forefront of port officials' agenda, mostly because the Port of Houston expects its container volumes to grow 11 percent annually over the next five years.

Tom Kornegay, executive director at the Port of Houston, told the Houston Business Journal last year that there would be enough container business 10 or 15 years from now to justify a new terminal. And, he wants to make sure the port is positioned to be able to handle future expansion comfortably.

"The simple answer is this: Barbours Cut was step one, Bayport is step two, and (Galveston) is step three, assuming we're successful in getting this agreement," he said.

Approximately 215 million tons of cargo moved through the Port of Houston in 2005 from ships and barges. Foreign cargo shipments were valued at $85.8 billion, making Houston the top U.S. port in terms of foreign tonnage.