

# U.S. Transportation Cost Advantage Is Slipping Away

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Within 10 years, the United States could lose most of the competitive edge it has in transportation costs because trucking productivity has bottomed out and because other nations, like China, are investing heavily in transportation infrastructure to move freight more efficiently.

The trend, if it is not reversed, could make it more difficult for U.S. firms to compete against companies in other parts of the world, some freight industry executives contend.

At a conference on freight transportation productivity held this fall in Atlanta, Schneider National Inc. executives predicted that U.S. transport costs, measured against the size of the nation's economy, will be about the same as Europe's — or about 7 cents per dollar of gross domestic product — in 10 years. China's transport costs, measured the same way, would decline from more than 16 cents per dollar of GDP now to about 8 cents per dollar of GDP in 2015, the company said.

"We are just past the inflection point of a historic shift," said Christopher Lofgren, president of Schneider National, Green Bay, Wis. "The U.S. logistics industry will have to work hard to ... sustain our [cost] advantage as other



Infrastructure investments in China could erode the current U.S. advantage in transportation costs within 10 years.

ble than in China," he said.

Besides, transportation in China "is completely different" than it is in the United States, he said, as trucks are smaller and less efficient than those used in the U.S. In addition, there are significant bureaucratic hurdles to moving into that market, said Drumm.

David Kulik, group managing director, logistics of TNT NV, Amsterdam, The Netherlands, also cautioned against drawing too many comparisons between the transportation networks in China and the United States.

"In any country, infrastructure, regulations and human resources

capacity are making it harder to achieve additional productivity gains.

One example: ton-miles per active Class 8 truck — one measure of truck productivity — have declined since 1997 and fallen below 1992 levels, according to an analysis by Schneider National and FTR Associates, a transportation forecasting firm in Nashville, Ind.

But Bob Costello, chief economist of American Trucking Associations, said trucking still has at its disposal new tools to keep productivity moving upward.

Technology continues to be a "big driver" of productivity, allowing fleets to better manage assets, select better freight and reduce downtime and empty miles, he said.

"If — and it's a big if — there is a productivity slowdown, that is a concern," Costello said. "The U.S. economy relies on a safe, efficient and productive trucking industry. If we start to lose that, it's bad news for the entire economy."

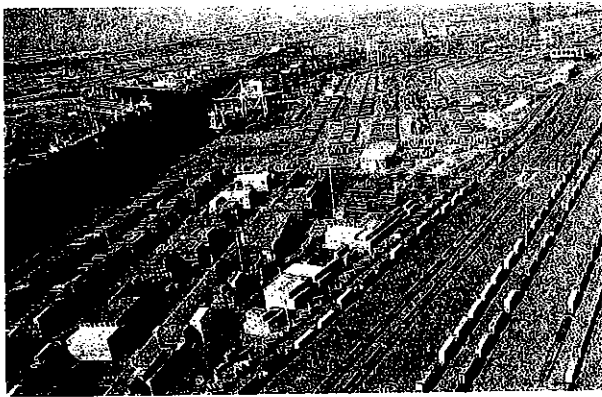
Speaking at a conference in Thailand this past fall, Gil Carmichael, former Federal Railroad Administrator, said the U.S. needs to tie together disparate transportation infrastructures to make it work better.

"Although we have vast and productive networks of highways, railways, waterways, [airports] and port facilities, we ... gave little thought to the value or need for intermodal connections" when that infrastructure was built, said Carmichael, who is senior chairman of the Intermodal Transportation Institute at the University of Denver.

"We also failed to perceive the value of a balanced transportation system," he said. "Other nations made similar errors, but the sheer size of the U.S. transport network has magnified" the effect of that imbalance.

In a telephone interview with TT, Carmichael said the United States needs to take "25% of the trucks off the highways to relieve stress on maxed-out highways," and move that traffic to railroads.

But he said he's concerned about the willingness of railroads to expand capacity. "Railroads have all the business they want. I'm afraid they are complacent."



Bottlenecks at a number of U.S. ports, including the Port of Los Angeles (above), are hampering transportation efficiency in the U.S.

economies mature and erode our historical [transportation cost] advantage. Without a broad effort, our prosperity will suffer."

While Lofgren's concerns were echoed by other conference participants, including executives from rail carrier CSX Corp. and Japanese shipping company NYK Lines and logistics managers for several large importers, other industry experts interviewed by TRANSPORT TOPICS downplayed the significance of transportation improvements in China. They also said an upswing in transportation costs in the United States wouldn't necessarily have dire consequences for U.S. businesses.

William Drumm, president of Establish Inc., a Fort Lee, N.J.-based firm that tracks logistics costs, said transportation costs in the United States amount to only about 3% to 4% of sales. "It's dou-

ble to dictate the competitiveness of transportation operations," he said.

"The battle for transportation revenue in the U.S. will be fought more between modes of transport" within the United States, rather than a battle emerging between China and the U.S. for transportation revenues, Kulik said.

Since 1950, according to Schneider National's analysis, trucking has been at the center of dramatic reductions in transportation costs.

For instance, deregulation increased competition and spurred intermodal cooperation between trucking and railroads, said Schneider. In addition, larger capacity trailers increased payloads and better highways reduced transit time, allowing shippers to cut inventories.

But now, longer supply chains, congestion at ports and on highways, and constraints on truck