

By Bill Mongelluzzo

THE PORT MOVES INLAND

Joint efforts by industrial developers and railroads are trying to change the map for the country's distribution centers

FROM A HELICOPTER over CenterPoint Properties' 6,000-acre integrated intermodal rail logistics hub at Joliet, Ill., about 40 miles southwest of Chicago, the structure that stands out above all others is Wal-Mart's 3.4 million-square-foot import distribution facility.

The massive site is a prime example of what CenterPoint and other industrial real estate developers have in mind when they build integrated rail logistics hubs at inland locations such as Chicago, Dallas, Kansas City, Memphis and Columbus, Ohio.

Imported containers are carried 2,000 miles on double-stack trains from West Coast ports to BNSF Railway's Logistics Park Chicago. The containers are trucked barely a half-mile to the Wal-Mart distribution center, which then takes on the role of a regional DC as the merchandise is shipped to smaller regional facilities throughout the Midwest or transloaded into trailers for direct delivery to stores in the Chicago area.

Integrated intermodal rail logistics hubs create transportation efficiencies with a "long-haul rail, short-haul truck" strategy, said Neil P. Doyle, executive vice president of infrastructure and transportation development at CenterPoint. Efficient double-stack trains carry containers to the massive Chicago market, shortening the more-costly truck move to the destination.

Developed in cooperation with western and eastern railroads, these hubs work best



for large retailers and third-party logistics providers. "This is a big-box market," Doyle said. Density is the key factor. Large, steady cargo volume moves from Asia, the world's largest production region, to major population centers in the U.S. interior.

The concept of the integrated intermodal rail logistics hub, sometimes called an inland port, has existed since the mid-1990s when a hub was established at Alliance, Texas, to serve the region around Dallas. John Lanigan, executive vice president and chief marketing officer at BNSF Railway, said retailers, importers and 3PLs found they could reduce supply chain costs by combining import and regional distribution functions at the same facility.

BNSF opened Logistics Park Chicago in 2002, and handles about 800,000 lifts a year there. BNSF is developing hubs at other sites such as Kansas City and Memphis. Union Pacific Railroad's Joliet Intermodal Terminal just opened at the CenterPoint location near Chicago. UP also has a rail logistics hub in the Dallas area.

In the East, inland hubs such as Columbus' Rickenbacker Global Logistics Park seek to attract retailers and 3PLs that ship through East Coast ports. The opening of Norfolk Southern Railway's Heartland Corridor and pending completion of CSX's National Gateway corridor from the Virginia ports will enhance Rickenbacker's attractiveness.

To attract freight distribution facilities, the rail hubs must have two elements, according to Jon DeCesare, president of WCL Consulting in Long Beach. They require an intermodal rail transfer facility, and a large consuming market within a one-day truck haul.

The Class 1 railroads operate dozens of intermodal transfer yards nationwide, but many are in secondary markets without the scale of consumer demand to support large distribution facilities.

Even in larger markets, integrated rail hubs must compete with existing industrial real estate developments. The Chicago area, for example, has some 1.3 billion square feet of distribution space. Once a retailer or 3PL

has invested in a distribution facility, it is too costly to move until it outgrows that warehouse, DeCesare said.

However, there are forces at work that can make the rail hubs more attractive, such as high diesel fuel costs and a forecast shortage of truck drivers. And as corporations grow more concerned about reducing carbon emissions, intermodal rail will grow more important in supply chains, DeCesare said.

Railroads also are teaming up with industrial real estate developers more often to market the strategy to shippers. Lanigan said BNSF representatives are always available for joint marketing trips, if only to explain the operational details to importers and exporters.

The concept also may get a boost from improved economics that come with better balance as integrated rail hubs move into the export market. Large import markets generate scrap paper and metal, which are high-volume export commodities, and the distribution hubs have empty containers available for equipment-starved exporters. Low-margin exports are cost-sensitive, and the location of distribution hubs close to the sources of scrap paper and metal reduces the cost of repositioning empty containers.

BNSF recently extended the inland port concept by establishing an export operation at Minot, N.D. BNSF repositions empty marine containers from Chicago to Minot. The boxes are loaded with North Dakota agricultural products, and BNSF carries the loads to West Coast ports for export.

Orient Overseas Container Line is the only ocean carrier now participating in the venture. Some lines won't readily reposition their empties for agricultural exports, preferring to ship them back to Asia so they can be reloaded with high-value merchandise to be exported to the U.S.

Ed Zaninelli, OOCL's vice president of trans-Pacific westbound, said even lower-value exports can cover costs and generate reasonable revenue if managed properly. "For OOCL," he said, "almost every container is available for export." **■**

Contact Bill Mongelluzzo at bmongelluzzo@joc.com.