



Generating Heat at the Border

John D. Boyd | Feb 1, 2009 7:00PM GMT

TW - News Story

Freight planners for UP, KCS, others keep their focus on U.S.-Mexico trade

Copyright 2009, Traffic World, Inc.

While the once-hot North American freight economy settles into a deep freeze with its sharpest declines in decades, industry planners still find some hot spots along the U.S.-Mexican border.

Traffic is falling there, too, but a strong growth trend that lasted through 2007 had already convinced key players they needed to invest in crossborder facilities for the future.

They remain convinced, despite a sudden fall in freight activity at the end of 2008 and as 2009 gets under way.

Union Pacific Railroad has large border operations with six ports of entry into Mexico from three states.

Most are in Texas, with facilities at Laredo, Eagle Pass, El Paso and Brownsville. UP also connects at rail border crossings in Calexico, Calif., and Nogales, Arizona.

And the huge U.S. carrier is investing big bucks to disperse some of its downtown El Paso operations to nearby sites such as an emerging intermodal complex 12 miles away at Santa Teresa, New Mexico.

Meanwhile, Kansas City Southern Railway - the smallest of the Class I railroads - is pushing for U.S. State Department approval of a plan that could overhaul its operations at Laredo, Texas, and eventually put a new high-capacity bridge across the border to the Mexican town of Nuevo Laredo.

"This is long-range planning for a project that could take eight to 10 years to complete," said attorney William A. Mullins, who last month submitted KCS' application to State for a presidential permit to OK the project.

Mullins said the recent drop in rail traffic with the global recession does not change the need for KCS to alter its yard layout in the Laredo area, and replace the current 1920s-era, single-track bridge it operates there with a double-track span that runs rail freight through a less crowded corridor east of the city.

He said the KCS plan is to remake its freight hub and bridge system there to be something that will "be in service for a century or better."

Given how fast both trucking and rail traffic was growing in recent years, KCS says it needs to lock in a strategy now for the time when its aging bridge and terminals will no longer keep up.

And it estimates that to get permits, arrange financing and build the facilities would take a long time past the current downturn.

Mullins said reconfiguring KCS lines and facilities around Laredo, and open a new-era bridge, could take "best case, five to seven years (but) more likely seven to 10."

Not everyone agrees that the KCS plan would be the best option at Laredo. UP is already sitting on its own presidential permit for new Laredo facilities - including a bridge at a different spot on the Rio Grande River - if and when it considers expansion to be feasible. And local officials have their own preferred plan that is going through a State Department review.

But KCS may have gotten a leg up late last year when the outgoing Bush administration embraced the project as one of several that can ease border congestion at different points around the United States. While those officials are now out of office, they set a process in motion that can lend help to the KCS application.

Other freight companies have also increased their ties to the border market.

Third-party logistics firm Transplace opened a Laredo office in December 2007, under a plan that would see it expand capacity as well in the Mexican cities of Nuevo Laredo, Guadalajara, Mexico City and Monterrey.

When it launched the plan regional freight was still surging, but even with the recent economic collapse, "Mexico continues to be a growing market" for Transplace Mexico, said Troy Ryley, director for transportation and distribution.

"With the current tough economic conditions, companies are constantly looking to ways to improve supply chain efficiency and reduce cost" with Transplace's 3PL offerings, Ryley said.

In addition to many companies making a scramble to cut costs, "Mexican carriers are facing severe equipment imbalances on northbound cargo," so Transplace is targeting those problems.

Others are enjoying the fruits of earlier planning, with some projects now starting to pay off even with freight demand shifting.

El Paso-based Verde Corporate Realty Services said its Santa Teresa Intermodal Park recently finished building nearly a mile of new track and switch that UP is already using to smooth out some of its cross-country train moves.

The privately held firm would not detail its investment, but such rail links can be costly. Jay Kleberg, director of business development for Verde, said UP is already using it to quickly offload some boxcars out of a larger train for a large shipper at the park, and then keep the long-haul train moving.

Verde Chief Financial Officer Richard Moore said that even with the broader economy's woes sapping demand and freight traffic, "the border has remained more active than the rest of the country."

Moore said UP will be shifting over several years its El Paso operations. "It's all coming west" toward Santa Teresa, he said.

His company bought some of the land in 2007, and the park Verde will operate will eventually have five rail spurs hooking into UP.

In addition, Foxconn, a contract manufacturer of electronics from cell phones to laptop computers, is building a plant nearby. And a large business card printer already ships materials in and products out of the area.

Besides the intermodal park's shipper connections, it will be next to a big UP construction project.

Raquel Espinoza, a UP spokeswoman in Houston, said the railroad expects to start work this year on a

big new yard there, "adding eight 10,500-foot fueling tracks used for fueling, inspections and crew changes."

Verde said the initial phases of UP's plan will spend "\$150 million on a 934-acre fueling, switching and intermodal yard to be completed between 2010 and 2014. Once complete, it will be the largest fueling and intermodal facility on the U.S.-Mexico border."

Espinoza said the carrier's broader plan at Santa Teresa will spend twice that amount, and will launch additional intermodal projects in 2012 and 2015.

But while UP is sinking money into large developments and facility transfers at El Paso and Santa Teresa, back over at Laredo it appears satisfied with what it already has.

That attitude could affect how the KCS plan moves forward, since Union Pacific trains are big users of the KCS rail bridge.

Far from getting behind the smaller railroad's ambitious plan to cut a new rail corridor east of the city, UP is focused on getting the most it can on its downtown yard operations.

"Union Pacific is able to serve its customers with its current infrastructure in Laredo and has the capacity to accommodate additional business," Espinoza said.

KCS has just this single border crossing into Mexico, compared with UP's six, so KCS wants to beef up capacity there and draw more train traffic through the Laredo gateway. It sees a new-era, higher-volume rail bridge and fenced-in rail security corridor as a way to both compete with other gateways and against truck traffic that was growing rapidly until trade weakened recently.

KCS also hopes that its big new intermodal terminal at Mexico's Pacific Ocean port of Lazaro Cardenas will eventually handle enough traffic to push containers up the KCS tracks into Texas and the U.S. heartland, which means running through Laredo.

By far most of Lazaro's traffic moves to domestic consumer centers including Mexico City, but KCS hopes that port can someday be an alternative cross-country intermodal route that Pacific ship lines could use, instead of dropping boxes at California ports or running ships all the way to the U.S. East Coast.

UP, on the other hand, builds intermodal trains from ships docking at the giant Los Angeles or Long Beach terminals in Southern California, or other ports up the U.S. West Coast.

At Laredo, that carrier's focus is on what traffic it expects to feed into UP lines to and from Mexico. "We do not anticipate the need for a new bridge (at Laredo) in the near future, and will take appropriate steps if that changes," Espinoza said.

Behind that statement is that UP's own permit would allow it to build a rail bridge directly into Nuevo Laredo on a more direct route from its U.S. rail yard.

By comparison, after looking into the KCS "East Loop Bypass" application, UP found "several financial obstacles that would keep us from supporting the proposal. Union Pacific would have to provide more than \$130 million for the project, which adds several miles to our present route," Espinoza said.

And "in addition to higher fuel costs, we would be subjected to an undetermined amount of toll fees" for the roundabout connections to cross the new bridge.

If KCS eventually gets to build its new rail corridor, UP still plans to stay put at its current facilities and even keep using the old KCS bridge despite the owner's hopes to convert it to highway use.

UP "would continue operating with its current infrastructure in Laredo and would still cross trains at the present bridge," Espinoza said, adding that a federal regulatory ruling requires KCS to keep operating the existing bridge for rail service.

So, clearly the two railroads and shippers in the region have issues to work through.

KCS plans to tackle the bypass plan in phases, and Mullins said "UP would need to show support for Phase II to move ahead, but not Phase I."

Right now, KCS projects that its own parts of the plan would cost \$407 million, though this estimate could easily change several times before any building could begin.

The figures were compiled last year when steel and cement prices were high, for instance, and the collapse in global commerce has taken prices to lows not seen in many years. But since the project could be years from actual construction, the economy and input prices could be rebounding again by then.