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North American railroads have ambitious plans to win share from trucks in Mexico

The market share of intermodal versus truckload volume has not moved much in the last decade. Photo credit: Ian Dewar Photography / Shutterstock.com.

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The Mexican sourcing market has become increasingly important to North American importers amid the rising threat of tariffs on goods from China.

That's been a boon to North American Class I railroads, who have seen their volumes from Mexico jump approximately 71% over the last five years. Yet despite new services and investments, the railroads haven't been able to meaningfully increase their share of surface cross-border trade compared with trucking.

Railroads cannot manage to exceed 15% of the total market and even fell below 10% this year, according to the US Bureau of Transportation Statistics (BTS), because of a slowdown in auto shipments.

Still, there are reasons for intermodal providers to be optimistic about cracking the market share ceiling. The top three intermodal providers in the US — Hub Group, J.B. Hunt Transport Services and Schneider National — are devoting considerable resources in Mexico, and Union Pacific (UP) Railroad is working with non-asset brokers to serve Mexico. The focus on assets and staffing in Mexico that asset and non-asset providers are contributing shows there is optimism about growth opportunities.

In addition, as more shippers open factories near Mexico City, San Luis Potosi and Silao, the lengths of haul will save money for shippers and reduce greenhouse gas (GHG) emissions. The longer the length of haul, the wider the spread between trucking and intermodal in delivering higher cost savings to the shipper. Longer lengths of haul also produce GHG savings since trains are more fuel-efficient than trucks in moving large amounts of freight.

The longer the transit, the larger the benefits. From Monterrey, the border is about three hours via truck. From San Luis Potosi, it is eight hours. From Silao, it's about 10 hours, and from Mexico City, it's 12 hours. Thus, as more shippers open in Mexico City, San Luis Potosí and Silao, the better the case for intermodal providers to show why rail is worth considering.

Yet there are many challenges under the current iteration of cross-border service. While train service has been reliable, the customs clearance process has been problematic at times, and it can be challenging to understand Mexico's rules and regulations.

Also, growth today is primarily occurring in Monterrey, where truck capacity is easier to find because the haul to Laredo can be made in a single day. It's harder to find trucks to make eight-to-12-hour, multi-day long-hauls.

Mexico trade growing, but truck leads the way

As US trade with Mexico grows, railroads see a chance to challenge the dominance of the Mexican trucking industry — if the railroads' intermodal partners can lock in new business and deliver reliable service.

Mexico, which surpassed China last year to become America's top trading partner, accounted for $798 billion in goods and services in 2023, according to US Census Bureau data. This growth is expected to continue amid rising geopolitical tensions between the US and China.

Today, trucks carry more than 7 million loads across the US-Mexico border annually, while intermodal rail manages only 300,000, according to the BTS and the Intermodal

Association of North America (IANA).

Truckload data, however, does not distinguish between types of freight, grouping finished vehicles, fuel, and standard retail goods together. IANA's data excludes empty rail containers crossing the border, making an official market share number difficult to nail down.

For more than two decades, intermodal's market share has fluctuated between 10% and 15%, but dropped this year into the single digits despite the launch of the Mexico Midwest Express and the Falcon Premium services.

"Mexico certainly has the length of haul characteristics that should make intermodal economics shine," Larry Gross, president of Gross Transportation Consulting and a *Journal of Commerce* analyst, said. "But based on the numbers, the current intermodal offerings are lacking in one or more of the basic requirements for competing with truck: cost, service consistency, speed, [and] ease of use."

Overcoming rail's growth hurdles

A number of things will have to occur for intermodal to exceed the 15% market share threshold.

One challenge is the cyclical nature of surface transportation. Current trucking rates are low, which reduces or eliminates the cost savings of choosing rail.

To grow share, intermodal providers such as the top three — Hub Group, J.B. Hunt Transport Services, and Schneider National — must commit container capacity to Mexico and invest in personnel and sales staff. To succeed, however, midsized providers including C.H. Robinson, Matson Logistics, STG Logistics and Swift Intermodal will need to grow their existing Mexico franchises, and non-asset brokers who haven't been in Mexico must enter.

"How I would judge success is how many new customers we've engaged — our BCO [beneficial cargo owner] growth, which is up 30% from a year ago," Pat Linden, UP's assistant vice president of marketing and sales, said on Oct. 2 at the *Journal of Commerce*'s Inland Distribution Conference in Chicago.

Engagement does not necessarily mean actual business, though.

UP hosted a forum in Monterrey earlier this year to encourage intermodal marketing companies (IMCs) to open operations in Mexico. Even IMCs established in Mexico have dealt with delays in customs clearance this year at terminals owned by Mexican state railroad Ferromex, making it harder to compete with trucking.

"Mexico is not a super easy place to do business and if you've never done business there before, there is a bit of a learning curve on how to do it, so we want to help make it less complicated," Linden said. "The question for Mexico is that there is a bunch of cargo going north, but not much balance southbound. How can we get more shippers to send freight into Mexico? Getting freight southbound is an inhibitor to growth."

Similar to US-Asia trade, most containers going from the US to Mexico have nothing inside.

Jonathan Wahba, senior vice-president of marketing and sales for Canadian Pacific-Kansas City (CPKC) is less focused on market share than on growth within his control.

"In our legacy Canadian business, we launch four trains per night every night from Toronto to western Canada, and I see no reason we can't do the same between Mexico and the US," Wahba said at the Inland conference. "By the end of the decade, my goal is multiple daily trains in both directions."

Currently, the Mexico Midwest Express train from San Luis Potosi to Chicago is the only CPKC daily train originating in Mexico. CPKC hopes to launch a Mexico-to-Southeast train before the end of the year, but it's not clear whether it would be a daily train or only a few days per week.

New infrastructure, new markets

CPKC's second bridge in Laredo, opening this December, could be key to increasing volume. Today, a single bridge handles northbound and southbound trains in alternating time blocks, but a second bridge will enable simultaneous traffic in both directions.

Expanding into new markets will also be necessary to shift market share.

UP has seen organic growth since October 2023 when it launched a Mexico-to-Southeast US service connecting in Memphis. CPKC and CSX anticipate launching their joint Mexico-to-Southeast US service before the end of the year.

To take share in that corridor, railroads will have to address competitive truck pricing that is often on par or cheaper than intermodal.

Other areas in Mexico can be fertile ground to gain share against the trucking industry.

Despite the present downturn, auto manufactures in the Southeast US are opening factories in Mexico, so rail operators must target markets deeper into the country beyond northern Mexico.

CPKC's Mexico Midwest Express currently originates in San Luis Potosí, but new clients could justify further expansion south to Toluca, an hour outside Mexico City. The Falcon Premium launches from Silao and is only just making inroads toward Mexico City, where demand is rising.

"Mexico City's terminal in Pantaco has historically handled mostly international cargo, but we've now designated a section for domestic intermodal," Linden says. "This has sparked interest from shippers eager to explore new rail options."

Railroads must expand business south of Monterrey to capture market share because the relatively short truck transit to the border creates stiff competition between the two modes in northern Mexico.

CPKC's Mexico Midwest Express originates in San Luis Potosí in central Mexico, but if it can generate new customers with Schneider in Mexico City, then new service can be launched in Toluca, about an hour outside Mexico City.

The Falcon Premium originates trains in Silao, but it hasn't gotten a major foothold yet into Mexico City.

"There has been a tremendous amount of discussion and conversation around Mexico City and how to move freight out of the city," Linden said. "We have a lot of people coming to us with opportunities in Mexico City asking about options with Union Pacific."

A partnership between Hub Group and Transportes Easo, which owns a terminal in Mexico City and uses company drivers rather than owner-operators, gives the two intermodal providers an opportunity to compete with truck.

"Our partnership is uniquely positioned to move equipment northbound, southbound, as well as intra-Mexico which allows for better management of capacity," said Diego Anchustegui, chief marketing officer of Easo and president of the Mexico Intermodal Association. "We offer an intermodal heavyweight option that allows us to move freight more efficiently to the US, allowing us to better compete with truck."

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