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UP hikes LA-LB surcharges again as volumes remain elevated

Domestic intermodal volumes surge in August through October before tailing off in November, but that easing has not happened this year. Photo credit: devande / Shutterstock.com.

Ari Ashe, Senior Editor | Nov 19, 2024, 1:02 PM EST

Union Pacific Railroad (UP) has again increased surcharges on shippers exceeding their weekly allotments in Southern California as domestic intermodal volumes show no signs of the seasonal slowdown typically seen by mid-November.

Low-volume shippers will now face a surcharge of $850 per container above their peak season allotment, up from $750, UP said Monday. High-volume shippers will see their surcharges double to $600 per container. It's the third time UP has increased surcharges on small shippers since August and the second boost for large shippers.

The new charges apply both to spot market business originating in Southern California and to contractual agreements when weekly limits are surpassed on rail-owned containers.

UP partners Hub Group, Schneider National, STG Logistics and Swift Intermodal control pricing on their privately-owned boxes.

Raising surcharges is meant to discourage one-off business from occupying containers that otherwise would be used by long-term customers, notably parcel giant UPS with the holiday shopping season about to ramp up.

Class I railroads are facing the challenge of an elongated peak season for ocean and domestic freight, which has put significant pressure on North American intermodal networks. Intermodal marketing companies (IMCs) are experiencing difficulties in getting containers into terminals, onto trains, and to inland destinations with consistent transit times.

Volume has been a factor in the service disruptions in international and domestic rail, including higher dwell times, more railcars idling and additional trains being held up compared with a year ago.

"Union Pacific's strategic intermodal investments are enabling us to capture the largest peak season volume increase in five years while maintaining fluidity across the network," UP said in a statement to the *Journal of Commerce*. "Los Angeles to Chicago domestic intermodal is experiencing double-digit growth, including setting a volume record last week."

UP and competitor BNSF Railway hauled 1.5 million domestic containers out of the Southwest US between January and October, according to the Intermodal Association of North America (IANA), up 8.4% compared with a year ago and a new record high for the period. The Southwest region includes the ports of Los Angeles and Long Beach, the busiest US gateway.

October also set monthly volume records for Southwest originations to the Midwest, Southeast and south-central US, according to IANA. Rails hauled 82,381 domestic containers from the Southwest to Midwest, the first ever monthly total exceeding 80,000, putting pressure on service from Los Angeles to Chicago, Cincinnati, Cleveland and Columbus. The *Journal of Commerce* estimates that rails hauled nearly 50,000 domestic containers from Los Angeles to Chicago in October, up more than 20% compared with a year ago.

UP reported that international intermodal volume in Southern California jumped 30% year over year in the third quarter, further challenging network fluidity in Los Angeles and Long Beach.

Service metrics show worst is over

Despite recent improvement, UP and BNSF service was inconsistent between September and mid-October. After UP reported that an average of 58 loaded intermodal railcars idled for more than 48 hours per week between January and August, that rose to 139 railcars in September and then jumped to 231.5 in the first half of October, surpassing levels seen during the pandemic surge.

However, in the past four weeks, UP's average has dropped to 131.3 railcars per week, according to data from the US Surface Transportation Board. BNSF reported a similar trend.

Both western US railroads also reported slower train speeds and an increase in the number of delayed intermodal trains during September and early October before the metrics improved in the last four weeks.

Despite those service gains, some IMC partners remain concerned. Two IMC executives who did not want to be identified said ongoing service issues on UP's network are a threat to the ability of their companies to retain current customers and attract new ones.

"It's better than it was a month ago, but service is still not where it needs to be, and with UPS ramping up holiday shipments, that's not helping things," said one executive. "The problem is inside the terminals. They've got terminal issues in Los Angeles, in Houston, in Memphis. I understand service challenges arise with record volumes. But two-week transit times from Los Angeles to Houston, or San Antonio? How do I explain that to our customers?"

A second IMC executive shared similar frustrations, especially when attempting to convert truckload freight to rail in Southern California.

"When we have that opportunity in hand for a truck conversion, we can save the shipper money, and we've finally convinced the shipper to try the intermodal product, it's disheartening when it's not a positive experience, leaving a poor first impression," the source said. "I recently explained to a new customer that shipping early in the week was the best way to get cargo onto the train. But if you think about it, they could just say, 'Well, I'm just going to put it on a truck, and I don't have to worry about anything.'"

UP, for its part, acknowledges that there have been "episodic" events that have caused service disruptions in recent weeks, but says it's the result of IMCs winning new business and taking market share off the highways, thus showing the strength of intermodal. With fluidity returning to its network, UP also said it believes shippers moving freight off the highways will have a better experience going forward.

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