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Container carriers are continuing the push to reduce the size of their U.S. chassis fleets, but their efforts to thoroughly disengage from this business will take time.

In 2009, shipping lines owned about 51 percent of ocean container chassis, while leasing companies held the remainder. Today, the lines’ share is about 32 percent, said Steve Rubin, a principal at the consulting firm InterPro Advisory, and that figure may drop to 20 percent by the end of this year.

“The transition continues and there is no turning back,” said Phil Connors, executive vice president of Flexi-Van Leasing.

Both Connors and Keith Lovetro, president and chief executive officer of TRAC Intermodal, agree the pace at which carriers sold chassis accelerated in 2012, particularly in the second half of the year.

“Most of the lines — there are a few that are sitting on the sidelines still — have said that their aspiration is to divest themselves of their chassis, to exit providing chassis as part of their core service,” said Lovetro, adding most carriers tell him they plan to be out of the chassis business within the next two to three years.

Lovetro outlined several reasons why carriers are looking to divest themselves of chassis:

- They want to bring their practice in the United States in line with the way they handle chassis in other parts of the world, where chassis have traditionally been provided by trucking companies, not steamship lines.
- Carriers view chassis provision as a cost that does not provide a return.
- Sale of chassis frees up capital that carriers can use for other purposes.
- Divestiture of chassis may mitigate liability in the event of trucking accidents.

Many ocean carriers are putting their owned chassis fleets up for sale and receiving offers to buy them from not only the “big three” leasing companies, namely Flexi-Van, TRAC, and Direct ChassisLink (a former arm of Maersk Line which was sold to private equity firm Littlejohn & Co. in 2012), but also other companies such as CNS Logistics and Quest Capital Group.

“This is not all ocean carriers. We still see a number that continue to provide the chassis as part of their service offering,” Connors said.

Flexi-Van increased the size of its fleet by 6 percent last year and now has about 150,000 chassis. Lovetro said his firm has been an aggressive bidder for equipment, adding about 20,000-25,000 chassis for international containers last year. TRAC now has a fleet between 295,000 and 300,000 chassis — two-thirds are sized for marine boxes, and one-third is used for moving 53-foot domestic containers.

Because of new investors entering the market, prices for chassis have almost doubled in the last couple of years. While the price of chassis varies greatly depending on age and condition, several sources said they have moved from the “high $2,000s” to $4,000-$4,500 for a chassis that’s eight to nine years old. A new domestic chassis costs about $10,000 apiece, while a marine chassis is priced at about $9,000 each.

However, even as carriers reduce the size of their fleets, they may still be providing chassis to some customers, even for port-to-port or “merchant haulage” shipments, as well as door-to-door or “carrier haulage” moves.

“What we see today, as steamship lines sell their chassis, there is still a fairly large share of their business that they are paying for the chassis. Even though they don’t own...
it, they are still paying for that service as part of what they offer their customer,” Lovetro said.

“In today’s environment, it is more of a 20-80 split where 20 percent is actually paid for by the motor carrier and passed along to the beneficial cargo owner (BCO) and 80 percent is still paid for by the steamship line,” he added.

He said when he speaks with liner carrier executives about the future, they indicate it may take longer, perhaps four to five years, to get to the point where 80 percent of drayage will be paid by the motor carrier and passed on to the shipper. He thinks there may be a longer period where carriers continue to fund drayage for some companies.

“Think of it as a long-term trend,” Lovetro said. “For a very long time they bundled the price of chassis in the box price, and now they are unbundling it.

“You just don’t flip a switch and say, sure unbundle it. The large retailers who have a little more buying power are going a little slower than some of the smaller ones,” he said.

As a result, the customer base for companies like Flexi-Van and TRAC is changing to include drayage companies and shippers.

“When this was mostly a leasing operation, you’d have 30 or 40 very large customers. You’d have the steamship lines and the railroads, so you had very large customers, with very good credit, very dependable in terms of their payment cycle and there was a longer-term lease for example. They would come in, lease chassis, and put them into their own discrete pools,” Lovetro said.

“That model is evolving rapidly, and we are moving more toward the motor carrier model and so we now have 2,600 motor carriers under contract and we expect that to grow,” he said, perhaps to 3,000-4,000 trucking firms.

TRAC wants to expand its footprint to other markets and improve the quality of its equipment.

Flexi-Van is creating “different product offerings as a result of the change,” Connors said. “That includes offerings that are usage-based versus a flat lease approach.

The old time, ‘here’s your chassis for five years, here’s your rate per day, we’ll see you in five years’ — that has given way more to an approach of ‘pay for use, pay as you go.’”

He said it’s analogous to a car rental, where the cost to a user is higher than a multiyear lease, but the shipper only pays for a chassis when they actually need one.

Motor carriers are likely to use a variety of different leases to optimize their chassis spend — leasing or even owning chassis to meet their base demand, and then using shorter-term agreements to obtain chassis when more are needed at peak periods.

Flexi-Van and TRAC run their own pools and are contributors of equipment to six pools organized by Consolidated Chassis Management (CCM) for 19 shipping companies that belong to the Ocean Carrier Equipment Management Association (OCEMA).

Phil Wojcik, president and CEO of CCM, noted as ocean carriers divest themselves of chassis, leasing companies have become bigger contributors to the CCM pools.

Indeed, Lovetro estimated his company contributes an average of about 35 percent of the chassis in the CCM pools and, in some cases, a majority.

CCM has filed an amendment to its discussion agreement with the U.S. Federal Maritime Commission, seeking the ability to allow companies other than ocean carriers to sit on its board.

Wojcik said the leasing companies would sit in a minority role, but “for the first time give them a voice, a more official voice because they do participate in local operating committees.”
The FMC has asked CCM and OCEMA for additional information on the plan, but Lovetro doesn’t think it goes far enough.

“Having one vote doesn’t really carry much weight. We don’t see that as being a very good solution,” he said. “There are 20 steamship lines that get one board seat and then we have 35 percent of the assets and we get one board seat. So we would prefer that as in any normal equity situation to have a representative share, so if you are 30 percent of fleet you are 30 percent of the vote.”

In addition, he said ocean carrier members have antitrust protection conferred on them by the FMC.

“So as soon as something about price comes up we have to recuse ourselves and leave the discussion. Our one board seat, which is already minimal, becomes less effective because we don’t have antitrust protection — so it feels a little bit like window dressing,” Lovetro said.

The CCM proposal has the support of the Intermodal Motor Carrier Conference, an arm of the American Trucking Associations that represents the container drayage industry, and the North American Chassis Pool Cooperative, a pool formed by trucking companies.

They both called the amendments proposed to the FMC “precompetitive and beneficial to all intermodal stakeholders.”

But the International Longshore and Warehouse Union (ILWU) expressed concern that the proposed amendments to the CCM Agreement would allow equipment leasing companies to “don the cloak of immunity” from antitrust laws by allowing motor carriers to take on a leadership role in the chassis management pools.

“If the FMC finds that the amendments would improperly extend the immunity of the Shipping Act to the non-ocean carrier entities, we request that the FMC take appropriate action,” Robert McEllrath, ILWU’s international president, wrote.

Pools can result in better utilization of equipment, and Lovetro said in the past year at TRAC “we have absolutely been able to increase fleet utilization which is a proxy for efficiency.”

A new player in the chassis business is the North American Chassis Pool Cooperative, which was created last year by 11 motor carriers. The pool acquired 1,300 chassis via a purchase made by DCLI from COSCO. The chassis have been contributed to one of the pools run by CCM, namely the Mid-South Consolidated pool operating out of the cities of Memphis and Nashville in Tennessee and Huntsville, Ala.

David Manning, chairman of the group and president of Tennessee Commercial Warehouse and Tennessee Express, said Mid-South Consolidated hopes to add chassis and expand to become a national pool.

Manning explained “previously steamship companies would sell their chassis to the leasing company and then demand that we use that leasing company and we would not have a choice to negotiate the price or the interchange terms.

“The only way to stop that was to acquire chassis ourselves and provide our own option,” he said. “We are doing it on a cost pass-through basis. So our members are not doing this for a profit, they are literally doing this to provide an option in the market place that sort of keeps the chassis as a utility and whatever the costs that are associated with the chassis — operating it, insuring it, and maintaining it — will determine the price that we charge on a daily use basis.”

“We still see a number (of ocean carriers) that continue to provide the chassis as part of their service offering.”

Phil Connors, executive vice president, Flexi-Van Leasing

Manning said other companies are invited to become users of the chassis, without having to become a member of the organization.

“Our reason for doing this is to control the cost, but also because the rates being charged were much higher than the actual cost and so the rates that we will be charging are less than the market rates today,” he said. “We also plan to upgrade and improve equipment, change the specs to radial tires, and add auto inflation — things that will save our users time on the side of the road and eliminate the battle back and forth as to who is responsible for tire failure.”

Lovetro also said his company is looking to add special equipment to chassis for truckers, recognizing that while a trucker may be happy with a standard chassis for a short dray, he may want special equipment if he has a long run or a heavy box. “We are trying to engineer our pools so that we offer product choice,” he said.

Wojcik said on April 1 CCM rolled out a new program at the Mid-South pool that will “open up the potential for competition beneath the gray pool umbrella.”

When a trucker hooks up to one of the chassis in the pool, he will have the option, in some cases, to declare who is his chassis provider, and not be locked into using a particular provider based on the one which the ocean carrier designates. That will give the motor carrier “more of a selection and negotiation power between those chassis providers and the terms of their interchange agreement,” Wojcik said.

All eyes in the chassis and shipping industry this year will be focused on the ports of Los Angeles and Long Beach, where discussions are underway on proposals to create a single gray pool for the entire Southern California region. There are about 110,000 chassis in use.

Don Snyder, director of trade development for the port of Long Beach, noted there are several pools in the San Pedro Bay region, both among steamship lines involved in space-sharing agreements, and neutral pools that are used by larger groups of carriers.

As carriers are changing alliances more frequently and different services are going to different terminals — and Snyder pointed out there are 13 different terminals in the Port of Long Beach and the Port of Los Angeles — truckers may find the chassis they’re using may not be returned to a particular terminal or a terminal may have a deficit or surplus of chassis, requiring repositioning of the equipment.

He said in 2004 the Virginia Port Authority created a gray chassis pool for its facilities and it has been able to reduce the number of chassis by about half in the past decade, while increasing the container volumes handled, both through increased efficiency and grounding more containers on terminal.

The Long Beach and Los Angeles ports have formed a stakeholder committee to come up with a chassis plan, which has two objectives:

- Develop a gray chassis pool so that a chassis could be used in any marine terminal or area rail terminal.
- Consider moving chassis storage, dispatch and maintenance to off-terminal locations and free up space.

Snyder said leasing companies and pools like CCM have been working on creating gray pools in smaller, simpler markets “and then they would come here. We as the ports and the stakeholders here see it as a competitive factor to try and accelerate it and have an efficient chassis model in Southern California.”

The next step, Snyder said, is to hire a project manager with expertise on chassis pools and eventually create a pool which can be overseen by one or more managers.