This Too Will Pass:
Long Term Issues/Strategies

CP south of Golden, BC
Long Term Strategic Issues:

Markets and Competition

Best days for transportation are behind us
- Costs increasing
- Trip times increasing
- Service quality decreasing
- Trends are fundamental, based on economics and physical constraints
  - Price of fuel still high by historical standards
  - And will increase as recession moderates
- **Rails could be the exception**
Long Term Strategic Issues:

Markets and Competition

• Upward trend in transport costs will alter logistics decisions
  – Seek to reduce use of transportation
  – Manufacture closer to end markets
  – And substitute more efficient modes for less efficient modes
    • Air to ship
    • Truck to rail
• Not all changes will be favorable to rail
Long Term Strategic Issues:
Markets and Competition

- High truck costs mean more potential for diversions from truck
- The prime target market is medium haul (450-1000 miles) truck market
- Conversion mostly to intermodal, but some conversion to transload
- Note: direct railcar will remain stable (grow with GDP)
Long Term Strategic Issues:
Markets and Competition

The potential market is huge but:

- Success depends adding lanes and o-d pairs
- Which means a more complex Intermodal network
  - With more switching
  - And shorter lengths of haul
- *Can railroads deliver??*

NS west of Pittsburgh, PA
Long Term Strategic Issues:
Markets and Competition

Some not so good news
- Rails thrive on long haul movements—it’s “what they do”
- Shorter supply lines could dampen growth some historically strong rail markets
  - The Asian trade
  - Western coal
- **Result is slower growth, not no growth or decline (post recession)**
Long Term Strategic Issues:
The Green Card

- Rail has a *much* lower carbon footprint than truck
- More efficient use of land
  - Consider the footprint in this high density rail corridor

CP east of Thunder Bay, ON
Long Term Strategic Issues:
The Green Card

An overall advantage for rail, **BUT**
not a “slam dunk”
- Long term threat to coal franchise
- Carbon tax makes transportation more costly
- Communities are resisting new terminals and increased traffic density

BNSF at Palmer Lake, CO
Long Term Strategic Issues:

Regulation

Economic reregulation is a major uncertainty

• Growing anti-business sentiment
• STB already changing
• More economic regulation possible
• Could reduce capital for modernization and expansion

NS east of Cresson, PA
Long Term Strategic Issues:

Regulation

Greater safety and environmental oversight already a reality

- Railroads will be playing defense
- Some fixes (PTC) very costly
- New/expanded facilities initiatives will be more costly and time consuming
- Especially in urban/suburban areas
Long Term Strategic Issues:  
**Government Funding**

- Railroads now make some use of public funds for freight projects  
  - Though amounts are small in terms of overall CAPEX
- Eastern railroads have announced major new public-private partnerships

![Enlarged tunnel at Gallitzin, PA](image)

![Public-private partnership-NS in PA](image)
Long Term Strategic Issues:

Government Funding

- Government *not likely* to be a reliable source of funds
  - Financially, most governments—at all levels—are broke
  - Mounting social demands (social security/healthcare/education)
  - Static/declining per capita income means aversion to new taxes
  - *Rail competes with other needs*—*will often lose*
  - *But highways unlikely to fare much better*
    - *Will get $ for repairs*—*a quick fix influx of capital*
    - *But little will be done to solve long term capacity issues*
  - *Wild card: massive stimulus package focusing on infrastructure*
Long Term Strategic Issues:
The Role of Technology/Planning/Smart Railroading

• Railroads must do more with less
• Technology saved the railroads from becoming irrelevant
• And is the key component of any future growth
  – Throughput on existing infrastructure corridors must be increased at lowest possible cost (capital will limited)
  – Costs must be contained; railroads cannot just keep raising rates
• But there are a lot of underutilized assets
• And a lot of room to improve service quality
• My generation: Rationalize/rebuild the industry structure
• Your generation: make it work
Long Term Strategic Issues:

Bottom Line

- Increased emphasis on efficiency
- The constraints on all modes:
  - Energy/land/money
- Railroads are efficient and thus greatest upside
- But success is not assured
  - Service must improve
  - Cost is always a factor
- Government may be as much a hindrance as a helpmate
- *The Smart and Nimble will prosper*
The State of Rail Passenger

Acela passing an Acela
Passenger
Where We Are:
Corridors

– Northeast, California and PNW are success stories
– Some others (Illinois, Wisconsin) are a “work in progress
– Most others are simply a fantasy
– *All depend on government money for operations and capital investment*
Where We Are Going:
Corridors

- Availability of public funding is **THE** issue
- Rail projects have long lead times
  - *Current fiscal crisis more likely to benefit highways*
- Corridors should be, but are not, a “slam dunk”
  - Eight years to permit a siding on San Diego line
Passenger
Where We Are:
Commuter Rail

- Existing systems expanding
- New systems coming on line
  - Albuquerque
  - Twin Cities
- Costs are high and public aid essential
- Again, competition with other demands for public dollars
Passenger

Where We Are Going:

Commuter Rail

- Lower gas prices will remove some incentives for commuter rail
- State and local budgets in crisis
- There is broad public support in many urban areas, funding is THE issue
Passenger

Where We Are:

Long Haul Services

• Irrelevant
• Substantial operating losses relative to revenues
• Freight rails subsidize below the rail costs
• Operating conflicts with freight will continue but conflicts are more a commuter and corridor issue
Passenger
Where We Are Going:
Long Haul Services

- No real change, up or down
- New equipment will be funded
- Will remain irrelevant
- Freight railroads will be more accommodating
  - Freights have finally learned than “Amtrak bashing” is a waste of time
Thank you for your time and attention

Questions?

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Riding the Coast Starlight near Surf, CA