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Burned Before, Railroads Take Risks

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During the recession in the early 2000s, U.S. freight railroads slashed spending and services. When business revived, they were roundly criticized for bottlenecks and delays.

This time around, the railroads have continued to spend heavily, plowing more than \$20 billion into capital improvements to widen tracks and tunnels, upgrade cars and engines and enhance their technology.

"Back in '03 and '04, we stumbled a bit. We really cut back too much, and when volume came back we were caught short," says [James R. Young](#), the chairman, president and chief executive of [Union Pacific Corp.](#), the second largest U.S. railroad by miles of track. "That is not going to happen again."

All the railroads' investment has left them in a position to improve service for their customers, and now that's paying off. For the first 23 weeks of 2010, freight volume grew 7.2% after plummeting 16% in 2009, the biggest decline on record, according to the Association of American Railroads.

Union Pacific reported the first growth in two years in the number of rail cars it uses in the first quarter, with volume up 13% from a year earlier. Shipments of cars and auto parts jumped 75%.

So far in the second quarter, the company says it has seen an 18% increase from a year ago in goods shipped.

[FedEx Corp.](#), which moves roughly 45% of its packages by air and 55% by ground, says it expects to use railroads more for ground shipping because of the railroads' improved reliability. Currently, FedEx uses rail for only about 1% of ground shipments.

And [United Parcel Service Inc.](#) says it will continue to use rail as much as possible. "Any ground-service package that's going to move 750 miles or more we attempt to put on the rails" as long as the rails can meet service times, says UPS spokesman Norman Black.

Kevin Sterling, a transportation analyst with BB&T Capital Markets, says the railroads "are absolutely coming out [of the recession] stronger." Truckers and railroads now split the market roughly evenly for hauls of between about 700 and 1,000 miles, he says. Just four years ago, truckers had 80%. While truckers offer faster delivery, rail is generally cheaper.

In the past year or so, Union Pacific has replaced or installed about 900 miles of rail, including expanding its Los Angeles-El Paso route from a single to a double track. On the Donner Pass, its route through the

Sierra Nevada mountain range in California, Union Pacific widened tunnels so that its double-stacked trains could get through, cutting 75 miles and three hours from the bulky trains' journey between Oakland and Chicago.

To cut the time trains sit idle at a station, the railroad is equipping its cranes with Global Positioning Systems so they can get to the right spot faster to load and unload freight.

To transport more freight per train, the company has made each of its trains 10% to 15% longer. Longer—and fewer—trains save on fuel and require fewer employees.

The company says it can add 20 boxes to a train with only a 1% increase in the train crew.

Union Pacific's volume of goods hauled in its first quarter rose 13% and profit jumped 43%, while operating expenses rose only 2%.

Union Pacific's U.S. "intermodal" business—which involves carrying containers that can be hauled by at least two types of transportation, such as trains and trucks—grew 33% in the first quarter, aided by the improved economy and the diversion of business from the highway to rail, the company says.

About 7% of Union Pacific's work force, or 3,300 employees, are still on furlough, down from a peak of 5,300 in June 2009, but the company "intends to bring them all back" eventually, Mr. Young, Union Pacific's chief executive, says.

Other big railroads are also enhancing their networks to allow freight to move more easily across the country. Like Union Pacific, both [Norfolk Southern Corp.](#), in Norfolk, Va., and [CSX Corp.](#) in Jacksonville, Fla., have made accommodating double-stack trains a priority.

Norfolk Southern announced last week that it is doing work on its Columbus-to-Cincinnati line to prepare the way for double-stack containers.

The \$6.1 million project is being paid for with \$3.6 million from the American Recovery & Reinvestment Act, as well as matching funds from both Norfolk Southern and the Ohio-Kentucky-Indiana Regional Council of Governments.

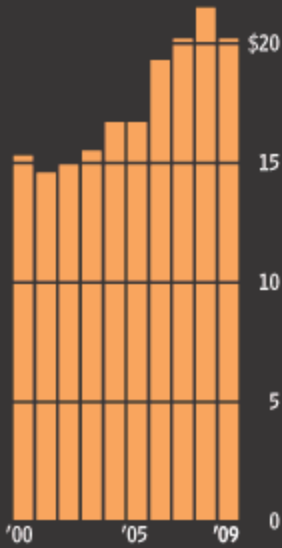
CSX, which runs trains in 23 states east of the Mississippi, is spending \$400 million to hasten the movement of freight on double-stack trains from the Midwest to ports on the mid-Atlantic coast.

"Along the East Coast, we go through a lot of older cities with old bridges," says Lauren Rueger, a CSX spokeswoman. "In order to get double-stacks through them we have to raise bridges or lower tracks."

"A lot of people don't understand railroads," says Mr. Young, the Union Pacific chief. "Their encounter with railroads was that they rode on a commuter train or sat in a crossing waiting for the train to let them through. They don't see what is in the containers or box cars. [Nearly] everything you touch in daily life is handled by rail."

Track Work

U.S. freight-railroad spending on infrastructure and equipment, in billions*



*Excludes railroads with operating revenue of less than \$250 million; includes maintenance

Sources: Association of American Railroads; Bloomberg (photo)



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