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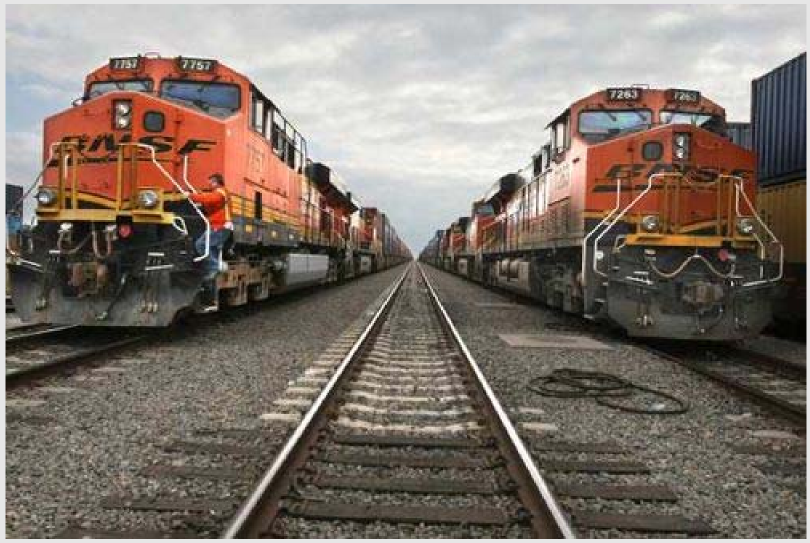
Railroads making a comeback

Warren Buffett surprised analysts in November when he purchased railroad corporation Burlington Northern Santa Fe for $34 billion in the midst of a down economy. But as the economy recovers and companies increasingly use trains to ship goods from coastal ports across the country, his bet is looking better and better. Trains, which are more fuel efficient than trucks, are making a comeback in the nation's freight transportation system, which is good news for California, where many train hubs are located.



BNSF trains at the port of Long Beach. **Credit: Don Bartletti/Los Angeles Times**

That surprises many, including **Henry Posner III**, a railroad owner who was asked three decades ago to help close down railroads in the East Coast and help them through bankruptcy and liquidation. Now Posner and many others see rail as the future. — **By Alana Semuels** | *January 3, 2010* [Full story follows]

Freight Trains Make Big Comeback in Nation's Transportation Network

Warren Buffett's recent purchase of Burlington Northern Santa Fe shows the renewed importance of railroads in the global supply chain.

By Alana Semuels | *January 3, 2010*

More than 4,000 miles of train tracks stretch through California, winding up the blustery Cajon Pass and snaking through the desert surrounding Barstow.

Those tracks could be seeing a lot more traffic in the next few years as trains loaded with Chinese-made toys, electronics and clothing roll eastward, connecting West Coast ports with cities across the U.S.

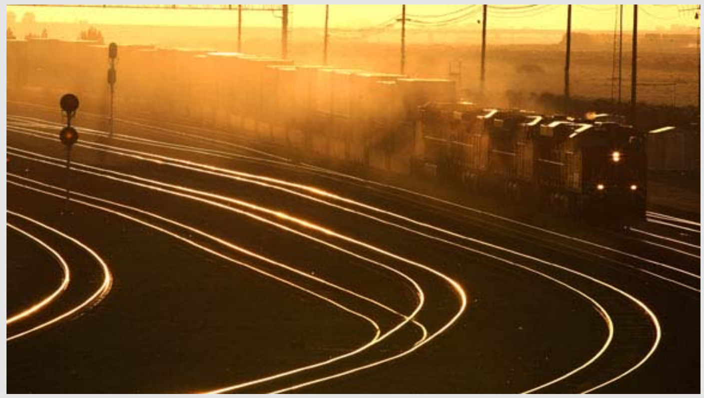
Warren Buffett is a believer. In November, the world's second-richest man paid $34 billion for railroad giant Burlington Northern Santa Fe Corp., despite a deep downturn in the railroad industry. Buffett characterized his investment as an "all-in wager on the economic future of the United States." But it's also a bet on globalization and the renewed importance of rail in the nation's transportation network.

Southern California is a key hub in his new empire. About 40% of all goods that the U.S. receives in containers from overseas enter the country through the seaports of Los Angeles and Long Beach. That freight must then move overland to retailers across the country.

Fort Worth-based BNSF has invested hundreds of millions of dollars in recent years to beef up its Southern California operations to grab a bigger share of that business.

"Within our 28-state network, California is incredibly important to us," BNSF Chief Executive Matthew K. Rose said. "A lot of trade comes through there, a lot gets consumed in California, and a lot gets handled and repackaged there."

China's rise has given a new push to U.S. railroads, which have chugged their way back into the nation's transportation future after losing ground for decades to the trucking industry.



A BNSF train makes its way through the freight yard in Barstow. Warren Buffett paid $34 billion for the railroad giant in November, calling his investment an "all-in wager on the economic future of the United States." **(Don Bartletti / Los Angeles Times / September 30, 2009)**

The sheer volume of inbound cargo from Asia to North America - more than 40 million container loads last year - has made it cost-prohibitive to haul all those goods over congested U.S. highways.

Rail companies have strengthened their networks and upgraded their equipment to handle the ubiquitous metal shipping containers to provide a nearly seamless transition from cargo ship to freight train to truck or any combination in between. This so-called intermodal traffic has been the fastest-growing segment of the industry for about a decade.

In 2008, international and domestic intermodal cargo accounted for nearly a third of BNSF's revenue, a figure that's expected to grow when the U.S. economy gets back on track.

Although factory jobs have been lost to Asia, international trade is now a pillar of the Southern California economy, accounting for more than 300,000 jobs. Chains such as Wal-Mart Stores Inc. and Costco Wholesale Corp. depend on the nation's trains running on time.

"There wouldn't be big-box retail and globalization if you had to truck in all those containers - it wouldn't be worth the cost," said Anthony Hatch, a rail consultant in New York.

Over the last 20 years, ton-miles of freight hauled by the nation's biggest railroads doubled, from 876,984 ton-miles in 1985 to 1,770,545 in 2007, according to the most recent government figures. Paul Bingham, managing director of world trade and transportation markets at research firm IHS Global Insight Inc., projects that number will grow 14% within a decade.

Environmental concerns are also helping to fuel rail's comeback. Railroads can move a ton of freight an average of 457 miles on a gallon of fuel, according to the Assn. of American Railroads.

Freight rail's resurgence has been stunning for even some of its most die-hard devotees. Pittsburgh rail entrepreneur **Henry Posner III** recalls the mid-1970s, when railroads were tumbling into bankruptcy after losing market share to big rigs and air freight. He credits deregulation in the 1980s, and the brutal downsizing and cost-cutting that followed, for the industry's survival.

Posner's company, **Railroad Development Corp**., owns a piece of what was once the famed Chicago, Rock Island and Pacific Railroad, as well as some lines in Latin America.

"Growing up, I was told that the age of the train was just around the corner, and in fact I have lived to see it," Posner said.

He said Buffett's big bet on rail was a "reflection of the position of the rail industry as an important part of our national transportation infrastructure."

One of the linchpins of this global supply chain can be found in the industrial cities of Vernon and Commerce, home to BNSF's Hobart rail yard. The massive facility, on 245 acres near the 710 Freeway, is one of the biggest operations of its kind in the world. Workers toil 24 hours a day, seven days a week, offloading shipping containers ferried by big rigs arriving straight from the ports. They pluck the uniform boxes from the backs of the 18-wheelers and stack them neatly on lines of train cars, some stretching two miles.

Other containers are offloaded directly from cargo ships to trains inside the ports.

On a recent morning at the Port of Los Angeles, BNSF conductor Dennis Marquez and engineer Armando Nevarez prepared to leave for Clovis, N.M., hauling 282 double-stacked shipping containers filled with assorted freight. This run required four locomotives, hitched one behind the other, to haul 6,000 tons of freight up mountain passes.

Walking through the bright-orange railway vehicles, the engineers inspected fuel levels, checked the air brakes and stored food in an onboard refrigerator. Outside, the horn of another train blew nearby.

Upon arriving in New Mexico, the cars of shipping containers would be attached to other locomotives headed for destinations across the country.

Ten years ago, the journey out of Los Angeles would have taken hours, the trains forced to navigate dozens of crossings over congested city streets. No longer, thanks to the Alameda Corridor, a 20-mile freight rail expressway leading out of the ports.

Completed in 2002, the $3.4-billion public-private partnership includes a 10-mile dedicated underground tunnel that allows BNSF and its West Coast rival, Union Pacific, to avoid L.A. traffic and speed their cargo to the rest of the nation.

Activity has slowed with the global downturn. U.S. freight rail traffic in 2009 was down about 16% from 2008. Traffic in the Alameda Corridor was down 20% in the first 11 months of 2009 compared with the same period in 2008. Some of that business might not return even when imports rebound.

That's because seaports in Mexico and Canada are becoming less expensive than Los Angeles and Long Beach, analysts said. A project to deepen the Panama Canal, expected to be completed in 2014, could make it more economical for massive ships from Asia to head directly to ports on the East Coast.

Other factors could hurt too. A bill pending in Congress seeks to partially re-regulate railroads. California's tough environmental restrictions could add to operating costs. And if the U.S. weans itself off coal for electricity production, railroads would lose a big chunk of their revenue because they haul much of that fuel to the nation's power plants.

Still, West Coast railroads aren't yet ready to surrender the advantage they've gained as globalization has brought more trade through their ports. They're making big capital investments to make trains even faster and more environmentally friendly.

BNSF is double-tracking its entire transcontinental line and in November 2008 finished laying a third track over the Cajon Pass. It has also been straightening curves and polishing the steel track to lower resistance and save fuel, said Bingham, the research analyst. It worked with the government to develop a hydrogen fuel cell locomotive, which it brought to Los Angeles, and is lobbying to create a rail yard closer to the ports to handle increased container traffic.

Whether in Los Angeles or Omaha, analysts agree that the increased dependence on rail makes Buffett's bet on BNSF a smart one. Railroads may be down in this recession, but this time they won't be left for dead, as long as the U.S. economy one day recovers too.

"We're very bullish on most of the railroads," said Jeffrey Kaufman, managing director of the brokerage firm Sterne, Agee & Leach. "These are good franchises. They're going to be around for a long time."

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http://www.latimes.com/business/la-fi-rail3-2010jan03,0,3234250,full.story