

# 150 YEARS CEO OUTLOOK



By Charles  
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## AMERICA ENTERS A NEW AGE OF RAILWAYS

**T**he important issues facing the railway industry today are unlike any that we have faced for many years. It's a new age of railways that demands new ideas to meet new challenges.

Our industry is stronger than it has been for a long time, and we have every reason to be optimistic. Several railroads earned their cost of capital last year—a key component of our ability to pump dollars back into the nation's rail network. We offer fuel efficiency and environmental advantages. New technology, along with additional investment in capacity, is improving our service product. Demand is high, and global trends are fueling rail growth. It's a good time to be in the railroad business.

At the same time, we continue to face big challenges. For example, in the past 50 years, railroads have demonstrated their efficiency by handling tremendous volume increases even as assets were shrinking and the network was being rationalized. The industry managed to maintain an adequate level of profitability in the face of tremendous competitive pressures, although it required the elimination of regulatory constraints in the form of the 1980 Staggers Act. But the unprecedented growth in rail traffic over the past few years means that in order to move forward, not only do we have to continue to gain more productivity from what is now a highly rationalized network, we also have to start adding capacity back.

Rail freight traffic demand is projected to grow more than two-thirds by 2020. The current business environment requires a different approach to this challenge. Following years of downsizing, we now must invest in people, equipment, and infrastructure. The good news is that we have proven we can handle record volumes of traffic safely and with reasonably good service. Today, our challenge is to continue finding creative ways to add capacity and improve service levels. The bipartisan Freight Rail Infrastructure Capacity Expansion Act is another way to encourage faster and greater spending on rail infrastructure. More than ever, rail transportation must play a central role in the nation's transportation planning and policies.

A significant component of this new age of railways is the exponential growth in intermodal, reflecting the industry's commitment to working closely with all modes of transportation. By

developing relationships with trucking companies, we're helping ease highway congestion while assisting truckers with driver shortages and productivity. Intermodal plays a critical role in providing our nation a competitive edge in the global economy.

Taking commodities from the global to the regional marketplace requires collaboration between big and small railroads. Short lines and regionals are increasingly important. To keep up the level of service our customers expect and demand, all railroads must work together on cooperative solutions.

New technology also will help us. Technology is an important link between capacity, productivity, service enhancement, and other facets of operating efficiency. Through innovation, we have an opportunity to move traffic faster and safer. Exploring technology will keep railroads competitive.

With all of this advancement, the rail industry continues to be threatened by reregulation. Since the Staggers Act, productivity has tripled and intermodal traffic has almost quadrupled. Competition has driven rates down 57%, benefiting customers and the economy. Market share has increased slightly after years of decline, and accidents are down by two-thirds. The result is improved service and operations. Continued market freedom is vital if we are to continue improving our performance.

Public-private partnerships have opened the door to enhancing capacity while serving the public interest. These partnerships allow us to pursue initiatives that neither the rail industry nor the government could do alone.

These are just some of the pressing issues important to all of us in the rail industry. In the articles that follow, my colleagues explore some of the approaches the industry is taking to address these challenges. We must keep the focus on meeting the needs of our customers more efficiently and reliably and never lose sight of the fact that we are service companies. Our ultimate success depends upon the level of service we provide our customers. In this new age of railways, I am confident that if we can continue to work together to develop creative solutions to increase capacity and improve service without the threat of unwarranted regulation, our future is bright.

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