

# NS Plays Its Part in the Global Economy

■ Following are excerpts from the text prepared for Norfolk Southern CEO Wick Moorman's address to the World Affairs Council in Richmond on Dec. 5.

I know you spend a lot of time discussing the growth in Asia, particularly in China and India. We're seeing those trends play out very strongly in our business. Imports from these countries, particularly central China, south to Singapore and west to India, are moving through the Suez Canal to the East Coast, rather than through the Panama Canal and over to the West Coast. This route from Asia to the East Coast offers a straight shot, and we're seeing more and more of it.



WICK MOORMAN

Nearly half of our international intermodal business goes through East Coast ports.

That was unheard of just five years ago. It's our job to carry these goods from the East Coast ports westward throughout the rest of the country. This change impacts Norfolk Southern's network and provides new challenges and opportunities for us.

The Port of Hampton Roads is Norfolk Southern's largest intermodal partner, in terms of the volume of business we handle. Over the next decade or two, much more freight will come to Hampton Roads, especially with A.P. Moller's new \$450 million Portsmouth facility. Our investment and the investment by the federal government and Commonwealth of Virginia in the Heartland Corridor is really money that we are investing in our partnership with the port.

The Port of Virginia is positioned to continue growing and will be able to handle the increasing capacity that we'll be getting from Asia.

While some people see the growth in Asia as a threat to the United States, we see the development in those regions as very positive for our business and the U.S. economy. Growth overseas provides opportunities for our nation to do well. Trade is mutually beneficial in nature. Globalization is good for political stability and good for the global economy, which in turn, feeds into our national economy. I consider the growth in Asia to be a good thing. However, it is a wake-up call to the U.S. that we must remain competitive. One of the most important ways of doing that is by investing in our infrastructure.

AT NORFOLK SOUTHERN, we are not in a position to dictate market trends. We must adapt to market changes and, specifically, to this issue of globalization of markets.

With goods coming into the East Coast ports, NS is challenged to be more competitive by running shorter distances and distributing to final destinations. The Heartland Corridor is one way we're handling this additional capacity.

The capacity strain is nationwide. The U.S. Department of Transportation forecasts that by 2035, overall freight tonnage hauled in the United States will have to grow by 80 percent. A recent study by Cambridge Systematics estimates it will require an investment of \$148 billion during the next 28 years to meet that demand. The share of investment for Class I railroads is projected at \$135 billion.

Meanwhile, the public sector is facing its own transportation gridlock. Certainly here in the commonwealth, transportation is a major issue. The Heartland Corridor is a tremendous example of how Norfolk Southern is working with the public sector to accomplish some mutual benefits that neither the commonwealth nor our company could do alone.

The nature of the U.S. highway system has changed and, just like rail, it needs to adapt to its own capacity constraints. In the early days of the interstate highway system, we were developing the infrastructure and building connections.

At that time, we had market access to the system and the highways were bringing in returns.

Now, in the maturity stage of the highway system, we're facing congestion and limited mobility. Highway capacity is strained and the focus has shifted to upkeep rather than building connections. This investment in maintaining the system is critical. We were reminded all too tragically what can happen if we don't maintain the highway infrastructure with the Mississippi River bridge collapse in Minnesota earlier this year.

[China is] investing in infrastructure much like we were in the beginning of our highway system — a 53,000-mile national expressway system. Like China, India and Europe are in the early stage of highway development. Europe is investing hundreds of billions of euros on infrastructure, and India's new 10,000-mile highway system underway is budgeted at \$15 billion. Even though our system is established, we need to be investing at similar levels. Even as a mature industry, we need to be investing significant amounts in transportation. But we need to do it more effectively.

WE'RE SPENDING on maintenance at NS — of our \$1.4 billion capital budget, \$1 billion will be used to keep our existing infrastructure in working order. VDOT is doing the same, spending 39 percent of its total budget on maintenance — nearly \$1.3 billion. We also need to ensure that infrastructure funding goes to the highest-priority projects that will provide the greatest economic and safety benefits for the region.

So clearly, both private and public investment are necessary to meet future infrastructure needs. More rail infrastructure is needed so that we can take trucks off the roads, alleviating congestion, conserving fuel consumption, releasing fewer harmful emissions into the environment, reducing our carbon footprint, and saving lives.

The Heartland Corridor is a tremendous example of how public-private partnerships can solve these transportation issues in a way that is mutually beneficial for everyone.

Working with Virginia, Ohio, and West Virginia, as well as receiving federal funds, we were able to get moving on it. The federal government has authorized \$95 million toward the \$151 million cost of the tunnel clearances, and Virginia has authorized \$22.35 million for terminal construction and clearances for the four tunnels within the commonwealth.

For the portfolio of projects involving the Heartland Corridor, including the tunnel clearances and intermodal facilities, Norfolk South-

ern will be investing somewhere in the range of \$100 million.

We're building new intermodal terminals at Prichard, W.Va., and Roanoke here in the commonwealth as well. Having the Roanoke and Prichard facilities will provide newfound competitive advantage for these inland regions by giving them a transportation link to global markets through the Hampton Roads gateway. Plus, the facilities will attract new forms of investment in western Virginia and in West Virginia.

The Heartland Corridor worked out because it was clear to public entities that there was a public benefit: through capacity, economic development, and doing it in an environmentally beneficent and sustainable way.

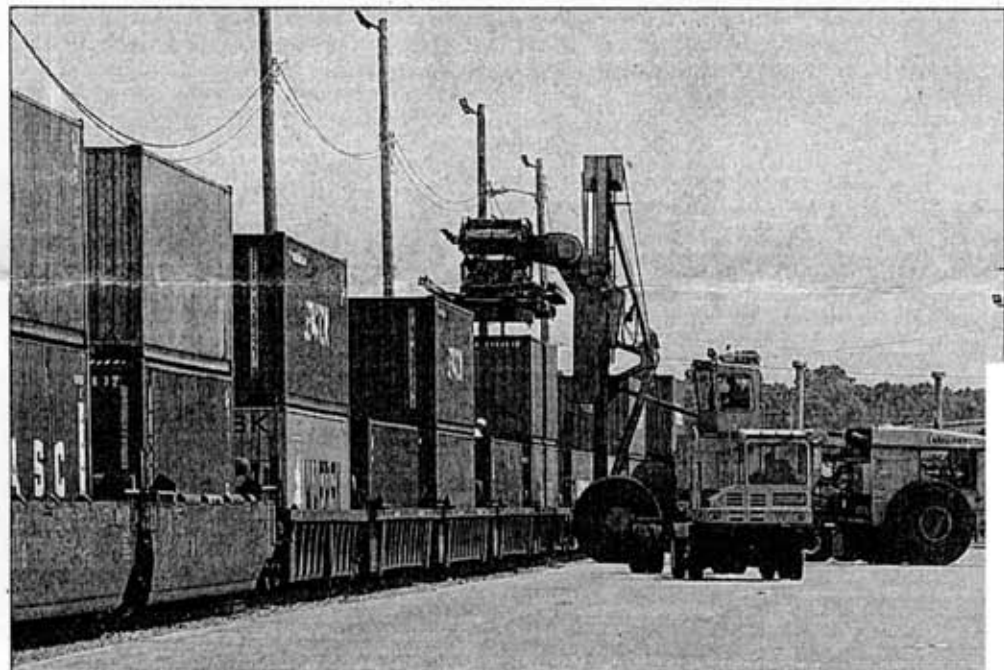
THE I-81 CRESCENT Corridor is another public-private partnership we are supporting of a larger magnitude — to the tune of \$2 billion plus — and it deals directly with diverting freight from trucks on the highway to rail in a corridor that already faces major congestion problems.

Don't get me wrong, we're certainly not against trucks. But we're working with the trucking industry to address our nation's infrastructure crisis.

Rail is the most capital-intensive industry by far. We need to increase investments for additional capacity. Capital investments to handle increased demand are critical for the future of our economy and the global economy. AASHTO — that's the American Association of State Highway and Transportation Officials — estimates that railroad industry capital investment must grow over the next 20 years just to maintain railroads' share of growing freight traffic.

The challenge is reducing our cost of capital to help justify additional investments, which is why enacting the proposed Infrastructure Investment Tax Credit (or ITC) is critical. The ITC would allow railroads and anyone else who invests in new rail-related capacity a 25 percent tax credit. This would reduce the costs of these investments and allow us to add capacity sooner and in larger amounts.

While I'm on the subject of legislation, there is a dark cloud that looms on the horizon that could have a major impact on our transportation outlook. That is the threat posed by various proposals that would have the effect of reregulating the rail industry. That would be bad for our industry and bad for our national transportation infrastructure, seriously jeopardizing the ability of railroads to continue the levels of capital investments required to create capacity for handling growing freight volumes.



JEFF CAPLAN/BLOOMBERG NE

A crane unloads shipping containers from a Norfolk Southern Corp. intermodal train in Chesapeake on June 6, 2002.