Day 3: Plenary Session (Luncheon Presentation)

Intermodalism

The Next Level

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I am privileged to be here. It is nice to do a little reminiscing about the National Commission on Intermodal Transportation and talk about intermodalism. I am going to review some of the proposals the commission made 5 years ago and some of the progress I think has been made—maybe not so much as a result of what the commission had to say, but certainly it put us on the right track.

I am going to focus on the freight sector, because that is what I know the best, and on what we have to do to take intermodalism to the next level. I understand there were a number of panelists and speakers who talked about the deficiencies, especially in the rail freight system. I think that deserves a little time. At the end I will say a few words about the proposed Burlington Northern Santa Fe/Canadian National (BNSF/CN) merger. I know a lot of people have been talking about that. That is not what you invited me here for, but anytime I have a chance for a paid political announcement, I am certainly going to take the opportunity.

It is hard to believe the commission's report is over 5 years old now. It came in on time, on budget, and with unanimous recommendations. I am not sure that I can take any credit for that. The commission staff did a great job getting everything together. We had railroaders, truckers, rail passenger advocates, safety advocates, government officials, and academicians. Our recommendations certainly were not a step-by-step blueprint on how to make intermodalism king in the transportation industry. Instead, we established or enumerated a series of guidelines.

We all realize that intermodalism, by its very nature, is very complex. We know that, at least on the freight side, market mechanisms best drive intermodalism by heading users of transportation in the directions of the mode that would be the most efficient for that particular part of a transportation trip. We also have, I think, a strong bias in the freight sector to let those market mechanisms work and not to have public policy or public regulations interfere with the market. But we look at our role as a promoter of intermodalism, to educate and inform, and to showcase the private sector development of intermodal freight systems.

There has been progress on all fronts. It is clear there will always be intense and often heated discussions about how to fund various modes and about the safety of the modes and the role that safety plays in intermodalism. There are also various institutional barriers that get in the way of a true intermodal product that provides the highest and best service for the most efficient cost.

Commission Recommendations

Unified System

Let's review now some of the recommendations. Our first category had to do with making efficient intermodal transportation the goal by federal transportation policy. We said it in a very few words. To quote from the report, we envisioned "the national transportation infrastructure, both public and private, as a unified system."

One of the things we pointed out was that the connectors of the various modes left a lot to be desired and since that time there has been a lot of emphasis on intermodal connectors—to identify them and to work to improve them. They are the weak links. There have been over 1,000 mi designated as connectors by states and the U.S. Department of Transportation (DOT). Studies are being prepared for congress on the condition and performance of these connectors. Others are looking at whether there is adequate funding. All this activity is a step in the right direction.

Let me shift for a moment to look at freight and what is happening to intermodalism in the private sector. Since the report was published in 1994, I think we made some progress, but we have also taken some steps back. We have handled record volumes in 4 of the 5 years in intermodal freight on the rail system since the report was published. We had 9 million intermodal loads last year. We had 18 record years out of 19 years, so the growth continues.

Last year, my own company, BNSF, handled 3.2 million intermodal loads. If you think about it, that means that every 10 seconds we are taking a trailer or container and putting it on our railroad or taking it off a flatcar. We are expecting 5 to 6 percent growth annually as we go forward.

Some new products have been introduced that take advantage of the strengths of the various modes coming together intermodally. One of the things at BNSF is the Ice Cold Express, which is a unit train of refrigerated RoadRailers that goes between California and Chicago. It moves 100 percent loaded in each direction. It has been 100 percent on time since we put it in place and we are now going to run two trains a week because of the demand we have created or stimulated by producing a better product.

During lunch, the people at our table commented that, for freight intermodalism to be truly embraced, the entire trip from start to finish has to go smoothly. The big problem happens to be in the truck portion, the drayage, the arrangements for drayage, the inefficiencies at intermodal railheads. One of the things we are working on is a regional drayage system, which is more user-friendly and makes it easier for us to provide a through move. My guess is we are headed toward a national drayage system that will do the same thing.

On the CN, there have been some experiments to make intermodalism work on shorter, but heavier, traffic corridors and we have had some success in high-density corridors such as between Detroit, Toronto, and Montreal. This could revolutionize intermodalism and provide us with a whole new market opportunity if we are able to make a go of it. A lot depends on drayage costs and efficiency of the drayage operation at either end of the railheads.

Progress is a reality in the freight area; however, if you look at the passenger area, I am not quite so sure. I remember when the commission came together unanimously to make our recommendations. We said that for passenger intermodalism to work, there had to be a "viable intercity passenger rail network." That recommendation was really a blessing for Amtrak to move forward and to refine its role in passenger transportation as a core piece of America's network. However, I really do not see a lot of progress there. One of the things the commission said was there should be feeder bus and van service to fit in with Amtrak. I do not see a lot of progress there either. The commission also said that Amtrak needs a stable source of funding, and I am not sure I see much progress in that area. It is clear to me that Amtrak read our report; however, they read and paid the most attention to the freight intermodal area and that is to some extent a little difficult for me. The job of the Amtrak team is tougher than my job, and my hat goes off to them for trying to be a success, given the day-to-day constraints with which they must deal, not the least of which is running trains that do not make sense to be run.

Amtrak has to become self-sufficient. They are trying to figure out how to do that, despite the constraints that are imposed on them, often for political reasons. For example, we end up with things like the Kentucky Cardinal that goes from Louisville to Chicago. That is 12 hours to go 290 mi. You could drive it round trip in a car and maybe even have time for the meeting in between. You could end up with passenger trains with four or five passenger cars and 25 freight cars on them. That does not make sense to me either.

I cannot really say I am taking issue with Amtrak, although perhaps I am. What I am saying is that I understand the pressure they are under, but I do not think they have moved in the right direction at all and they certainly have not moved forward toward achieving any kind of a better intermodal passenger system with a core rail network. In fact, I think we are going the wrong way, as service continues to deteriorate for the passengers who ride those trains.

Intermodal Investment

The second category of recommendations had to do with increasing investments in intermodal. I think this is where we probably have made the most progress. I reviewed the preliminary results of your report card and you gave the highest rating to finding more innovative ways to help fund intermodalism. I think that has happened in both the public and private sectors. I am not sure we are truly innovative, but one thing I can certainly attest to in the private sector at BNSF is that we have spent, spent, and spent. We have taken a pounding on Wall Street as a result of all the money we have spent—$9.5 billion in 4 years in capital. That is $5,000 a minute since BNSF came alive in September 1995. I have done things like add a million lifts to our intermodal capacity. If you are an engineer and you climb up onto a locomotive on the main line to get on your train, there is a 75 percent chance (three of four) that the locomotive you get onto is less than 48 months old or has been completely rebuilt in 48 months. It cost about $2.5 billion for us to do that.

We built enough new rail infrastructure to actually build a railroad between Kansas City and Denver or between Fort Worth and Memphis. Of course, that is not all in one piece. It is part of double track and triple track, especially along our corridor between Chicago and California, to improve our intermodal performance. The amount of money we have put in the business in recent years I have not seen in the three and a half decades I have been in the company. In fact, you would probably have to go back to when the railroads were built to see the level of capital investment we have put into our business. That was one of the things the commission said—let the private sector do their thing and they will. Certainly BNSF has.

There has also been progress in the government area. The Transportation Equity Act for the 21st Century (TEA-21) provided $218 billion of funding for transportation, and now that the Highway Trust Fund is off-budget we know that 90 percent of that is going to be spent. Again, that was one of the observations made by the commission—too often the funding was allocated but not spent for the transportation system. It looks like that is changing. TEA-21 also introduced some promising innovative financing programs. I will give you a classic example—maybe it was before its time, before TEA-21. It certainly was a long time in coming. The Alameda Corridor took 17 years from conception to the actual beginning of construction. To fund that $2.3 billion project, we have taxable and tax-exempt bonds, federal loans, equity contributions, and then backing a lot of that up is the $30.00 container charge the railroads will start paying in order to pay off the debt and handle the interest. I take my hat off to Gil Hicks and his staff for their role and hard work in getting all this done.

As part of TEA-21, we also have the Transportation Infrastructure Finance and Innovation Act (TIFIA), $10.6 billion worth of credit for publicly owned intermodal projects. We have five up and running right now and I think maybe the first freight project will involve the realignment of the Union Pacific track through Reno, Nevada.

Another program that has promise but, from what I understand, is not going very far very fast is the Rail Rehabilitation Improvement and Financing Program. This program has $3.5 billion of low-interest loans for Class I and short-line railroads. However, because of differences of opinion and disagreements about implementing regulations that have not been worked out between U.S. DOT and the Office of Management and Budget, it is questionable whether and how that money will be used. It would be a shame if it were just used for marginal, very low-end projects that could never come close to earning a return. There are a lot of projects that maybe BNSF or others could not fund because they do not quite meet our hurdle rate of return, but they are still very good projects that would benefit the transportation industry, customers, and intermodalism. I hope those projects will be considered when the final regulations are worked out. Clearly, in the area of funding, there have been some significant steps in the right directions.

Restructuring Agencies

The third area the commission focused on was restructuring government institutions to better support intermodalism. This was specific reference to the so-called modal "silos" that are part of U.S. DOT. It is interesting that Secretary Rodney Slater, when he was FHWA administrator, attended commission hearings and he was on-board. He understood and he shared the frustration that we were not considering rail, highway, transit, and water at the same time, and therefore we were duplicating efforts and suboptimizing our expenditures on the policies that we put in place. I think we also recognized, as he did, that it was going to be awfully hard to make significant changes to institutions like those within U.S. DOT. There has been some progress and I think it is probably because of the Secretary's frustrations and his first-hand knowledge of the problems within U.S. DOT because of these modal silos. As a result we have initiatives like the One DOT program, in which the various agencies work together and share information as one effort; for example, in the innovative financing area where Federal Railroad Administration, Federal Transit Administration, FHWA, and the Office of the Secretary all come together to review projects for financing. I think that kind of coordination gives intermodalism its best chance.

We also have the new Office of Freight Management and Operations and that has become a focal point for freight within the department, which is good because there really was not one before. If there was a focal point before, it probably evolved around passenger transportation.

Ways of thinking are changing, not only at the federal level but also at the state and metropolitan planning organization levels. The concept of intermodalism is being internalized both in planning and in funding. I cannot say what grade I would give on this, but I will say we have done better in the policy and funding area than we have in the institutional area, but even that has moved in the right direction.

Next Level

Let me now turn back to intermodal freight transportation. Where is it today? Where does it go from here? What does it have to do to get to the next level of performance, not only for the benefit of its customers, for railroad customers, but also for the benefit of the country?

One of the unfortunate observations is that the railroad intermodal growth rate has slipped over the past few years. Since 1994, it has been about 3.5 percent compounded annually, where a few years before it was almost double that. It is pretty easy to figure out why. There are three reasons: service, service, and service. We just have not had the kind of product required to compete with the reliability and the speed of the highway system, despite the congestion that occurs in major cities and on major parts of the Interstate system. Like I said, that is unfortunate and sad. I know the answer to this problem—it is about $5,000 a minute, which is what we put into our system. I went to the BNSF meeting in Fort Worth this morning before I came here, just to get a review of our service on BNSF. Since the first of the year, we have been 93 percent on time dock-to-dock for all trailer, container, and carloads on our railroad. In the industry, over three and a half decades, we have never seen this kind of service, especially across the 30,000 mi system.

In the intermodal area, BNSF is about as close to perfect as we can get for our number one customer, which is United Parcel Service (UPS). Last year, UPS shipped 380,000 loads on our railroad—that is more than 1,000 loads a day. We had a brief celebration, or a brief moment of silence, this morning when we started our 8:00 a.m. meeting because we had 10 failures with UPS yesterday. We had a train that was supposed to leave the Chicago facility and go to St. Paul—a 9-hour run. However, on the lead locomotive, the speed recorder did not work and we do not run them without that speedometer. Therefore, we had to take the engines off and get some more engines and we left 2 hours late; on a 9-hour run, we could not make up the time to get to the Twin Cities on time. We had 40 UPS trailers and they got 30 of them through the sort and 10 missed. We had 10 trailers miss and that broke our record of 103,000 trailers without a failure for UPS. That was over 3 months worth of traffic, going back to the day after Thanksgiving when they started their peak. That blew away, by about a factor of three, any prior railroad record. When you think about that, 103,000 trailers over a span of 96 days, over a 30,000-mi network with all the vagaries of weather and grade-crossing accidents and who knows what—that is about as close to perfect as you can get. In fact, last year we were 99.8 percent on time on 380,000 loads for UPS. It is not a coincidence that, when the commission issued its report back in 1994, BNSF was handling 250,000 loads. The business has grown dramatically because the service is there.

I will not stand up here and tell you we treat all our intermodal business in that same way, but we are getting better at it. When the commission report was published in 1994, I do not think BNSF had a load from Roadway, Consolidated Freightways, or Yellow Freight. Now, if you add up our revenues from those three companies—we can also throw in Overnight because it uses BNSF almost exclusively for intermodal—the revenues from less than truckload are now approaching $0.5 billion, and that is all a result of service. This is a harbinger of things to come. If we are going to continue to take business off the highway, we have to provide that level of service, which is expensive and takes a new way of thinking in the railroad industry. It requires that standards be moved up considerably. It requires stripping away the effect of averages, looking at individual movements. We are learning how to do that.

That is the good news. The bad news is that not only does BNSF have a long way to go, but the industry has a long way to go. Until the entire industry feels the same way and provides the same kind of service—seamless service from the Atlantic to the Pacific Ocean, from Seattle to Birmingham, Alabama, from New York to Chicago—we will never do what we should for our shareholders and for our country. And that is a big problem. You go to places like Chicago—I have joked before that it takes as long to get a car through Chicago as it does to run it from Chicago to Los Angeles once you get it—where the situation is critical. We are working together better in Chicago and other places, but we are not working as well as we should or as fast as we should, and that is a problem. It is the high-value goods, the ones that have to go fast and have reliable service, that people pay good money to move, and that is the kind of business we have to get on our railroad system.

We have to do this at the same time financial analysts are calling for us to cut down the amount of investment that we are putting into our infrastructure. One thing I can say about BNSF since the merger is the amount of invested capital in our company has gone up 44 percent in just 5 years. Perhaps some of the innovative financing opportunities, for projects like the Alameda Corridor, also make sense in places like Houston and Chicago. There are lots of places where the rail industry, together with ports and other interested parties, can provide better service in a way we can afford to do it.

Another thing I think is going to help relates to e-commerce. (Everybody talks about e-commerce these days, so I certainly do not want to be left out.) One of the problems with intermodalism is you have to do business with more than one entity, which sometimes makes it geometrically more difficult to get the final product you want or even to secure the contract for it or to order it. Now that we are all enamored with e-commerce as it relates to consumers, we need to recognize that business-to-business e-commerce has even greater potential. I am working to get the Association of American Railroads to adopt a common website, where somebody will be able to book an intermodal load from New Jersey to Los Angeles or from Seattle to Birmingham with one-stop shopping—order it, pay for it, trace it, one contact, easy-to-do business. I am not having a lot of success with some of my compatriots, but I do not think we will ever truly realize our potential until we do that.

I will add that BNSF is not exactly waiting for the industry, because we already have this little thing called freightwise.com, a transportation aggregator, that we hope will be up and running in May. It has taken about a dozen people, some from inside the company and some from outside the company, and I did not give them a budget. They tell me in e-commerce if you have to ask how much it is you are going to be a failure. I had them tell me what they needed to get this thing done. Customers will be able to go to freightwise.com and if they have a load to ship—we are going to start with trailerloads or carloads—they can go to freightwise.com and receive quotes from truck brokers, from intermodal companies, from railroads, from truckers, and then book their shipment. The shipment can be traced through the final delivery using that system. If you are a supplier of transportation and you have excess capacity, you will be able to offer that capacity for sale and you can even get into bidding situations.

I think this will do two things: (*a*) it will make intermodalism easier because of one-stop shopping and (*b*) it will create efficiencies because railroads, in particular, have not reacted quickly enough to our markets. By the time we figure out we have empties, we have missed the opportunity to take those empties we are running across the railroad and put loads in them. This is one of the things the airlines have done so successfully since deregulation, thereby improving their load factor. They have done it through systems like Sabre and now through their own websites. To some extent, we are trying to catch up and to emulate exactly what they have done. There is a lot of advantage to that and it will also help intermodalism.

We have made progress since the commission report came out in 1994, but we still have a long way to go. My industry, the rail industry, has a long way to go.

Merger Issues

Let me just say a word or two about why I think BNSF/CN is something that furthers the cause and is the right step, at least for my company, to take. The quest is not just for intermodalism but for our ability to provide a better intermodal product. This is the principal reason for pursuing this next combination.

I am going to start just by quoting some statistics. I have condensed 40 pages that we filed with the Surface Transportation Board (STB) about a month ago as part of our progress report on how we were doing as a result of the rights we got in the Union Pacific/Southern Pacific (UP/SP) merger. The point I want to make is that although the "M" word (merger) is a dirty word in our industry right now—there have been a couple that have crashed and burned—I believe I represent a company that went through one pretty well. There are two points of conventional wisdom: (*a*) when these railroads talk about merger and go through this process, they take their eye off the ball and everything deteriorates and (*b*) we never get the benefits that are included in the Interstate Commerce Commission or the STB filings. It is just a bunch of stuff and we never get the benefits.

I went back and looked at BNSF: since 1994, when we announced the merger and filed the case using 1993 data, and then again in 1995 when the merger was approved and implemented in September, and compared it with last year. I do not care what category you look at, the improvement is dramatic. For example, in the area of safety: lost employee workdays per 200,000 hours worked is down 65 percent. That is the equivalent of 170 full-time people. That is a reduction of 35,000 lost workdays a year. Reportable injuries per 200,000 employee hours are down 35 percent. Accidents per million rail miles are down 32 percent. Grade-crossing accidents are down 40 percent. Freight loss and damage per dollar of revenue taken in is down 34 percent.

Service was 93 percent so far this year and 91 percent last year. It took us a while to get that going because of a lot of locomotives and bottlenecks in the system—$9.0 billion worth of expenditures. In the meantime, while we were trying to do that, we are also taking on about 10 percent of UP's business, trying to keep the West moving, which we did when they were going through their UP/SP merger situation.

Rates are another subset of this—when these mergers come about, these monopolies raise rates. Rail rates expressed per revenue per thousand gross ton-miles are down 11 percent since 1994. If you adjust for inflation, they are down 20 percent since 1994. That is incredible. A few years ago we were saying that, since deregulation and the Staggers Act in the early 1980s, real rail rates were down 50 percent. In 4 years, our rail rates have dropped in real terms 20 percent.

How were we able to stay alive? It is pretty simple. It is because our cost per gross ton-mile came down 22 percent. In fact, adjusted for inflation, it is down 27 percent. If you look at our expenses in 1994 and compare them with last year, in order for us to get where we were, which was an operating ratio of eight points better, we had to come up with $1.3 billion of efficiencies in about 48 months. If you go back to 1994, that was on a base at the time of about $6.5 billion of expenditures.

I would not for a minute say the merger brought all those about, but it certainly was responsible for the lion's share of them. We did not do this on the backs of our employees either, because our employment is down about 3,000 people or 7 percent. It really all came out of office buildings where we had the Noah's Ark syndrome—we did not need two of everything after the merger: two presidents, two accounting departments, two finance departments, two information services departments. We also centralized some clerical operations. While employment was coming down 3,000 people, we also hired 16,000 people during that 5-year period.

Attrition did not work out perfectly for everybody, but it did take care of a lot of the reductions we went through. Our gross ton-mile per employee is up 44 percent. Our gross ton-mile per car hauled per year is up 20 percent. Our operating income compounded at 13.5 percent and earnings per share at 19 percent. We took eight points off the operating ratio. We took nine points off invested capital that went into the company at a rate 2.5 times what it was before the merger, so that is up 44 percent in 4 years. Our return on total invested capital was +7 percent in 1994, and every year since then it has been in the mid-9 range. We know that is not enough and that is why we are trying to do the next deal.

That leads me to BNSF and CN. It is an end-to-end system. It gives us the Noah's Ark syndrome again. Because of better single-line service, it will put more business on the railroad, add another $500 million to $600 million to operating income. It is beneficial to both companies. This is not a deal where somebody borrowed a lot of money to buy somebody else. In fact, the day after we announced, one of the investment agencies—I think it was Standard & Poor's—put us on credit watch for a possible upgrade because of the strength of the system. We figure our free cash flow will be over $1 billion dollars in the first year we are together. I think we can have an operating ratio certainly around 70, with $13 billion of revenue. I think we are—I am not going to stand up here and say that I am prejudiced, because I think the world would say it too—the two best-run railroads in North America with the two best service records. We do not have bottlenecks on our railroads. We are ready.

I guess that answers the question of why do we want to do this now. The reason is because we are ready. We can provide a better product. We can do a better job for our shareholders, and why should we have to wait because some other people crashed and burned and they are still trying to dig their way out of the mess they created for themselves.

We are going to have hearings soon to talk about the railroad industry—where it is going and what this means in the way of other mergers. I do not think it has to mean anything, but that is not for me to decide. There is not another railroad in North America that I would like to merge with right now. I do not think there is one in condition except for CN. That is pretty simple. That is why we are doing a deal with CN and not another railroad. They have work to do and it is going to take some time and I think they ought to have the time to do it. I agree with them. They ought to slow down, get their operations straightened out, and get their own backyard straightened out, but I do not think I have to wait just because they have some trash in the backyard.

We have hearings coming up and we will see where those go and we intend to file our case around the end of March, maybe the first of April. We have asked for a 1-year schedule. Both companies have to get through shareholder approval and we will just see where it goes. It has made life interesting in 2000. When I think of all I am doing with this merger, I do not know what I would be doing if I did not have this to work on. We decided to take a trip. We got in the car, we are in the driver's seat, we are at the steering wheel, and we think we are in control but we do not know quite where the car is going or where the ultimate destination will be.

I would be more than happy to take some questions on anything or to hear your comments about whether you agree with me or whether we have furthered the cause in intermodalism since the commission put its report in the hands of the public. Thank you.

Question and Answer Session

Question: How do you assess shipper sentiment right now as far as lining up behind you or behind the other parties on the merger?

Answer: We will see how all that comes out. What I hear when I have one-on-one conversations with shippers is: We are tired of mergers. We have been taken to the cleaners. Mergers have caused us a lot of problems. What is going to happen in the East, the UP/SP meltdown, BNSF? We had some problems when you were putting your information system in, but service is good now. We appreciate what you have done. We think you are a well-run railroad. We think CN is a well-run railroad. We can see the benefits of a BNSF/CN transaction. We are worried that you too will take your eye off the ball (which is why BNSF came out with the "service guarantee"). We are worried that fewer railroads mean fewer options (which is why BNSF said we will keep gateways open not just physically but also financially so that shippers will have exactly the same choices they have today). On the whole, we do not have a big bone to pick with you. What worries us is where is all this leading? It is pretty easy for me to answer the concerns about BNSF/CN. What I cannot do is answer the concerns about where this all leads. I can say this: I do not think it has to lead anywhere. I guess the fear is that there will be a transcontinental merger in the United States and I really do not know what is to be gained by it right now. I think the four people who put that little ad in the paper had it just right—they need to wait. They need to get their act together in the East, before it would make sense for there to be a combination. I do not see the competitive advantage from doing a U.S. Transportation Command "jumping in first," because you know the next response is going to be that there is another one right beside you. What is the competitive advantage? Eventually there will be a service and efficiency advantage. But I do not see it being there now. I have given you what I hear and also my answers to some of that all rolled into one.

Question: As you look at the intermodal network, it appears that you increasingly have the "haves" and the "have nots" in terms of service. The network is becoming increasingly fragile. As good a product as your railroad puts out, you are not an island. How do we restore the strength of rail networks in terms of viable products to the customer in low corridors?
Answer: That is a good question. First of all, I think we have to give the East some time. They went through a very difficult merger process. It was not a merger, but it was a breakup. They took one system that was running pretty well and they tried to split it in two, and some of them ended up with traffic on different corridors that did not have yards or infrastructure to support it. It is going to take them a while to work through that. We have to let that happen.

I believe the customers in the Northeast will get a better product ultimately with the competition that is up there, but it takes time. It took us two and a half years. We took on about $40 million worth of business from UP/SP that we were not counting on when we started out. But it took us about three years to get to the point where we could say we are doing better for our customers than we were before the BNSF merger. I think that has to happen.

The other thing that has to happen is that we have to somehow get an industry mentality that we rise or sink or swim together and that we, as an industry, have to be easy to do business with. We have to be seamless. I guess you can still interchange in Chicago, if you do it right, or if two railroads work together and maybe just run through Chicago. You can still do that or you run into each other's yard. However, we are still in our own parochial companies that always think about what is good for us and we do not get the big picture. That is why I thought using RailInc, the industry collector of information and data processing company that we spun off from the Association of American Railroads, as a common neutral website or collector of information, order taker, and service tracker. I thought that would go a long way.

It is kind of funny. I have railroads that do not want mergers, and they are saying "Do not bring that to me. We are not ready for that." On the other hand, they are not doing what it takes to make our industry look like a seamless network. It is really paradoxical.

When in doubt, the reason for BN and SF merging was better service. I got tired of fusing with people who did not want to provide the same level of service and I am not saying it was all one railroad's fault. It was just human nature. I think that CN and BNSF will do the same thing. We will provide. We have a 50,000-mi network. It is still an island, but it is a heck of a bigger island.

I started with a 15,000-mi network, then moved to a 34,000-mi network, and we will go to a 55,000-mile network. It is marketing forces that are driving us in that direction to produce a better product. You have to get smart, or you have to get bigger.

Question: What are your views on the future of the short lines and regional railroads over the next 5 to 10 years? What impact will mergers, bigger cars, and a lot of the other things have on them and is there a future for them?
Answer: What is the future of the short lines and regional railroads over the next 5 to 10 years? The paradox is they need to get funding to upgrade their infrastructure. The only problem with that is that they would just as soon it did not come from the $0.043 gas tax that is paying for deficit reduction when we do not have deficits anymore. We would like to take that money back and we think it is our money and we would like to spend it ourselves. But we will be supportive and there are some innovative financing options that are part of TEA-21 or through which short-line railroads might be able to get funding to upgrade their infrastructure.

There is another paradox involved in how that works as well. I have got it big time in states like North Dakota and South Dakota. It is one of the reasons we could handle the grain as well as we did in September–October–November, when there was a pretty good spurt of grain moving to ports and I am talking about Pacific Northwest ports and Texas ports. We, over the last couple of years, have been working to put in these great big loading facilities—110 cars, big cars, heavy cars—and we work with elevators that load the cars within 12 hours, and we get them out to the ports. The ports unload them within 12 hours. We keep the power on the trains and we get three times as much capacity out of those cars than if we just spot a few cars at an elevator and go out and get it with a local, bring it back in, put it on a train, and haul it to its destination. We lowered the rates too. We give the shipper a piece of the action to encourage that type of loading because it is good for everybody.

Unfortunately, what happens then, even though people on a short line that cannot handle that volume or even on our own railroad, is that we do not raise their rates. We just lower everybody else's rates and we are affecting them negatively because we are giving somebody else a better break. I have tried to explain that to U.S. Senators and it is not easy when somebody is saying that I have a branch line that goes through my home town and there is an elevator right there, and what you are doing is putting that elevator out of business. I said, "No. What I am trying to do is move America's grain and do it more efficiently."

I am at the point where I think we have to help short lines have the same kind of benefits and that means they are going to need some funding to help upgrade their infrastructure. They are not going away. They have an important role to play. We could never do what they do in terms of the local attention they give customers, and also their efficiencies in those areas where there is not a whole lot of business out of which to get the margin and utility.