Coal: Has Freight Rail's Kodak Moment Come?

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Almost everyone knows the sad story of the decline and recent bankruptcy of beloved Eastman Kodak, one of America's great heritage corporations. That same enterprise, credited with developing the digital camera, was so wedded to the traditional photographic film business, with its lucrative but declining profits, that it delayed exploiting in-house digital capabilities. Others moved in to dominate the market.

Could it be that U. S. freight rail industry is caught in that same mindset? We fully expect the rails to avoid a similar fate. There is no reason to think that the long-term decline of coal traffic is going to bring down any of the big Class I U. S. freight rails. However, the circumstances are eerily similar. Railroads and coal have been inseparable since the very beginning. Coal, especially thermal coal for U. S. electric power plants, has long been a dominant rail commodity, relatively immune to cyclical business fluctuations or to highway diversion, and a generator of high-margin profits for rails.

Now, in the space of the last year or so, a largely-unanticipated flood of cheap natural gas has turned the world of electric power generation upside down. Just yesterday, the WSJ reported on some of the dramatic changes sweeping the domestic energy scene. One major southeastern utility, which as recently as 2008 produced 70% of its electricity from coal, now claims to be using natural gas for 46%, up from 16% four years ago. Even relatively cheap Wyoming and Montana coal is frequently finding itself priced out of the market by gas. Where this will stop no one knows, but if the trend continues, as many predict that it will, the shift from coal to gas is going to have a profound impact upon both the operations as well as the profitability of freight railroad companies. For example, in the month of March, while the U. S. economy was improving, carload rail freight was down 5.8%, compared with the same month a year ago. Many rail commodity groups were up substantially, but coal was down 15.8%.

Some rails have seen this coming, an example being Virginia-based Norfolk Southern. While CEO Wick Moorman is deservedly regarded as a hero to Virginians who look forward to restoration of intercity rail passenger service, between Norfolk and the Northeast Corridor, via his line east of Petersburg, Moorman's audacious acceptance of almost $100 million in State funding for improvements to his railroad, as a quid pro quo, was hardly a case of detached generosity. It was enlightened executive leadership by a CEO who foresees less coal, more rail-highway intermodal, and a lot more passenger trains in decades to come. Intermodal and passenger are growth businesses segments. Properly structured, physically and financially, they can coexist and thrive, The public-private relationship must be amicable, equitable and mutually-beneficial.

Keep an eye on the NS line east of Petersburg (the 460 Corridor); it is destined to become a model for the future of many urban rail corridors – a *Super Railroad* for others to envy and emulate. Everybody -- NS shareholders, as well as Virginia taxpayers -- will benefit. Look for the launch of the new service, on the “new” railroad. # # # #