# Public/Private Partnerships-Railroads, Part II

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So, why should it be so difficult to achieve a fair and balanced partnership between the public sector and the private freight railroads?

Most public rail initiatives are likely to turn out to be less than ideal because the public sector -- a gross generalization lumping federal, state and regional/local governments together -- has not yet figured out what it wants to achieve. Does high speed rail, whatever that turns out to be in the U.S., trump everything else? Or is commuter rail the thing? Is rail freight simply to be stimulated by occasional public funding grants in an effort to minimally compensate for the unlevel highway-competitive environment in which rail has been forced by public policy to compete -- with only marginal results? Or are we seeking a formula to significantly transform rail freight services, particularly domestic intermodal, such that railroads are able to actually shift a meaningful amount of cargo from our roads to the rails?

We have yet to formulate, in conjunction with the states, a comprehensive national rail strategy and implementation plan; a plan that responds to public needs, while recognizing the rights of the private railroads. If public needs ultimately conflict with and outweigh those of the private rails, then a public taking of private rights should not be ruled out, but that would be the least desirable alternative. Much to be preferred is a fair and balanced public/private partnership. There are many approaches to structuring such arrangements, one of which we shall explore on another occasion, but until the rails understand exactly what the public sector wants, and what the public is *willing and able* to pay for, the parties will likely continue talking past one another.

Freight rails are tough negotiators. In the privacy of their corporate hearts, they pride themselves on getting the better of their public "partners". Rails generally hold most, but not all, of the high-value cards. Until very recently, they refused to believe that they needed to do business with the public sector. They had learned how to survive in their marginalized zone of limited transportation competitiveness by focusing only on what they could do reasonably well, and profitably. Making the most of limited capital resources, maximizing profitability by obsessively controlling costs, these publicly-traded companies have generally been risk-averse, somewhat less interested in volume growth than in unit-margin growth. This often puts them at odds with public expectations.

The problem for the freight rails is that what worked well for them between 1980 and 2009 may not be a viable strategy in the next three decades. With coal traffic probably peaking out, the chemical and automotive industries facing environmental constraints, and the flows of consumer imports changing significantly, the time is right for both the rails and the public sector to seek common ground. The pending federal reauthorization of the surface transportation bill may present our best opportunity to begin to figure these things out over the next five years. It is imperative that we attempt to do so. Private rails and the public sector; they really need each other! #####

Sounds like a good business model doesn't it? Indeed it does, and it certainly has proven to be fairly successful during the last ten to fifteen years, but is it sustainable in light of changing political, economic, environmental and energy realities likely to confront the freight railroads in the future? The capacity to fund rail infrastructure needs for the future rests as much with the public as with the private sector. That is one of the potential levers of negotiating power residing in the hands of the public sector.

What is it that the public sector typically desires from the freight railroads? The public wants to see a more competitive rail freight system, one that is capable of offering measurable relief to overburdened highways. More trucks on rail and fewer on the roads. That requires a radically different approach in terms of rail infrastructure, operations, marketing, customer service and pricing, all very sensitive and frequently controversial matters within the typical private railroad organization. In addition, the public desires more and better intercity rail passenger service. Fortunately, the latter is more compatible with highway-competitive rail intermodal freight than with recent rail industry operating and service practices.

For a variety of reasons, reflective of the limitations on the public side of the table, we have seen funding grants made to freight railroads with limited, or vague, standards of performance. Many of these early projects were designed to solve, or at least mitigate, operating inefficiencies on the private rail lines, some of which had been self inflicted. While not a bad thing to do, such projects offer limited potential for delivery of high-value public benefits. The public sector must ask for more in terms of results, and the partnership arrangement must be structured to insure that such goals are achieved. Citizens must be able to see and understand what they are getting for their investment. Part III of this series will explore how that might be accomplished. #####