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Infrastructure Issues for Louisiana Industry

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# Building Blocks of an Industry

- ❖ Location .... Good and beneficial. Major resources like:  
Raw Materials availability, Delivery Systems, Costs, Supplies,  
Services & Maintenance support structures
- ❖ Workforce and proper economic development support structures & environment
- ❖ Competitive Advantage ... An edge!
- ❖ Regulations support structure & environment
- ❖ Supply Chain Infrastructure .... Delivery of Raw Materials & Transportation and Distribution of Products, Raw Materials and Supplies
- ❖ Reliability & positive outlooks
- ❖ Minimum risks!

Good business sense!

# Transportation & Distribution Infrastructure

## **Raw Materials, Products, Supplies & Services Requirements**

- Marine Transportation & Infrastructure: Port, Storage Terminals
- Railroad Transportation: Infrastructure & Support
- Transportation Via Road: Bulk, Solids, Packages, Supplies & Support
- Pipelines for delivery of Raw Materials & Products
- Workforce ... Professionals & skilled
- Reliability, Costs & Service
- Energy Prices

# Railroads

- Railroad industry deregulated in 1980
- Industry consolidated from over forty major railroads to six
- Four of the major Railroads handle 90% of the nation's rail traffic. Two of these operate primarily on west of Mississippi River and the other two on east of the River
- 35% of nation's rail traffic remains subject to railroad "monopoly" or "market" power. This traffic is called captive traffic!

# On a Per Ton Basis, What is the Difference Between Captive and Competitive Rates By Commodity and Major Railroad

The following information was calculated by Escalation Consultants, Inc. of Gaithersburg, Maryland. This "per ton" information is calculated from the Surface Transportation Board "Revenue Shortfall Allocation Methodology" (RSAM) study, the latest study available from the Board.

## The Average 2007 Cost of Freight by Commodity Per Ton

	<b>NS</b>	<b>CSX</b>	<b>BN</b>	<b>UP</b>
Farm Products Captive Rate	\$25.67	\$40.46	\$46.28	\$44.50
Farm Products Non-Captive Rate	\$14.15	\$22.31	\$25.52	\$24.53
Coal Captive Rate	\$22.92	\$22.63	\$21.11	\$21.34
Coal Non-Captive Rate	\$9.84	\$9.72	\$9.07	\$9.17
Chemicals Captive Rate	\$44.20	\$40.99	\$43.23	\$43.78
Chemicals Non-Captive Rate	\$22.08	\$20.48	\$21.60	\$21.87
Lumber or Wood Captive Rate	\$44.61	\$48.31	\$69.09	\$74.20
Lumber or Wood Non-Captive Rate	\$21.58	\$23.36	\$33.41	\$35.88
Pulp, Paper Captive Rate	\$49.81	\$61.97	\$89.97	\$91.32
Pulp, Paper Non-Captive Rate	\$25.44	\$26.36	\$38.27	\$38.85

## What is the Difference in RVC Between Captive and Competitive Rates? (2003 RSAM Study)

Another indicator of the difference between the rates paid by captive and competitive rail customers is reflected in the average Revenue to Variable Cost (RVC) of these two customer groups. The Revenue is the rate charged by the railroad; the Variable Cost (VC) is the railroad cost directly attributed to the movement by the railroad. VC does not include system costs such as track, rail bed maintenance, rail bridges, overheads and so forth. (For example, if the Revenue is \$200 and the VC is \$100, the RVC is 200%). The RVC for captive traffic is the average RVC for every movement paying 180% RVC or greater. For each major railroad in 2005, the average RVC's of captive and competitive traffic was as follows:

	<b>Captive</b>	<b>Competitive</b>
BNSF	238%	116%
CSX	236%	120%
NS	249%	117%
UP	229%	110%

## Which commodities on the major railroads are captive and what percentage of the revenue derived from these commodities is attributable to captive traffic? (2005 RSAM Study)

Commodity	Percent of Total Freight Revenue	Percentage of Revenue Greater than 180% (Captive Revenue)
Farm Products	8.0%	29%
Metallic Ores	1.2%	46%
Coal	19.9%	39%
Ordinance or Accessories	4.0%	87%
Chemicals	11.8%	48%
Petroleum or Coal Products	3.3%	43%
Stone, Clay and Glass Products	3.4%	35%
Fabricated Metal Products	0.1%	36%

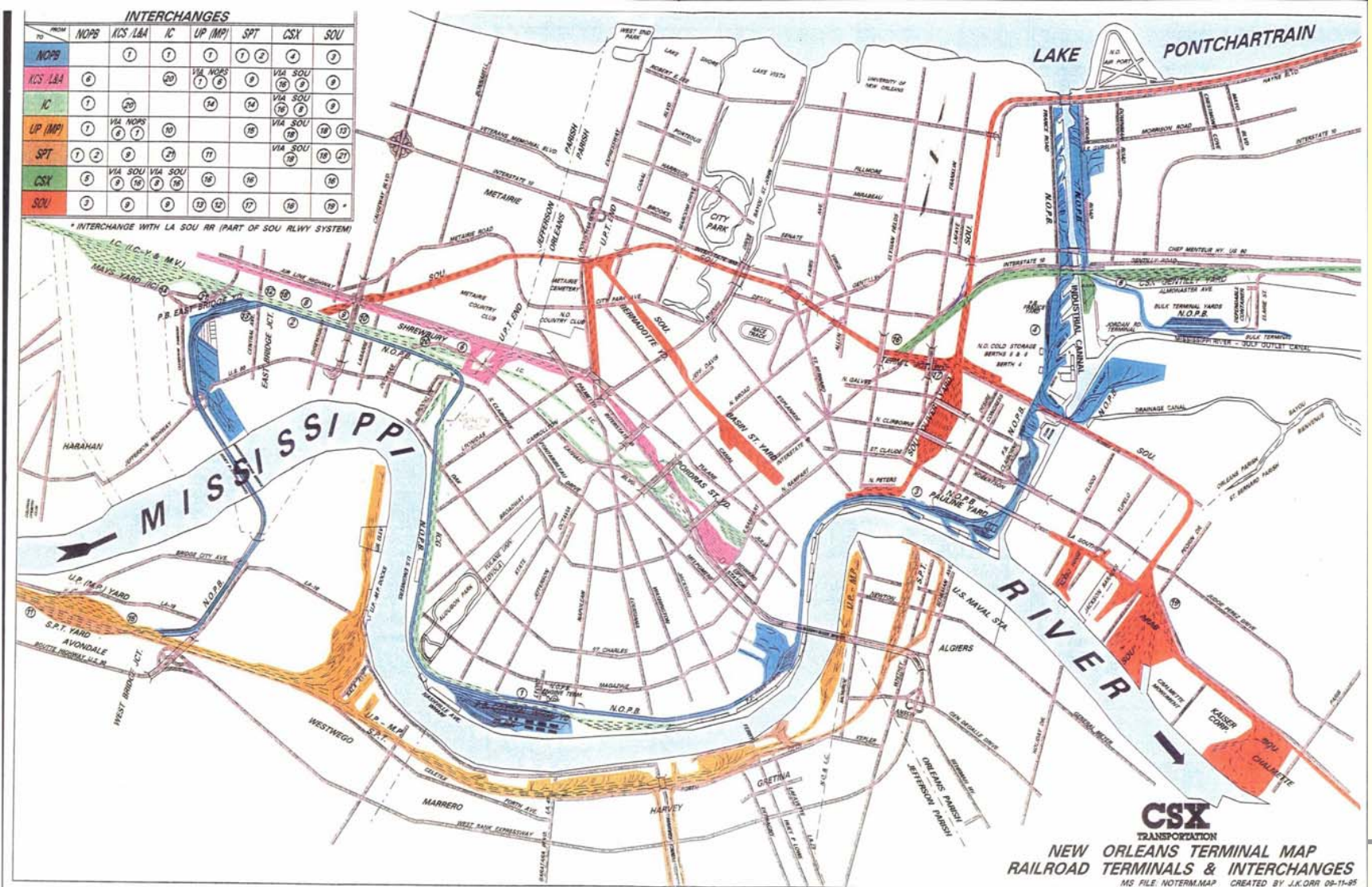
Source: Escalation Consultants of Gaithersburg, MD. Freight data are average rate per ton for the first three quarters of 2007 Freight Commodity Statistics Report also know as Quarterly Commodity Statistics Report.

What percentage of revenue of each major railroad is derived from captive traffic? (2003 RSAM Study)

■ Burlington Northern	26%
■ CSX	39%
■ Norfolk Southern	45%
■ Union Pacific	23%



# New Orleans Area Railroad Gateways

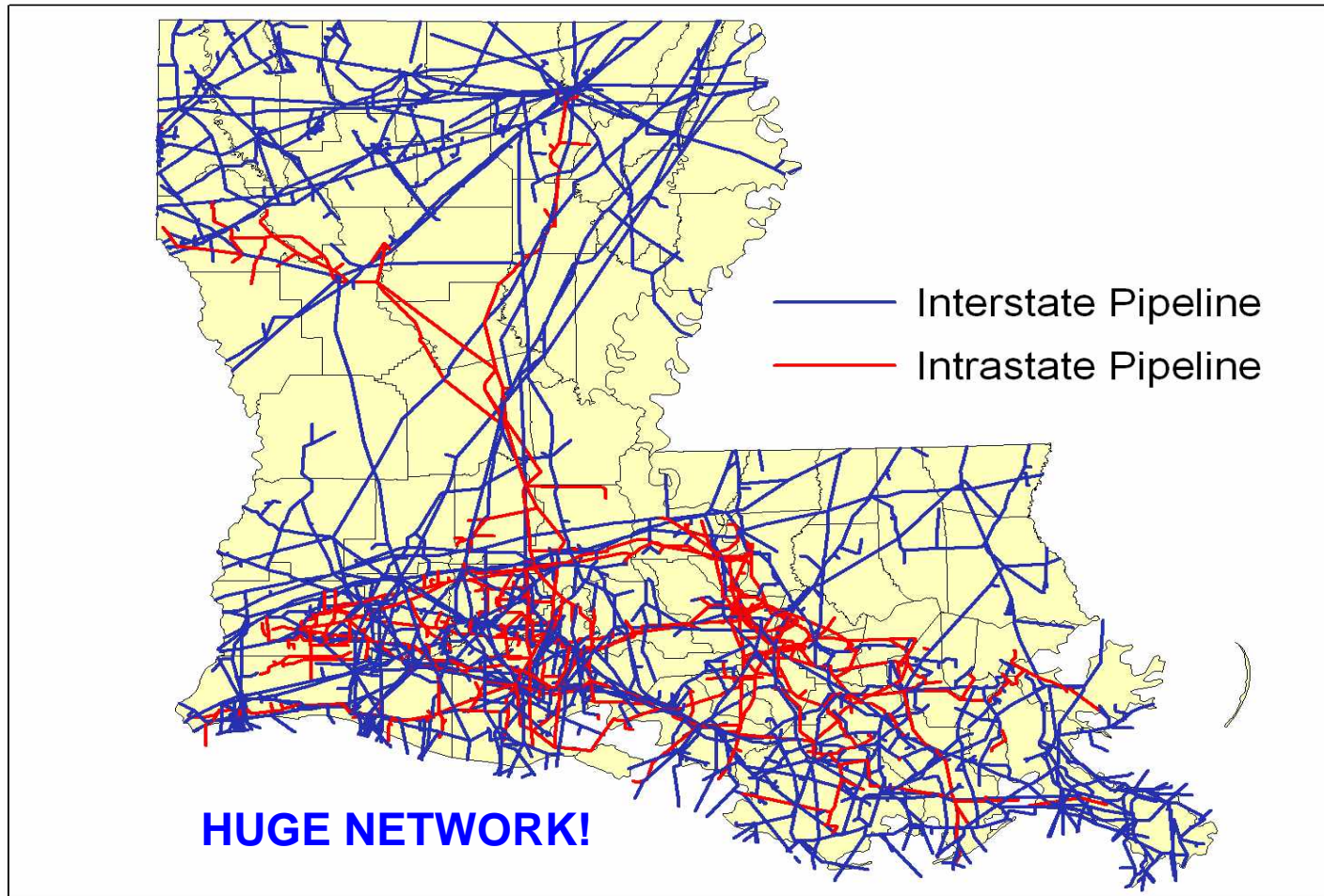


# Challenges of Railroad Shippers

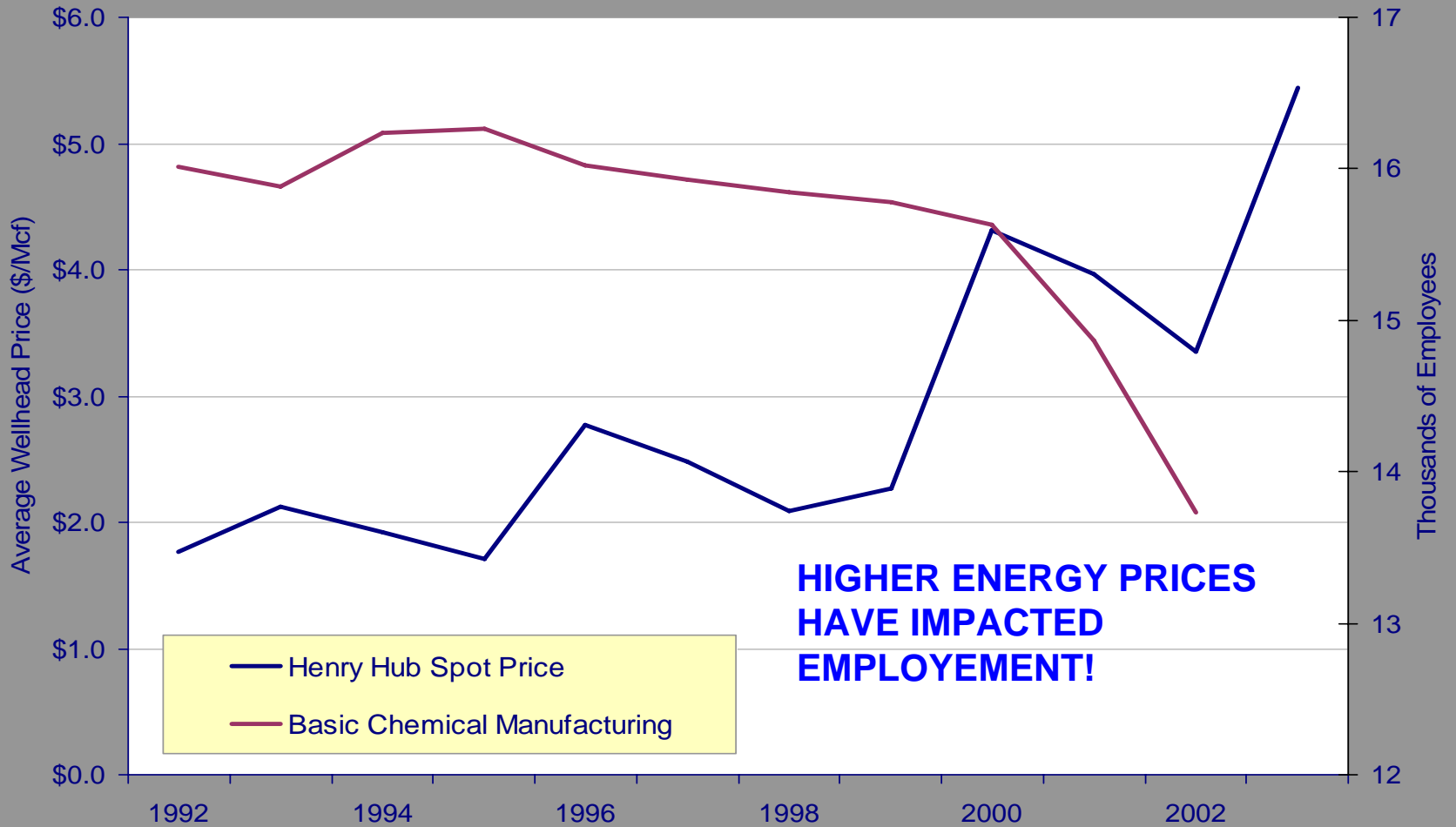
- Safety .... Transportation Incidents, ZERO
- Service .... Reliable & Dependable
- Costs .... Competitive
- Transit Times .... Good & Consistent
- Assets Utilization ... Minimize number of rail cars
- Teamwork & Communications ... Vital for success

**Captive Shippers are at a disadvantage due to lack of choices/competition!**

# Louisiana Natural Gas Transmission Pipelines



# Henry Hub Natural Gas Spot Price and Louisiana Chemical Industry Employment (1990 – 2002)



# Port of New Orleans

- More than 6,000 ocean vessels move thru New Orleans per year
- Connected to 14,500 miles of inland waterways and about 75% of all cargo is destined for ports outside of Louisiana
- River cities such as Tulsa, Oklahoma; Little Rock; Kansas City; St. Louis; Chicago; Memphis; Louisville are all accessible along the River
- Even Pittsburg, some 1,100 miles away can be reached without touching dry land. Together, these cities represent about 62% of America's consumer public!
- The national impact of the New Orleans Port is quite significant with cargo creating \$16.9 billion in annual earnings. \$37 billion in national economic output is supported by the Port's cargo!
- Cargo creates \$2.8 billion in federal tax revenue!
- Cruise industry generates \$226 million in direct and indirect annual sales. More than 700,000 passengers sail thru every year
- 380,000 jobs in the U.S; 160,500 jobs in Louisiana are dependent on the cargo handled by the Port of New Orleans!
- Port is a leading entry point for industrial products such as steel, rubber, forest products & non-ferrous metals. Contains world's largest bulk coffee storage and blending plant!

# Others

- Terminals for storage and shipments
- Truck Drivers ... Shortage, fuel prices etc.
- Intermodal traffic support
- Taxation
- Education, healthcare & energy prices
- Good operations & cost effectiveness!

# Our Strengths

- Location
- Mississippi River
- Port & Terminals
- Industrial Corridor
- Support Structures ... Services, Raw Materials, Workforce
- Successful operating history
- Oil, Gas and Petrochemicals

# Opportunities

- Energy Prices
- Education & healthcare
- Economic Development support structure
- Better competitive positioning
- Skilled Workers
- Competition ... Rail etc.
- Katrina challenges ... Levees, flood controls, perceptions
- Transportation & Distribution ... Railroads, Ports, Storage Terminals, Access to Barges, Ships etc.
- Presence in Washington
- Regulations and applications processing Support
- Diversification



# Summary

- Industrial and economic development heavily relies on infrastructures, these are the back bone!
- Shippers in Louisiana and across the country suffer from lack of railroad competition, lack of ships and Package Containers in New Orleans, shortages of drivers and skilled workforce.
- Oil Refineries are finally starting expansions in Louisiana!
- Plenty of strengths and further improvement opportunities!

**MANY STRENGTHS & MANY OPPORTUNITIES!**

# Questions!