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## BUFFETT'S INVESTMENT IN RAIL LOGISTICS It's implications for India

Paul W Bradley, leading expert on logistics and supply chain management in Asia, analyses the importance of the latest development in his sector



Mr Bradley

When Warren Buffett recently invested \$ 26 billion to acquire full control of the Burlington Northern Railroad in the United States, his investment was less about transportation in America, but far more about confidence in international trade and the value of logistics infrastructure as the global economy gradually builds momentum to break away from the great recession. When fully evaluated, this decision has significant implications for India.

Historically, beginning in the mid 1800's, the US government provided major incentives to private entities to build a railroad network to connect the east coast and west coast of the United States. A handful of leading business visionaries embraced the challenge and ultimately created a vast network that not only linked both coasts of the US, but also created infrastructure that allowed towns and cities to rapidly evolve, new industries to be created across a wide geographic span, and raw material and consumer products to rapidly fulfill industrial and consumer de-

mand. During the past century, more focus was eventually placed on moving product by the modes of road and air transport, but the development of new technology cargo trains and stack trains in the mid 1970's re-energized the rail networks and allowed massive volumes of product to move across the entire country in only 4 to 5 days. When the new rail network was further expanded and linked to the main ocean ports, it propelled a massive growth in both exports and imports. As fuel prices rise, trucking will be further impacted. In contrast, rail can move product more cost effectively in most cases and will also contribute to lower carbon emissions.

Mr Buffett is an astute investor, and when the stock prices fell during the recession, he placed a bet on the long-term value of the rail network as an optimal logistics play for the future believing in the inevitable expansion of global trade.

From the same logic, as India's industrialization rapidly expands and consumer spending further evolves (especially through organized retail), the efficient movement of both raw material and con-

sumer products will be essential to the country's continued expansion as a rising economic super power of the 21st Century. When viewing the current scenario, the national highway system of India is estimated to encompass approximately 4% of the total road system of the nation, yet 40% of the cargo volume moves by truck along this network. With the rise of freight traffic by truck and private cars along the road system, massive congestion can still be anticipated for the foreseeable future. The inevitable escalation of fuel costs and subsequent pollution levels make this mode of transport less optimal. However, the government of India has been more visionary recently by opening up the rail network to private companies with investment capital and integrated logistics expertise so the growth and efficiency of the rail system can be rapidly expanded and fully

leveraged in the decade ahead. When optimally deployed, commercial cargo movement by rail will dramatically enhance India's economic dynamism just as it has tangibly done in the US and China. Private Indian companies such as Arshiya International will help to speed up the rail evolution of India with expanded capacity, capital, and networks. When integrated with Free Trade Warehousing Zones, the impact becomes even greater. The next generation rail solution will contribute to India's rapid expansion in the years ahead. Mr Buffett understood this concept with his recent acquisition and astute investors should equally study the opportunities in India as logistics infrastructure continues to build momentum.

*(Mr Bradley is also vice-chairman of Supply Chain Asia. He serves on a number of corporate boards as a consultant)*