

Race to Build California Bullet Train Shows Value of U.S. Market

By Michael B
Marois

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(Bloomberg) -- California has set off a global race to supply train cars for the state's nascent high-speed rail line, a \$1 billion contract proponents say could fuel a U.S. manufacturing boom worth far more than that.

The state's High-Speed Rail Authority is seeking bids to supply 16 trains, each capable of carrying 450 passengers at speeds faster than 200 miles an hour. Germany's Siemens AG and Canada's Bombardier Inc. are among nine foreign manufacturers that have told California they are interested in bidding for the contract, which the state will award early next year.

Overseas companies have long eyed the U.S. as an undeveloped market for high-speed rail. Still, opposition to public financing of such lines among Republicans and others has left California the only state pursuing a bullet-train system. The state's rail authority expects to order as many as 95 trains over the next 14 years, making the purchase worth more than \$3 billion.

"High-speed rail is a concept that is still foreign here in the U.S. but we believe that when the first project happens, and it happens first here in California, interest in high-speed rail is clearly going to come about," said Armin Kick, director of high-speed rail business development for Siemens. "This is a procurement that the global who's who in high-speed rail will want to bid on and it will be an intense competition."

Governor Jerry Brown, a 76-year-old Democrat, argues that high-speed rail is cheaper and more environmentally friendly than building roads and airports. He says he will build the \$68 billion system regardless of Republican opposition in Washington and his own state, with help from private investors. None have yet announced support.

Buy America

California has about \$13 billion toward the total needed to build the network, including \$3.3 billion in federal stimulus funding awarded before Republicans took control of the House of Representatives in 2011. California voters approved a \$9.95 billion bond measure in 2008 to help finance the line. Portions of it already are under construction.

The Federal Railroad Administration stipulates that any project on U.S. soil receiving federal funding must use equipment made in this country, with parts also fabricated here. Overseas manufacturers would have to build or expand U.S. facilities to do the work, and California officials say they will give preference to companies willing to build in the state.

Chinese Edge

Chinese train makers, CSR Corp. and China CNR Corp., which are in the process of merging, might have an edge because they may be able to help arrange financing for California's project, said Nicholas Heymann, a William Blair & Co. analyst in New York. Siemens and Bombardier also are expected to bid, but the industry has questions about how committed they are to high-speed rail over the long term, Heymann said.

"The Chinese are willing to look at this as an export market or product for the country and that's not the approach that Siemens or Bombardier is taking," he said.

Bombardier spokeswoman Maryanne Roberts said the company is "closely watching" the contract and is "well-positioned to meet California's mobility needs." Representatives from CSR Corp. and China CNR Corp. didn't

immediately respond to requests for comment.

China has been pushing its high-speed rail technology internationally as European manufacturers face constrained public spending in home markets. In October, CNR won a \$567 million contract to supply trains for Boston's subway system, the first rail-related deal for a Chinese company in the U.S.

Primed Market

"China rolling stock manufacturers don't quite have a track record of exports, so they are trying to get that going," said Lawrence Li, a Shanghai-based industrial analyst with UOB-Kay Hian. "There are not many high-speed projects in the world, so this will be a very competitive process."

The U.S. market seemed primed in 2009 when President Barack Obama unveiled a plan to build 10 high-speed rail corridors financed with stimulus funds. Republican Governors such as Rick Scott in Florida refused to take the federal money. The broader U.S. plan stalled when Republicans took control of Congress and blocked further financing.

California's first section of high-speed rail will run 130 miles down the state's inner Central Valley. That initial route, connecting some of the least-populated parts of the state, has fueled opposition from Republicans and others.

The entire line is scheduled to be fully operational by 2029, with tracks stretching more than 800 miles and trains stopping at as many as 24 stations. Planned spurs eventually would run to Sacramento and San Diego.

Republican lawmakers in Congress say the state will get no more federal money for the rail line and have called for it to be scuttled.

"We don't have a high-speed rail industry in the United States," said Daniel Krause, the director of policy and operations at the U.S. High Speed Rail Association, an advocacy group in Washington. "We hope to have enough projects in the future that we can have multiple companies ongoing building cars for a large market.'

-- With assistance from Clement Tan in Hong Kong.

To contact the reporter on this story: Michael B. Marois in Sacramento at mmarois@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Jeffrey Taylor, Jeran Wittenstein