OUTSOURCE

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THE SOURCE

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NAFTA Renegotiation

NAFTA—North American Free Trade Agreement Renegotiation

Opening Statement of USTR Robert Lighthizer at the First Round of NAFTA Renegotiations

(abridged) 8/16/17

This is an historic day for the United States. Today, for the first time, we will start negotiating to revise a major free trade agreement. American politicians have been promising to renegotiate NAFTA for years, but today President Trump is going to fulfill those promises.

First, I know we all agree that NAFTA needs updating. We need to modernize or create provisions which protect digital trade and services trade, e-commerce, update customs procedures, protect intellectual property, improve energy provisions, enhance transparency rules, and promote science-based agricultural trade. After modernizing, the tough work begins. We must balance the legitimate interests of literally millions of people in our countries -- those of farmers, and businesses, and workers and yes, families.

For many of our farmers and ranchers, Canada and Mexico are their largest export markets. Americans send billions of dollars of corn and soybeans, and poultry across our borders to dinner tables throughout North America. Many are particularly vulnerable today because of low commodity prices. I've always thought that communities along our borders have a particular equity in this agreement. In many cases their lives, businesses, and families are very much on both sides of the dividing line. They too are hardworking men and women trying to raise families and accumulate wealth. We must keep their interests paramount.

We cannot ignore the huge trade deficits, the lost manufacturing jobs, the businesses that have closed or moved because of incentives -- intended or not -- in the current agreement. The numbers are clear. The U.S. Government has certified that at least 700,000 Americans have lost their jobs due to changing trade flows resulting from NAFTA. Many people believe that number is much, much bigger than that. In 1993, when NAFTA was approved, the United States and Mexico experienced relatively balanced trade. Since then, we have had persistent trade deficits – in the last year totaling nearly $57 billion. In the auto sector alone, the U.S. has a $68 billion deficit with Mexico. Thousands of American factory workers have lost their jobs because of these provisions. In recent years, we have seen some improvement in our trade balance with Canada. But over the last ten years, our deficit in goods has exceeded $365 billion.

We feel that NAFTA has fundamentally failed many, many Americans and needs major improvement. Here are some of the examples of what I believe needs to be changed. We need to assure that huge trade deficits do not continue and that we have balance and reciprocity. This should be periodically reviewed. Rules of origin, particularly on autos and auto parts, must require higher NAFTA content and substantial U.S. content. Country of origin should be verified, not "deemed." Labor provisions should be included in the agreement and be as strong as possible. The agreement should have effective provisions to guard against currency manipulation. The dispute settlement provisions should be designed to respect our national sovereignty and our democratic processes. We should include provisions to guard against market-distorting practices of other countries, including third-party dumping and state-owned enterprises. We should assure that there is equal access and reciprocity in government procurement and agriculture.

These are just a few examples of key priorities for the United States – but I think they are sufficient to show that our task is a very difficult one. On the other hand, the stakes are high for all of our citizens and the benefits of a good agreement can be substantial. My hope is that together we will produce a result which moves us to freer markets, fairer and balanced trade, and stronger ties between our three countries. I look forward to working with Secretary Guajardo and Minister Freeland on this very important effort. Thank you very much, and now we will get down to work.

Understanding the NAFTA rules of origin negotiations By Sandy Moroz 8/17/17

NAFTA's rules of origin (ROO) are poised to be a key element in the Trump administration's pursuit of its NAFTA negotiating objectives including reducing the US goods trade deficit with the other NAFTA parties. The US is seeking to strengthen rules of origin in order to "incentivize the sourcing of goods and materials from the United States and North America," as well as streamline administrative procedures and ensure their enforcement. It's part of Washington's broader "America First" agenda aimed at creating high-paying US manufacturing jobs. The challenge facing Canada and Mexico will be to ensure that whatever emerges from the rules negotiating table doesn't undercut NAFTA's current benefits. Producers could decide that the new rules are too restrictive or burdensome, and opt to buy the materials they need from competitive *offshore* (non-North American) suppliers. They would pay the most-favored nation (MFN) tariff on their exports to other NAFTA countries, but without the hassle of trying to abide by stiffer rules of origin.

Indeed, the major negotiating focus around rules of origin will involve auto products — Canada's largest manufacturing sector and export. As a result of NAFTA, the auto sector has become highly integrated across Canada, Mexico and the United States, with many parts crossing borders multiple times on their way to being assembled into a vehicle. Not only are approximately 85 percent of the light vehicles assembled in Canada exported to the US, but in 2016 they accounted for 16 percent of Canada's total exports and 34 percent of Canada's NAFTA exports to the United States. About half the value of Canadian auto parts production is also exported to the US, representing around 10 percent of Canada's NAFTA exports. The use of the NAFTA tariff preferences is extremely high in this sector, at over 98 percent for vehicles and close to 90 percent for parts. The Trump administration is expected to press to tighten the NAFTA rules of origin for autos, despite objections from the major American auto producers. American negotiators are likely to focus on raising the content level, which is currently 62.5 percent North American content for light vehicles and their engines, and 60 percent for heavy vehicles, their engines and all other auto parts. They are also expected to push to change the "tracing list," which identifies which parts must originate in North America, and can thus be considered as using NAFTA regional content in rules of origin calculations.

While auto goods will be center stage during the ROO discussions, the U. S. may also push to tighten the rules for other manufactured goods – for example, to require the use of North American steel aluminum. The US textile sector wants to eliminate the special NAFTA Tariff Preference Level (TPL) provisions. The NAFTA negotiations offer Canada an opportunity to address rules for specific goods, as well as seek ways to make them more flexible and less administratively burdensome. Canada should also encourage its NAFTA partners to modernize the rules around other products, including chemicals, to make trade in these goods less administratively burdensome for both producers and customs officials. For instance, the Canadian government could push to simplify the way that the regional content of a good is calculated, so that the focus is solely on key components or materials (with the so-called "focused regional value-content method").

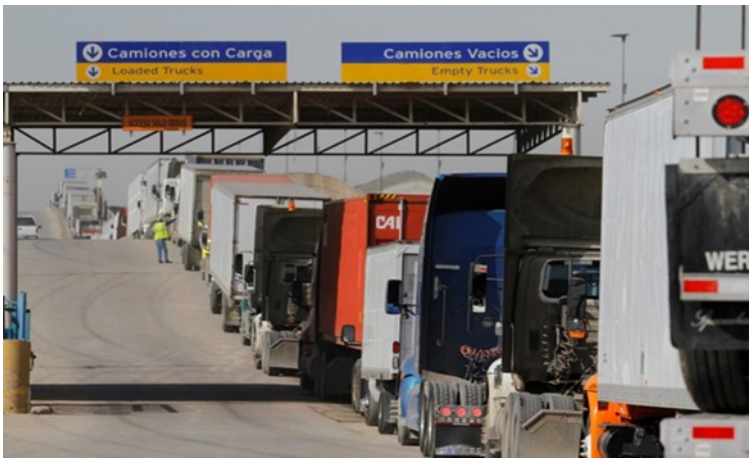
The United States has indicated that it wants stronger enforcement of rules of origin. Canada should be open to any reasonable proposal to ensure the rules are effectively enforced, but it needs to guard against US efforts to introduce aggressive enforcement methods that don't include appropriate protections for the rights of producers, exporters and importers.

Another area where Canadian negotiators will be wary of changes is "trilateral cumulation." This refers to the ability of producers to source, without restriction, duty-free materials and goods from *any* NAFTA country. This ability under NAFTA has fostered the growth of North American-wide supply chains in many industries, which have contributed significantly to both the increased competitiveness of North American producers and the economic benefits enjoyed by all three parties. During the NAFTA negotiations, it will be essential for Canada and Mexico to resist any American demands that products contain a specific amount of US content. If the three parties were to impose country-specific (rather than continent-specific) content requirements, producers would have difficulty sourcing competitively priced inputs within North America. Their future competitiveness would also be further jeopardized if, in addition to having to bear the administrative burdens and costs of meeting three sets of country-specific content requirements, they also have to contend with more restrictive NAFTA rules of origin for their products.

The NAFTA modernization negotiations offer both challenges and opportunities for Canada on rules of origin. Canada's economic interests call for liberalizing the rules to reflect the globalization of production since 1994. All of the other FTAs negotiated by Canada, Mexico and the United States in the last 15 years contain more liberal rules for the vast majority of products, including auto goods, than NAFTA. The TPP rules provide a model — indeed, the TPP offered significant economic benefits from its more liberal rules and full cumulation across its 12 members. But the US administration's anti-globalization and populist tendencies likely mean there will need to be some tightening of the NAFTA rules of origin, at least for specific products like auto goods. Canada and Mexico should strive to minimize any tightening, as well as stop any attempt to limit or disrupt trilateral cumulation under the NAFTA rules given the importance of the North American supply chains. Canada should also seek to address its priorities, such as the crude oil rules, and take any opening to liberalize the rules for specific products or reduce the administrative costs and complexity of the NAFTA rules of origin.

Typical day for freight crossing the border from Canada to the USA

NAFTA renegotiation—the Mexican Perspective



Typical day for freight crossing the border from Mexico to the USA

"Our first goal is to keep the deal in place. Our second goal is, don't destroy the value chains that have led to so much growth over the last two decades."

Moises Kalach, a Mexican textile businessman

The U.S. has gone from running a small goods surplus with Mexico before NAFTA of about $2 billion to a $63.2 billion deficit last year (2016).

The Wall Street Journal 8/13/17

Mexico sets out NAFTA goals ahead of re-negotiation talks by Gabriel Stargardter

MEXICO CITY (Reuters) - Mexico has set out its goals for an upcoming re-negotiation of the NAFTA trade accord, according to a document seen by Reuters on Tuesday, prioritizing free access for goods and services, greater labor market integration and a strengthening of energy security. The economy ministry document, circulating in the Mexican senate and dated July, will serve as the basis for Mexico's position at the upcoming talks to update the North American Free Trade Agreement. The talks between Canada, Mexico and the United States are due to start in Washington on Aug. 16.

"Our objective is to have an expedited negotiation that maintains the benefits that we have achieved during the lifespan of NAFTA, but which at the same time serves as a platform for the modernization of the treaty," the document says. Mexico will seek to retain unimpeded access for goods and services in the NAFTA region, promote greater integration of North American labor markets and establish rules of origin to guarantee NAFTA's regional benefits, the document says.

Mexico also want to incorporate measures to reflect the transformation of the region's energy sector and strengthen regional energy security. Furthermore, the document says, Mexico wants to bolster the dispute resolution mechanisms of NAFTA - a desire that is sure to raise eyebrows in the administration of U.S. President Donald Trump, which has sought to ditch the so-called Chapter 19 tool. Under Chapter 19, binational panels hear complaints about illegal subsidies and dumping, and then issue binding decisions. The United States has frequently lost such cases since NAFTA came into effect in 1994. The mechanism has hindered the United States from pursuing anti-dumping and anti-subsidy cases against Mexican and Canadian firms, and Canada, in particular, has expressed reservations about eliminating it from a new trade agreement. Last week, Mexico's Congress backed a non-binding motion urging the government to reject the Trump administration's proposal to scrap Chapter 19.

According to the document, Mexico hopes to unify agricultural, animal and health safety regulations, to protect the intellectual property of domestic content producers and to forge measures for transparency and fighting graft. There will also be a focus on capitalizing and strengthening the North American Development Bank, and efforts to consolidate the digital economy. Mexico also hopes to move ahead with the liberalization for services and investment, and support for small and medium-sized companies.

TRIVIA QUESTIONS

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1) Which is the world's busiest airport?
A. ORD (Chicago) **B.** ATL (Atlanta) **C.** LHR (London) **D.** MUC (Munich)

2) How many airports are in the world?
A. 26,000 **B.** 32,000 **C.** 49,000 **D.** 53,000

3) Where was the first public transportation system located?
A. London **B.** Boston **C.** Paris **D.** Rome

4) Which fruit was previously known as Chinese Gooseberry?
A. Kiwi **B.** Papaya **C.** Apple Berry **D.** Kumquat

5) In which year did Chevrolet introduce the IMPALA?
A. 1957 **B.** 1959 **C.** 1960 **D.** 1961

6) Which INCOTERM is used when the shipper responsibility ends when the shipment is placed at the end of the warehouse freight dock for the trucker to pick up?
A. FOB (Free On Board) **B.** FAS (Free Alongside) **C.** FCA (Free Carrier) **D.** EXW (Ex Works)

Answers Later In The Newsletter

FUEL REPORT

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon) http://www.eia.gov/petroleum/gasdiesel/

	7/31/17	8/07/17	8/14/17	Change from week ago	Change from year ago
U.S. National Average	$2.531	$2.581	$2.598	↑ 0.017	↑ 0.288

Total Petroleum & other Liquids Production—2017 (expressed in Thousands Barrels per Day)

1.	United States	3,698 BBL	6.	Iran	1,127 BBL
2.	Saudi Arabia	2,949 BBL	7.	Iraq	1,104 BBL
3.	Russia	2,791 BBL	8.	U.A.E.	918 BBL
4.	Canada	1,213 BBL	9.	Brazil	734 BBL
5.	China	1,192 BBL	10.	Kuwait	725 BBL

As per the US Energy Information Agency (www.eia.gov) 8/19/17

West Coast Ports, Dockworkers Agree to Labor Contract Extension

Deal would push off negotiations to 2022, keep ports competitive with East Coast counterparts

By Erica E. Phillips and Jennifer Smith WSJ Staff

Retailers, manufacturers and other shippers that move their goods through West Coast ports are experiencing something unfamiliar: the prospect of years of tranquil labor relations there. Dockworkers agreed this week to extend their labor contract with West Coast port operators by three years, to July 2022. Ratified Friday, the extension pushes off labor negotiations into the next decade, and with it, the prospect of a repeat of the contentious of 2014 and early 2015, when operations at the nation's busiest ports ground to a near-standstill. Avoiding another round of crippling cargo delays was the driving force behind the extension, leaders on both sides say. Many shippers rerouted cargo to the East Coast to avoid crippling delays two years ago. Some fear another disruption could make those changes permanent. The Panama Canal was expanded last year making it possible for bigger ships to pass through and reducing the cost of shipping goods directly from Asia to the East Coast. With the new labor contract in hand, the West Coast has leapfrogged ahead of counterparts at East Coast ports, where the current agreement is set to expire in September 2018. Contract discussions on the East Coast began in 2015 but have yet to produce a new agreement or extension.

"It's definitely an improvement for the competitive situation of the West Coast," said Paul Bingham, a trade economist with Economic Development Research Group Inc. "The longshoremen know they're in a competitive market and they have some influence over supply chain managers through labor peace."

The East and Gulf coasts have seen more cargo from Asia since the Panama Canal expansion. In the second quarter, the regions' ports received 7.8% more imports over a year earlier, compared with a 4.6% increase on the West Coast, according to trade research firm Panjiva Inc. Wage negotiations will likely begin "in the coming months," said James McNamara, spokesman for the International Longshoremen's Association, which represents East Coast and Gulf Coast dockworkers. The ILA and the United States Maritime Alliance Ltd., representing port employers from Maine to Texas, haven't held formal contract talks since February.

NUMBER OF THE DAY 14.6%

Year-over-year growth in combined inbound loaded container imports at Calfornia's ports of Los Angeles and Long Beach in July, according to Beacon Economics.

Surging US imports fail to lift trans-Pac spot rates

by Bill Mongelluzzo, Senior Editor 8/11/17

US container imports are forecast to rise 6.6 percent this year. Despite record import volumes flowing through major US ports, container lines have failed to lift eastbound Pacific spot rates for the second week straight, although a forecast for accelerating Asia imports this month could propel prices in the coming weeks.

The spot rate for shipping a 40-foot container from Shanghai to the East Coast this week was $2,620, down 2 percent from $2,661 last week. The West Coast rate was $1,641 per FEU, down 1 percent from last week, according to the Shanghai Containerized Freight Index published at JOC.com's Market Data Hub. Year-over-year spot-rate increases are still up on double-digits, with the East Coast rate 48 percent higher and the West Coast rate 31 percent pricier. The gap with last year's rates will begin to diminish in early September. Hanjin Shipping filed for bankruptcy protection on Aug. 31, 2016, and with its departure, capacity in the Pacific decreased about 7 percent. Spot rates the following week spiked 45 percent to the East Coast to $2,441 per FEU, and 51 percent to the West Coast to $1,746 per FEU.

Announcements this week from West Coast ports revealed some unusually strong import numbers. Long Beach in July reported its busiest month ever, with imports up 13.1 percent from July 2016. Los Angeles had its busiest July ever, with imports 13 percent higher year over year. Oakland reported its highest monthly import volume ever, up 5.4 percent from July 2016, at a port where exports usually exceed imports. US imports in August could set records. Global Port Tracker, which is published monthly by the National Retail Federation and Hackett Associates, forecasts that August will be the busiest month ever, with imports predicted to rise 2.1 percent from August 2016. IHS Markit Senior Economist Mario Moreno recently upgraded his growth projection for US imports in 2017, to 6.6 percent from 6.1 percent earlier.

FOR IMMEDIATE RELEASE **August 14, 2017**

Trucking Industry Revenues Were $676.2 Billion in 2016

Release of ATA American Trucking Trends *Confirms Trucking as Leading Freight Mode*

Arlington, Va. – Today, the American Trucking Associations released the latest edition of *ATA American Trucking Trends 2017*, the annual compendium of data about the trucking industry. Among the findings in this year's *Trends* is that trucking industry revenues in 2016 were $676.2 billion. Among the findings in this year's edition:

- Trucking generated $676.2B, or 79.8% of the nation's freight bill.
- Trucks moved 10.42 billion tons of freight – 70.6% of all domestic freight tonnage.
- The nation's commercial trucks paid $41.3B in state and federal highway user fees and taxes. The average 5 axle tractor trailer pays more than $5,600 in taxes annually.
- 33.8 million trucks were registered for business purposes, including 3.68 million Class 8 trucks which burned 38.8 billion gallons of diesel fuel and 15.5 billion gallons of gasoline and traveled 450.4 billion miles.
- 7.4 million Americans are employed in trucking-related jobs, including 3.5 million as drivers. 6% of those drivers are women and 38.7% are minorities.
- Trucking is an industry made up of small businesses: 91% of motor carriers operate six or fewer trucks and 97.3% operate less than 20 (trucks).

Answers to Trivia

U.S. retail sales of Class 8 trucks rose 8.7% in July, the first year-over-year gain since November 2015, amid reports carriers have begun expanding fleet size to meet rising demand now or to prepare for expected growth in 2018.

U.S. Economy to Reshape Truck Pricing

Those who still need rock-solid proof the US economy is improving need look no further than YRC Freight. The less-than-truckload (LTL) carrier's plan to repurpose eight terminals as distribution centers (DCs) is a significant step for the company, which has opened five facilities in the past four years after closing or selling hundreds of terminals from 2008 through 2013. In a July 25 letter to the Teamsters union outlining its network enhancement plans, YRC Freight said the eight new DCs would help eliminate "severe backups" at its 23 existing DCs, which increasingly are tightly packed with freight at the end of each month and each quarter.

YRC Freight and other LTL and truckload carriers are feeling pressure at more points in their networks as freight demand finally approaches truck capacity levels. That pressure will push up the price shippers pay this year to move truck freight across the United States, Canada, and Mexico. So far, that demand remains strong. YRC Freight reported tonnage per day rose 6.2 percent year over year in April and 3.3 percent in May. Old Dominion Freight Line (ODFL) increased tonnage 6.1 percent in the second quarter, and Saia saw LTL tonnage jump 7.1 percent.

On the truckload side of the ledger, Werner Enterprises said demand for its one-way freight service was "better than normal" in some periods of the second quarter, and that unusual strength spilled over into July, normally a softer month for truckload demand. Truckload capacity also appears to be tightening as utilization climbs higher, inching toward 100 percent.

That is a sure recipe for higher truckload and LTL rates as the economy enters the third phase of faster growth in what has been an unusually slow eight-year recovery. Add the ELD mandate to the mix, and rates are likely to move higher as capacity tightens in the coming year.

The Future of Drones: Is the Sky the Limit?

A few years ago, only a small number of hobbyists were buzzing the sky with their unmanned aerial vehicles. Now drones, as they're more commonly called, are gaining much greater interest, especially in their application to the business world. By 2020, the combined number of commercial and hobbyist drones is expected to rise from today's 2.5 million to 7 million. Currently, 60 percent of commercial drone usage is for communications and media — think filmmaking, advertising, and photography.[2] But with the FAA's change in regulations this year, the process for legally operating a drone for commercial purposes has been streamlined. And an array of companies and industries are looking at ways they can use drones to operate more efficiently and serve their customers.

Testing has begun in diverse industries; from insurance to retail, from work within distribution centers to transport life saving drugs, drones are being tested to find how best to use this technology. While the FAA's rules have relaxed a bit, consumer drone delivery to homes won't be happening just yet. But UPS, the world's largest package delivery company, is already exploring innovative ways to use the technology now and in the future. They have been working with **CyPhy Works**, a drone maker that manufactures an extremely durable battery-powered drone with night vision and secure communications that cannot be intercepted or disrupted. In September, the two companies staged a successful mock delivery of urgently needed asthma medicine from Beverly, Massachussetts, to a child staying at a camp on Children's Island three miles off the coast.

Insurance company USAA sees drones as a faster way to respond to claims after a natural disaster. When a monumental hailstorm hit the company's hometown of San Antonio in April, they used it as an opportunity to test their unmanned aircraft. After flying a drone over homes in an affected neighborhood, Kristina Tomasetti, USAA's director of innovation strategy, concluded, "Using drones allows us to do (the inspection) quicker....", and Walmart has been testing drones as a way to handle inventory in their massive distribution centers.

Where Will Drones Go from Here? While individuals, governments and businesses are exploring the many ways drones can be put to use, there's no telling exactly what the future will hold. In the U.S., the FAA has created a Drone Advisory Committee to shape how that future will be regulated. Comprised of 35 leaders from businesses, associations, municipal, and academic ventures, the committee will, "identify and propose actions … on how best to facilitate the resolution of issues affecting the efficiency and safety of integrating UAS [unmanned aircraft systems] into the NAS [national airspace system]."

European air cargo monthly: Freight continues to take off at Lufthansa and IAG
Major European airlines saw cargo demand growth accelerate in July, despite some warnings growth may have reached its peak. The latest figures from Lufthansa, IAG and Finnair all point to continued improvements in air cargo demand, with percentage growth in July beating their average for the year to date.

Air France KLM did see a slight slowdown in growth, although it has withdrawn freighter capacity from the market in recent months. The largest of the airline groups, Lufthansa, saw cargo traffic increase by 8.4% year on year to 931m revenue cargo tons / kms, compared with year-to-date growth of 7.7%.

A 44% surge in American Airlines volumes in July contributed to a 15.1% rise in cargo at London Heathrow airport in July - the fastest rate ever recorded. The gateway also reported that overall cargo traffic with North America was up 16% while Asian traffic was up 14% on the back of strong growth to China, Hong Kong and Singapore. Passenger numbers also reached a record high.

TRENDS

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INFRASTRUCTURE

Spotted: Port Houston's Cranes Start Their Journey

Three new super post-panamax cranes are currently being shipped aboard the heavy lift vessel ZHEN HUA 13 toward their destination – Port Houston's Barbours Cut Container Terminal. Along the journey, which started in Shanghai on July 23, these 405-feet-tall cranes will travel with booms fully raised. Once they reach their destination after a two-and-a-half-month journey, the cranes are slated to replace three older ones at Barbours Cut.

They are just a part of a USD 700 million modernization program under way at Barbours Cut to increase cargo-handling efficiency and capacity. In addition to new cranes, other improvements, including wharf and container yard reconfiguration measures, are expected to increase terminal capacity from 1.2 million to 2 million TEUs

U.S. Department of Transportation Announces $162.4 Million in Infrastructure Grants to 72 Airports in 31 States 8/16/17

Federal Aviation Administration

WASHINGTON – U.S. Department of Transportation Secretary Elaine L. Chao today announced the Federal Aviation Administration (FAA) will award $162.4 million in airport infrastructure grants to 72 airports in 31 states across the United States as part of the FAA's Airport Improvement Program (AIP).

"The Airport Improvement Program helps to maintain our aviation infrastructure and supports safety, capacity, security and environmental improvements," said Secretary Chao. "This is an important investment in these airports and the economic vitality of their respective communities."

The airport grant program funds various types of airport infrastructure projects, including runways, taxiways, and airport signage, lighting, and markings, all of which help to create thousands of jobs. To date this year, the U.S. Department of Transportation has announced more than 1,351 new grants to nearly 1,205 airports for a total of $2.1 billion. These grants will provide funds for 564 runway projects and 475 taxiway projects that are important to the safety and efficiency of the nation's system of airports.

RAIL - Crescent Corridor Expansion The existing system for moving most goods across the country has long been based on railroads and an array of interstate highways. But increasing congestion on the nation's roads has sparked renewed interest in intermodal transportation and an increasing role for methods other than trucking. Spurred by interest from freight company's eager to save money on costly long-haul truck routes, railway company Norfolk Southern is working to upgrade the Crescent Corridor, a freight rail network that runs through 13 states and connects New Orleans to New Jersey. A series of projects will lay 300 new miles of track and build or expand intermodal terminals in 11 markets. Construction has already begun on terminals in Memphis, Birmingham, Ala., and two Pennsylvania communities.

The estimated $2.5 billion expansion will enable shippers and trucking companies to move more of their goods using rail, instead of relying on trucks, which are more expensive and produce more pollution. Because of the public benefits of the cleaner air and reduced highway congestion that will result from the upgrade, the U.S. Department of Transportation has chipped in more than $136 million to support the project, with the rest of the funds coming from states and Norfolk Southern itself. The company hopes to finish the upgrade by 2030 but says the timing depends on how easily it can obtain enough public funds for the project.