229107

Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

Re: Ex Parte No. 705

In the Matter of Competition in the Railroad Industry

New York Air Brake Corporation Comments

March 28, 2011

Prepared by:

Marshall Beck
Senior Vice President Sales and Marketing
New York Air Brake Corporation
748 Starbuck Avenue
Watertown, New York 13601
315-786-5205
Marshall.Beck@NYAB.com

Chairman Dan Elliott and members of Surface Transportation Board,

On behalf of the New York Air Brake Corporation, engineering, manufacturing and service supplier to freight railroads worldwide, I respectfully submit this comment letter in response to the Surface Transportation Board's (STB) request for comments on *Competition in the Railroad Industry*.

This comment letter develops the following points:

1. STB should reject re-regulating the railroad industry, because it will reduce private capital investment.

2. Continued investment by private investors will allow the railroads to build capacity, lower the (financial, environmental, accident-related) costs of transportation in the United States, and increase exports.

Since 1980, the railroad industry in the United States has had a generation to respond to the regulatory incentives under the Staggers act. Shippers have benefited from lower prices — average rail rates are 55% less than in 1980 (1). Railroads now carry 43% of our nation's intercity freight (2) and intermodal freight volume has more than tripled, reducing congestion, pollution and highway wear and tear. In 2003, intermodal surpassed coal in terms of revenue earned on U.S. Class I railroads. (3)

STB should reject re-regulating the railroad industry as this will reduce competition and impede economic growth.

I urge the STB not to change, or signal that it is considering changing, the very rules that have allowed railroads to compete and significantly contribute to the economic strength of the United States. American freight railroads are the most efficient and productive in the world.

The primary reason that America's freight railroads have achieved tremendous productivity gains is that revenues have exceeded the cost of capital. The regulatory incentives granted in 1980 have allowed railroads to deliver a modest "return on investment" with the prospect of "stable earnings." Re-regulating the railroads would undermine the confidence that investors, lenders, and railroad industry executives have in the ability of railroads to compete. This will reduce capital spending.

(1) Source: Association of American Railroads
(2) Source: Association of American Railroads
(3) Source: Association of American Railroads

Class I railroads capital budgets are a significant economic stimulus. Between 1980 and 2009, railway owners invested about 40 cents of every rail revenue dollar to maintain and improve their infrastructure and equipment (4). Freight railroads, unlike other modes of transportation that travel on heavily subsidized highways and waterways, finance nearly all of their infrastructure and equipment spending themselves. Private capitol budget forecasts for 2011, for three of the five U.S. Class 1 railroads alone, total nearly $7 billion dollars — BNSF $3.5 billion, NS $1.74 billion, and CSX 1.7 billion (5). The five class 1 freight railroads in the U.S. plus three-hundred short lines, invest in the nation's rail system so that the government does not have to.

The economic stimulus that private capital investment in railroads provides has both short-term and long-term benefits. It is clear that in the short-term capital spending will create jobs, build confidence in the recovery, and increase the cash flow of hundreds of companies across the nation.

The long-term benefits need to be brought into sharper focus to truly understand why avoiding costly regulation in favor of marketplace forces that will help assure a strong and healthy future in a world that is forcing businesses in the United States to compete around the world.

- America needs jobs – Every $1 billion dollars spent on rail infrastructure supports 20,000 jobs (6)

Railroad employment was up 5.2 percent in 2010 from 2009 and railroad employees (including Amtrak) are well paid. Annual compensation is roughly $107,085 (wages + benefits) (7). In addition, employees at rail suppliers include highly trained engineers, scientists, programmers, executives, machinists and other well paid professionals who are needed to develop, build and deploy new technology that will continue to improve rail productivity.

(4) International Railway Journal, March 2011
(5) International Railway Journal, March 2011
(6) Association of American Railroads, 2011
(7) Association of America Railroads, 2011

- America needs exports – railroad suppliers are investing in new technology that AAR railroads worldwide want to buy

Technology-based infrastructure improvements are the underlying cause of American railway's current renaissance. Forward-looking executives at both the railroads and rail suppliers must commit large amounts of capitol over many years to design, test and deploy new technology. Rail technology must meet strict standards for reliability, inter-operability, and ROI before it is accepted across the rail network and becomes profitable to rail suppliers. Once new technology meets the standards set by American railroads and the Association of America Railroads, railways around the world want to buy it.

- America needs safe transportation – from 1980 to 2009 train accident rates fell 75%, rail employee injury rates fell 82% (8).

In the last 20 years new technologies have been developed that improve train handling, allowing for longer, heavier trains to operate more safely. In addition, railroads and rail suppliers have deployed products that are safer to install, operate and maintain. New York Air Brake has developed train handling systems and user-friendly products such as ergonomic brake values, self-diagnostic computer controlled brakes, and electro-pneumatic brake technology to name just a few, that are helping to improve safety. Safer and greener technology will be much slower to come online if railroads must face the prospect of revenue shortfalls due to re-regulation.

- America needs energy – a billion gallons of diesel fuel would be saved if just 10% of truck traffic shifted to rail (9).

Spurred by private capital investment, fuel saving technology has allowed railroads to nearly double the freight volume since 1980, using virtually the same amount of fuel. A freight train carries a ton of goods 480 miles on a single gallon of fuel, and moves a load equivalent to that of 280 trucks, reducing pollution (10), easing highway congestion, reducing wear and tear on highways and bridges, and conserving fuel. Shipping by rail isn't just good for the environment it is good business practice and it is a good reason not to re-regulate railroads. Railroads are adopting intelligent computer systems and next-generation motive power technology that will continue to improve fuel efficiency, if railroads can afford it. An example of this technology is New York Air Brake's LEADER, a driver-assist technology proven to reduce fuel consumption by 8%-12%.

(8) Association of American Railroads, 2010

(9) American Association of State Highway and Transportation Officials data on truck movements more than 500 miles in length, 2010.

(10) Associations of American Railroads, 2011

Conclusion

When the prospects of earning return on investment decrease and railroads are faced with huge revenue shortfalls, spending on infrastructure and equipment will cease. Existing track and equipment will deteriorate and plans for new capacity will be scrapped. Inevitably, rail service in North America will become slower, less responsive, less affordable and less efficient. STB should reject re-regulating the railroad industry.