

**Testimony of Jim Trogdon, P. E.  
Chief Operating Officer  
North Carolina Department of Transportation  
Surface Transportation Board  
June 22, 2011  
Competition in the Rail Industry**

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Thank you for the opportunity to present testimony on behalf of the state of North Carolina in your inquiry into the State of Competition in the Rail Industry. Transportation Secretary Gene Conti sends his greetings and regrets that a previously scheduled trip abroad prevents him from attending today's hearing.

We commend the Board for your timely inquiry into this important matter, so key to the economic well-being of shippers, rail carriers and of course the public interest. Much of the testimony on the record in this matter reflects the competing commercial interests of private sector shippers and railroads. We feel that the perspective of a state government reflects the broader public interest - our citizens - that may not be taken directly into account through the filings of commercial interests.

North Carolina believes surface transportation and in particular versatile rail infrastructure is critical to the economic vitality of our state. As such, the State has invested heavily in improving the rail infrastructure of the state, to benefit both freight and passenger service. The North Carolina Department of Transportation and the state-owned North Carolina Railroad have invested more than \$300 million over the past decade to modernize the railroad infrastructure, improve safety, increase efficiency and enhance capacity for our carriers and shippers. In addition, more than \$623 million in safety, capacity and reliability will be invested from federal, state and North Carolina Railroad sources through the high speed and intercity passenger rail program.

North Carolina Governor Beverly Perdue established the Governor's Logistics Task Force, which for the last two years has been exploring ways to enhance transportation efficiencies, create jobs and enable North Carolina to better compete in the global economy. We are conducting two comprehensive studies - one of our ports, the other of the seven economic regions of the state - to determine how best to serve the logistics needs of our business and industry. Rail by necessity will be a crucial link in a multi-modal strategy for the state's economic development.

But the current state of rail competition in North Carolina fundamentally undermines our ability to compete in the global shipping marketplace and to adequately serve the needs of shippers seeking to transport goods to, from or through North Carolina. We have two commercial shipping ports in the state - at Wilmington and Morehead City - and both are essentially held captive by the monopoly position of the Class I carriers that control access to them.

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In the case of the Port of Wilmington, there is currently only one Class 1 railroad that could potentially provide intermodal rail service from Wilmington to Charlotte and beyond. Despite bridges and other constrictions being raised to allow double-stacking along this corridor, that service is not established because the rail carrier quotes a rate to provide service between Wilmington and Charlotte that is more than double the truck rate for the same destination. The quoted rate also is more than double the rail rate for other competing South Atlantic ports, specifically Savannah, to the same destination, Charlotte. While Charlotte is our largest retail marketplace, it is enroute to Greenville-Spartanburg, South Carolina, Atlanta, Georgia and Memphis Tennessee and thus provides an important strategic basis for longer-haul opportunities.

Without competitive rates, the Port of Wilmington is unable to attract the ocean carriers that can reach beyond a one-day truck trip, undermining our efforts to perform in the rapidly shifting global logistics environment, and limiting the market opportunities for both imports and exports – a foundation of our State's economy. Most ocean carriers are seeking to access markets well beyond the Mid-Atlantic region- i.e. the Midwest and Mississippi Valley - and this requires fast, efficient and price sensitive intermodal rail service because trucking costs for that distance are prohibitive. This lack of trade lanes and ocean carrier service severely limits the ability of North Carolina businesses to use North Carolina ports to reach global markets. This translates into jobs lost for North Carolinians and into higher costs for our state's businesses to move goods and serve customers.

The situation at Morehead City is similar, as illustrated in one recent example. Last year, Spirit AeroSystems, a major international aircraft components manufacturer, opened a facility in an economically depressed inland county to build aircraft components for shipment to Europe and ultimate assembly of Airbus airliners. The original plan was to move the components by rail to the Port of Morehead City. North Carolina made a number of improvements to the rail line at significant public expense to accommodate this service, but the private Class 1 rail carrier would not provide a cost quote for shipping that was competitive to the less desirable truck rate. The quoted rail rate was reportedly up to 10 times the trucking rate. Again, the private carrier's exploitation of a monopoly position prevents the most cost effective movement of goods by this important new corporate citizen in our state, despite the best efforts of the State to position the corridor for efficient performance. Spirit AeroSystems ultimately plans to hire 1,000 people at wages 80 percent higher than the average in the host county. We must have high performing rail service to meet the demands of this shipper's market and to attract other like-minded industries to our economically struggling communities.

A final example is freight rail service to the Charlotte area. North Carolina has partnered with two Class 1 carriers, Norfolk Southern and CSX, to invest in separate intermodal facilities to serve the Charlotte market and in anticipation of the Panamax era. An alternative would have been a public-private investment to create a single facility that could be scaled to serve both carriers, optimally sited and not duplicating public and private costs. The public made repeated requests to Norfolk Southern and CSX to consider a single facility, but neither would meet to discuss such a project. The result is

two facilities, at higher than necessary public and private expense, with compounding negative impacts on land use, highway congestion and air emissions.

North Carolina and her citizens have clearly been negatively impacted by the lack of competition among the freight carriers in our state. Our state policy is to invest in all modes of transportation, and we actively seek to do so in the most effective way possible, sensitive to the diverse needs of our customers and without undue constraint.

I hope the examples I have presented will persuade you that it is in the public interest to provide relief from rail monopoly market control, through mandated access for other railroads or other appropriate regulatory changes. We also want to extend our willingness to support and assist you in whatever manner we can to advance a discussion that achieves meaningful change.

Thank you for the opportunity to participate, and I'll be glad to answer your questions.