

Prepared Statement

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Rail Capacity and Infrastructure Requirements

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www.railsolution.org

**David L. Foster, Executive Director
342 High Street, Salem, VA 24153
540-389-0407 railsolution@aol.com**

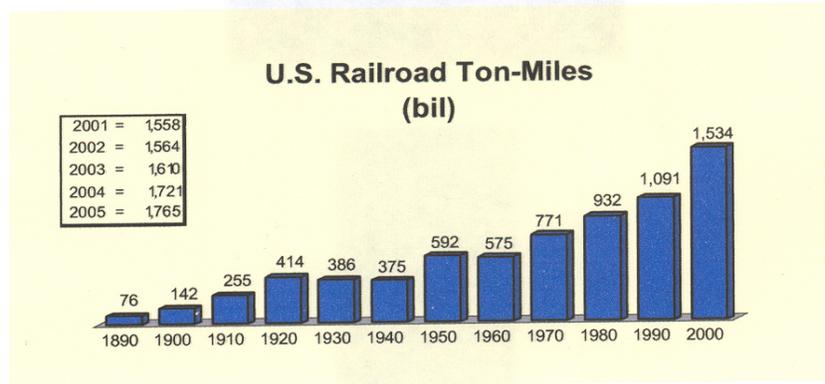
My name is David Foster and I am executive director of RAIL Solution, a citizens' rail advocacy group in Virginia. I hold a master's degree in transportation from the Wharton School of Finance and Commerce, University of Pennsylvania. I have worked in transportation for about 40 years, almost 25 of that as an executive in the railroad industry. I have appeared as a witness before the former Interstate Commerce Commission on matters relating to railroad mergers, anti-trust, and the economics of competition in the rail industry. I appreciate the opportunity to address the STB today at this public hearing on rail capacity and infrastructure requirements.

In the United States today we face a land transportation dilemma. Our interstate highways are choked with trucks moving long distance freight. But our railroads are also at near capacity, so it is hard to look to the railroads as a means to alleviate the traffic crunch on the highways.

Typically the response to congested highways has been to propose new roads or to add more lanes to existing routes. As widely-touted failures in California and in the Northeast illustrate, this approach has not been widely successful. Plus we are well past a point of diminishing returns in highway construction. Largely because of the massive investment to build-out of the Eisenhower Interstate System over the past 50 years, the system is nearly complete. The easy miles are all behind us. Now each new increment of capacity costs more and produces less.

Over the same 50 year period the railroad industry's capacity has been in steady decline. The interstate highway network diverted large amounts of freight, especially time-sensitive and high-value products, away from the railroads and onto the highway. The railroads responded by abandoning many miles of light density lines, taking up double-track on many routes, removing sidings, scrapping freight cars, and otherwise making difficult downward capacity adjustments. In addition to declining business, the steady impact of paying property taxes on every mile of track and piece of rolling stock provided a further catalyst to downsize wherever possible.

Once this downsizing was well under way, however, the rail industry was hit by gradual, then accelerating, traffic growth. U.S. railroad ton-miles have tripled in the period from 1950 to 2005, as shown in the graphic at the top of the next page from the Association of American Railroads:



This effect of rising traffic levels and shrinking infrastructure can be seen most dramatically when one is divided by the other to produce a “ton-miles per mile of road operated” number for the industry. In the table below are data for a recent 15-year period as cited in the U.S. Census Bureau’s Statistical Abstract of the United States [Year 2000, table 1060; Year 2007, table 1099]. Over just these 15 years the freight traffic density on the nation’s railroads has risen 91%.

**U. S. Class 1 Railroads
Ton-miles per mile of road operated, 1990-2004**

YEAR	TON MILES (BILLIONS)	MILES OF ROAD OPERATED (THOUSANDS)	TON MILES PER MILE OF ROAD OPERATED
1990	1034	146	7082
1991	1039	144	7215
1992	1067	141	7567
1993	1109	140	7921
1994	1201	138	8703
1995	1306	137	9533
1996	1356	136	9971
1997	1349	133	10143
1998	1377	132	10432
1999	1433	122	11746
2000	1466	121	12116
2001	1495	119	12563
2002	1507	118	12771
2003	1551	117	13256
2004	1663	123	13520

All indications are that this rising traffic trend will continue. The economy is good, and rail carloadings are largely a function of industrial activity. Plus there has been a huge increase in import/export freight movement in the U.S., with rail providing a key link between the ports and inland locations.

This increase in rail freight movement has resulted in some much publicized service failures, where the volumes simply choked shut key lines and terminals. The table at the bottom of the previous page understates the problem somewhat, because it is based on miles of road operated, not miles of track. In many cases track has been reduced faster than route miles, because railroads first take up sidings, yard track, and tracks from multiple-track mainlines.

Traffic growth has also led to a boom in railroad construction and hiring. The rail carriers have increased capital spending and hired new workers in an effort to cope. No matter how well intentioned their coping strategies, however, the U.S. rail industry's capability to funnel increased freight over a vastly atrophied core network is very limited. *Growth of traffic is more rapid than the rail industry's capability to expand using internally generated funds.*

This is a lesser problem for the railroads themselves than for the nation. Much the way manufacturers view large order backlogs as a positive economic sign, rail carriers benefit from more available business than they can handle. Not only does it make capital investment less risky, but more importantly it allows the railroads to be selective in the traffic they accept, to raise prices, and to grow in measures such as revenue per car and revenue per ton-mile.

Railroad managements can ration capacity to the highest bidder, being increasingly selective in the freight they carry. This serves the interests of the private railroads and their shareholders very well. With more consistent volumes over which to spread fixed costs, they have lowered unit costs and operating ratios, such efficiencies further bolstering profitability.

Why then is it a larger problem for the nation?

It means that all the freight that the railroads do not want and cannot handle winds up on the highways, further taxing the limited capacity of our road network. Furthermore, adding new freight capacity on the highway is far more costly, both in economic and environmental terms, than creating equivalent new capacity on rail. But we do not evaluate such trade-offs in the United States. The railroads are owned and operated in the private sector, and virtually all public sector ground transport investment goes to highways.

Moving freight long distances over the road is sub-optimal in so many ways. It is far more energy intensive than shipping by rail, produces far more

pollution per ton-mile handled, has a vastly larger and more disruptive footprint on the land, and tends to compromise public safety by more and more large trucks competing with cars on roads that were not designed, and never intended, to carry such a high percent of trucks.

So, to summarize, here's where we are. The railroads are relatively fat and happy. They are experiencing much better times than they have for years. They can deploy their limited capital budgets eliminating capacity chokepoints and adding new equipment, meanwhile benefiting from the pricing power that derives from demand in excess of supply.

But freight is growing faster than the railroads' internal capability to grow, so the overflow winds up year after year on the nation's highways. There the public sector has to struggle to pay for new freight-carrying capacity, even though this option has many costs that compare unfavorably to carrying the freight by rail.

How can we address this dilemma? *We need a new freight transportation paradigm for the 21st Century. We need a core national network of high-capacity rail lines. Call it a "steel interstate" plan.*

We need to recognize that in many cases there is a compelling public benefit to be achieved from investing freight transportation dollars in railroads rather than in more highways. Equivalent dollar investments on the rail side can produce far higher returns than incremental highway construction. The reason is that the railroad system nationally is chronically undercapitalized, so smaller investments produce bigger returns.

To capture these greater public benefits, public/private ventures must be crafted and undertaken to expand rail capacity. Maximizing public benefit per transportation dollar invested needs to be the pivotal investment criterion.

Critics of this approach will decry such public investment in railroads as subsidies to the already profitable railroads and windfalls to their shareholders. While it may be true that the rail carriers would be able to earn more carrying higher freight volumes on a streamlined national network, this is hardly justification for depriving the public of more efficient ground transportation.

To illustrate how inherently silly this thinking is, consider for a moment a parallel situation on the highway side. Suppose, when the interstate highways were begun, truckers had been denied their use and relegated to the older secondary roads because the benefits of the huge public investment would financially enrich these companies, their owners, or shareholders.

As a nation we must make prudent transportation planning decisions that result in the most efficient movement of goods and people. Increasingly this means that public investment must bolster the limited supply of private capital to increase rail capacity and infrastructure. We need to get past the misperception of such investment as subsidies, and see it for what it really is: the lowest cost, greatest benefit approach for the public.

While it is beyond the scope of these hearings and my remarks today, I must note before closing that an upgraded core network of high-capacity rail lines in the U.S. would also make possible a far more reliable system of long distance passenger trains. Currently Amtrak's long distance trains have an on-time performance under 28% because they are competing for space on the same congested trackage that bedevils the timely and reliable movement of freight trains.

RAIL Solution urges the STB to expand the scope of the Ex Parte 671 proceeding to develop, in concert with the nation's rail carriers, a framework for facilitating and encouraging public investment in the private railroads where it can be justified by identifiable public benefit. Often it may be possible to provide equivalent new capacity on rail at far lower economic and environmental cost than by new highway construction. Carrying trucks on trains also saves fuel, reduces pollution, enhances public safety, and requires far less new land. As a result of a RAIL Solution initiative, Norfolk Southern and Virginia Department of Rail and Public Transportation are currently jointly funding and conducting a feasibility study of handling up to 60% of through trucks on trains between Knoxville, TN and Harrisburg, PA as an alternative to doubling the capacity of Interstate 81.

The transportation sector of our economy is the biggest user of oil. A corollary benefit of transporting through trucks on trains is that railroads can be easily electrified, especially relevant to a network of high-capacity steel interstate routes. This means the benefits of the growing movement towards electric generation from renewables can be extended to intercity freight transportation.

In summary then, today we have a very unbalanced land transportation infrastructure in the United States. Virtually all capital investment for 50 years has gone to highways. Compelling public benefits can be achieved by investing a much larger portion of government transport dollars in the rail industry. If this were pursued with similar vision and zeal as rebuilding the nation's highway network under the Eisenhower Interstate System, we would have within a few decades a core network of high-capacity rail lines, a "steel interstate", capable of handling freight growth for years to come, and greatly alleviating the pressure to construct ever more highway capacity at much greater environmental, economic and social cost.