

AAR Chief Addresses Railroad Growth, Challenges In Year Ahead

Crossties Magazine caught up with Edward R. Hamberger, president and CEO of the Association of American Railroads (AAR), in early January to discuss a number of issues affecting the freight rail industry, which he said is “absolutely essential to the economy today” and faces strong challenges over the course of the coming year.

Q: How important are freight railroads to the U.S economy?

A: The economy’s reliance on safe, efficient, economical freight rail transportation will be even greater in future years. Coal for electricity, building materials for the construction industry, food products, manufactured goods, raw materials, clothes, even computers all travel by rail today as do more than a third of all exports headed to port. Policy makers also understand that freight rail provides a way for the economy to grow while helping businesses grow and create jobs.

Q: With the economy beginning to recover from the recession, how is the health of the nation’s railroads?

A: Railroads weathered the recession relatively well. When the scope of the downturn became evident, railroads were able to adjust services quickly, improving productivity while maintaining their financial health. Now that the

economy is slowly recovering, railroads have again adjusted their operations to handle the increase in rail traffic by recalling employees and hiring new workers, taking freight cars and locomotives out of storage, and adjusting operating schedules so that greater volumes can be handled efficiently and safely. An average annual investment of almost \$20 billion in improvements to the nation’s rail network—even during the recession—has contributed to the continued vibrancy of the industry. It is these private investments that ensure our nation’s rail network can serve not only more business customers but also more passengers today and in the future.

Q: What are AAR’s expectations for traffic growth and infrastructure for 2011?

A: Our members tell us that they expect the economic recovery to continue. Last year, of course, saw traffic increase sharply, with carload freight up 7 percent and intermodal up 14 percent compared to 2009. Yet, volume still remained substantially below pre-recession levels. While carload and intermodal traffic increases in 2010 are the largest year-over-year increases on record, 2010 still saw the second lowest total carloads on U.S. railroads since the AAR data series began in 1988. Our members are cautiously optimistic, but it is important to recognize we have a long way to go.



Edward R. Hamberger, president/CEO of the Association of American Railroads

Q: Last year, we discussed your Cambridge Systems study that indicated about \$148 billion would have to be invested by 2035 in capacity expansion just to meet projected demand. Do the results of this study still ring true, especially with the economic challenges we’ve been faced with in 2010?

A: Obviously, the economic recession has affected our industry as it has most other industries. However, while rail traffic is currently below pre-recession levels, we fully expect it to return to record levels. And with that comes a strong demand for additional capacity. Railroads have continued to prepare for this—investing billions of dollars every year to enhance capacity so that we can handle that growth when it comes. ►

Q: What additional issues will AAR focus on from a legislative perspective in 2011?

A: We look forward to working with the 112th Congress on a variety of issues. Of course, we imagine there will be continued collaboration with Sen. Rockefeller on his rail regulatory bill. With Chairman Mica at the helm of the Transportation & Infrastructure Committee we expect to see some action on the SAFETEA-LU reauthorization and possibly on passenger rail issues. As always, we continue to push for greater use of freight rail as a way to reduce fuel consumption, relieve highway congestion, create a cleaner and greener environment, and grow the economy.

Q: How would any push to re-regulate railroads impact railroad investment?

A: Obviously, it would have a very negative impact on investment. The reasonable regulatory system introduced by the Staggers Act has served the industry and the nation very well. It has led to record investment in rail infrastructure and record improvements to safety and demonstrated gains in the quality of rail freight service. For railroads to continue to make investments of the magnitude we've seen, it's essential that they continue to operate under a system that provides regulatory certainty.

Q: How will the newly enacted rail safety legislation affect the Class I railroads? What about Positive Train Control (PTC)? Where will railroads find the money to invest in this mandate?

A: The PTC mandate is putting and will continue to put a strain on railroad capital budgets. Railroads don't have an infinite source of capital funds. This means that money invested in one area is not available to invest in other areas. So the capital that railroads put into PTC will mean reduced spending in some other areas that could increase capacity, improve service or affect other areas of safety. That's why it's important that the PTC implementation not incur unnecessary expenses, such as inclusion of dual locomotive control panels, and also that it be based on future and not outdated toxic-by-inhalation (TIH) traffic patterns. Even under the best conditions, it will cost the industry \$5.8 billion to test and install PTC and then an additional \$820 million a year to maintain it. The benefits of PTC will come nowhere near to covering its costs.

Q: We hear a lot about the Obama Administration wanting to develop alternative energy sources most notably to replace coal and other fossil fuel use. Do you expect an impact on railroad coal shipments, and if so when could this be felt and to what extent?

A: The importance of coal to America's economy cannot be overemphasized. About half of our nation's electricity comes from coal. Although more renewable energy sources certainly will be developed, I think the long-term future of coal is still strong. Remember, the Administration continues to support development of clean coal technology, as do the railroads. So, I believe coal will remain a vital part of the nation's energy mix and most of that coal will continue to be delivered by rail. Today, coal represents the greatest customer segment of

our traffic—at roughly 45 percent of total non—intermodal carloads last year, or approximately one in four revenue dollars. There are also tens of thousands of rail jobs, or one in every five jobs, related to the movement of coal.

Q: Last year, you told us you expected intermodal to be the industry's engine of growth and will at some point regain its spot as the industry's top source of revenue. Does this still ring true?

A: Absolutely. Last year, intermodal registered a 14 percent growth, and volume topped 11 million trailers and containers. With fuel prices continuing to escalate and with the trucking industry facing its own set of challenges, intermodal will continue to grow. In fact, just recently FedEx, which has resisted intermodal until now, announced that it would begin offering some rail intermodal services Jan. 31. UPS, of course, remains the largest user of rail intermodal in the United States.

Q: Is there any message you would like to send to members of the Railway Tie Association (RTA)?

A: Just that we really appreciate everything you do for the railroad industry. We couldn't operate safely and efficiently without the quality products you provide railroads. We also appreciate your continued support for the industry's public policy objectives. The health of railroads and rail suppliers alike depends on policy decisions that are made in Washington. Members of the RTA have been stalwart in their support of policies that will allow our industry to grow and prosper. ■

—Kristen McIntosh