

BEFORE THE SURFACE TRANSPORTATION BOARD**EX PARTE No. 775**

GROWTH IN THE FREIGHT RAIL INDUSTRY

**HEARING TESTIMONY OF THE PRIVATE RAILCAR FOOD AND BEVERAGE
ASSOCIATION**

Thank you, Chairman Primus and the rest of the board members, for allowing PRFBA some time on this important issue. The STB needs to be aware that the Class I railroads use PSR as a method of improving profits and reducing volume by eliminating lanes and customers, and by reducing service to other users as well as a reduction in their workforce. This effort by the Class I railroads obviously reduced the available capacity and therefore volume on the railroads. The result was that the railroads had more efficient operations which improved operating ratios and profits. Most other industries would pass along at least a portion of these efficiencies to their customers, but not the railroads, as they continue to increase their rates to shippers.

This has impacted our members and their customers in many ways. In general, it makes the railroad a non-user-friendly alternative to move freight more efficiently, safely, and cleanly than other modes of transportation. This reduction in capacity and service by the railroads forced many shippers to increase the volume they shipped over the road. Over the period of the last five or six years, truck volume has increased while rail volume has continued to decline. Still, today many shippers have limited options in working with the railroads. They claim their services have improved, and they have marginally, but obviously because they eliminated volume, hence

congestion, hence the need for employees and equipment, but still with higher rates to their remaining shippers.

We need the assistance of the STB to help the railroads understand that rail must remain a viable alternative for those shippers who want to use rail service. We can do this through the elimination of exempt commodities and greater regulation of contract moves, and by addressing the true meaning of the railroads' common carrier obligations. If the railroads could work with shippers, by providing good service, user-friendly alternatives, and competitive pricing, this nation's rail networks would immediately see increased volumes.

Some areas of concern that we feel have led to reduced volumes on rail are as follows:

1. Equipment:

The railroads continue to push ownership of cars to shippers. For many shippers, the cost of these cars is not offset by the lower rates offered by the railroad, therefor increasing overall cost to shippers and improving margins for the railroads. Furthermore, increased transit times mean private car owners get less turns out of their equipment and hence ship less volume. If a private car is held on the rail too long, the railroads charge shippers, but if the railroads hold empty private cars in their yards, there is no recourse for the shippers to cover the cost of idle equipment. Being the PRIVATE Railcar Food and Beverage Association, we were created specifically due to the challenges and inefficiencies that the railroads have created for the members in our Association. Consequently, we urge the Board to institute reverse demurrage to encourage railroads to act more efficiently when using our railcars.

Service:

I have already mentioned the effects of PSR on overall service and rail volumes. Additionally, we have many shippers that have seen the number of pick ups and deliveries, or switches, into their facilities dramatically reduced in the past few years. Additionally, through the use of embargoes, the railroads have continued to manage volumes down in certain areas and from certain shippers. These downsizing tactics warrant a careful review of the common carrier obligation by the Board, or this behavior will continue, and growth will remain stagnant.

Pricing:

The railroads have also continued to use unreasonable pricing, discouraging customers from using their services. They claim that trucking is their competition, but the cost structure of running trucks is much different than running a railroad. I have yet to see a trucking company with an operating ratio in the 50s. I don't think I've seen one below 80. The railroads know trucking pricing on all lanes through industry reports and price very close to those numbers even though transit is longer and damage more prevalent on rail shipments. The railroads have also used pricing to limit STB oversight. They price tariff rates much higher knowing that shippers will want to negotiate contract rates a little lower to save money, but then preventing any STB oversight. While PRFBA commends the Board for its new regulations in the recent reciprocal switching ruling as a method to improve service, it is limited to tariff and non-exempt traffic, thereby restricting its use to very limited circumstances. Even intermodal freight over these last few years has been priced non-competitively, moving a tremendous amount of volume onto trucks. As a result, PRFBA asks the Board to raise the cap on Final Offer Rate Review. The present cap leaves a huge gap in traffic that is actually regulated.

The impacts from rail pricing, service, and equipment use have adversely affected our members in many different ways. Some have no other option than to ship by rail and have taken on these higher costs, impacting their businesses and the cost to their customers while others have been limited on the amount of freight they have been able to ship by rail even though they would like to ship more. A few specific concerns from some of our members are as follows:

1. Our soft costs increased dramatically over the last few years, adding a new line item to be considered when we priced our rail shipments. The soft costs included slow turn times based on miles per day, fewer switches, an increase in temperature abuse due to slower service on problem cars, and demurrage.
2. The push factors to make shippers look for alternative transportation modes have increased over the last few years to a point with the higher soft costs that rail pricing was not competitive compared to truck rates for short and medium length rail shipments (Roughly anything under 1,800 miles).

Comments from another of our members are as follows: While we have not made a wholesale reduction in our volumes on rail to any one location (we can't survive without rail movement), there have been instances of reduced rail volumes during various periods. Below are some examples:

Portland, OR (UPRR) – Have split rail volume with bulk trucks due to reduced/inconsistent switches and increased rates.

Chino, CA (UPRR) – Had numerous issues with boxcars being broken into so switched to trucks to mitigate risk of contaminated/stolen product.

Lodi, CA (UPRR/BNSF/CCT) – Have had to convert to bulk trucks at times due to communication issues at interchange between UPRR and BNSF, causing significant delays.

Phoenix, AZ (UPRR/BNSF) – Have had to convert to bulk trucks on numerous occasions due to missed switches and poor interchange communication between UPRR and BNSF.

Comments from a third member are as follows: We have had a multi-year initiative to increase boxcar shipments, but service issues to our customers and pricing not being competitive with trucking have limited where we have been able to transition more volume.

Moreover, several of our members have raised specific actions the railroads have taken to reduce switches to their plant locations. One member was told the railroad was doing so due to a labor shortage. Also, several members have raised the concern about real theft, and how the railroads limit their liability to cargo losses.

The railroads prefer to eliminate their competition by other means instead of trying to be competitive through better service and pricing (thereby increasing volume by doing so). Just last month there was a letter sent to Congress urging them to not increase truck weights. The AAR was one of the organizations signing the letter. Are the railroads really so concerned with the safety of drivers even though there have been improvements in braking technology as well as cameras on trucks to help identify emergency braking situations, or is it because they want to eliminate further competition and continue to raise prices without limits?

Without the efforts of our federal regulators, the railroads will continue this practice of providing less and charging more. The net result of this means the most efficient and

environmentally friendly form of transportation across this nation will continue to be used less, and shippers will be forced to seek out other alternatives.

We thank you for listening to our position today and hope our regulators will be able to take effective action that will bring more volume back to our rail network through a higher cap for Final Offer Rate Review cases, removal of commodity exemptions, greater regulation of contract carriage, an improved definition of the common carrier obligation, and reverse demurrage.

Thank you from the shippers at PRFBA.

Respectfully Submitted,

/s/ Daniel R. Elliott

Daniel R. Elliott

GKG Law, P.C.

1055 Thomas Jefferson St., NW

Suite 620

Washington, DC 20007

(703) 863-9670

delliott@gkglaw.com

Attorney for PRFBA

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