

Good morning/afternoon committee members, and thank you for allowing me to speak today. My name is David Hoffman, and I am with Hoffman Supply Chain Advisors. I am excited to share my insights into the rail industry and offer some theories as to why rail volumes have been declining.

Introduction

Over the past 12 years, I've had the privilege of working with numerous companies across a variety of verticals, with a strict focus on transportation and logistics. My experience spans both sides of the transportation spectrum—working for a global third-party logistics provider (3PL) and, for the past 5 ½ years, in-house with a global food ingredient manufacturer. During this time, I've collaborated with companies that collectively ship millions of pounds of goods every year, with freight spends in the tens of millions of dollars. My overall objective has always been to share industry knowledge and introduce best practices to help companies reduce their transportation costs, while also exploring alternative methods and strategies related to transportation.

One of the strategies I've consistently advocated for is the introduction of rail as an alternative to truck transportation. Rail offers many benefits, but for many shippers, the question remains: is the cost worth the service? Today, I want to explore this question by examining some of the key drivers behind the decline in rail volumes.

The Rail Industry as an Oligopoly

Let's start with the structure of the rail industry in the U.S. We have five major railroads, creating a situation that closely resembles an oligopoly. The high barrier to entry in the rail industry significantly limits competition, which in turn gives these railroads considerable leverage over shippers. Given the sheer volume of freight that railroads handle daily, it's clear that trucks alone cannot absorb and service this much freight.

However, shippers are keenly aware that these five railroads operate under similar conditions—they are all subject to government oversight and regulation, pressured by Wall Street to deliver financial targets, and involved in labor contract negotiations. This creates a somewhat rigid and predictable environment, but also one where shippers feel they have limited choices, often leading to dissatisfaction.

Labor Challenges

Another significant factor contributing to the decline in rail volumes is the challenge railroads face in obtaining and retaining staff. On paper, the average salary for a railroad employee is quite competitive, around \$160,000 per year. However, despite this attractive salary, railroads struggle to maintain a stable workforce. They have made strides by offering signing bonuses and incentives for workers to relocate to high-demand regions. However, there is a broader trend in the U.S. where jobs requiring physical labor are in decline.

The workforce that remains often faces extended shifts and longer working hours than originally scheduled. Additionally, labor negotiations between railroads and unions add another layer of complexity. Every few years, these negotiations bring the possibility of a strike, putting supply chains at risk and causing potential loss of business for companies. The uncertainty surrounding labor relations forces shippers to reconsider whether the cost savings from rail are worth the potential service delays that could arise from a strike.

Shipper Preferences and Trucking Advantages

Shippers' preferences are another key factor. Even before the pandemic, railroads were losing market share to trucks. A survey conducted by Bailey, of Oliver Wyman, found that 100% of executives believed that truck freight was superior to rail. Trucks have a significant advantage in flexibility—they can pivot and adjust routes far more easily than trains. This adaptability is crucial in today's fast-paced supply chains.

Moreover, shippers have found it easier to communicate with trucking companies, particularly when it comes to tracking shipments and understanding delays. In contrast, railroads have struggled to provide timely updates, leaving shippers in the dark about the whereabouts of their containers. While this issue isn't unique to rail, it's a significant drawback when shippers are comparing their options.

Technological and Regulatory Challenges

The discussion around autonomous vehicles—particularly trucks and cars—has been prominent in recent years, but less attention has been paid to the potential for automation in rail. Given that trains operate on tracks rather than roads, one could argue that automation in rail presents a safer and more feasible option. Technologies already exist that could make railroads safer and more efficient, but regulatory hurdles often prevent their widespread implementation.

For instance, after a deadly train collision in Chatworth, California, in 2008, the National Transportation Board (NTB) mandated the installation of Positive Train Control (PTC) on trains. This technology can override operator errors and slow down trains that are going too fast. PTC is monitored from central dispatching systems, leading rail operators to argue that some trains could operate safely with one person instead of the traditional two-person crew. However, the Federal Railroad Administration (FRA) has been inconsistent in its stance on this issue. In 2009, the FRA stated there was no evidence to prohibit one-person crews, but in 2022, the same agency proposed a rule requiring a minimum of two train crew members for most operations. This inconsistency highlights the tension between technological advancements and regulatory policies.

Rail companies have also expressed concerns about their automated rail inspection programs. Currently, conductors must walk the entire length of trains, which can be over a mile long, to inspect them. Automated track inspection technology, which uses lasers and cameras, offers a more efficient solution. While some railroads have received federal approval to test this technology, the Federal Railroad Administration has allowed some of these test programs to expire, and some companies are appealing these decisions. There is a growing concern that government delays in approving the use of such technology could hinder the railroads' ability to remain competitive and efficient.

Conclusion

In conclusion, while rail has the potential to be a cost-effective and efficient mode of transportation, several factors are driving its decline. The oligopolistic nature of the industry, labor challenges, shippers' preference for the flexibility of trucks, and the slow adoption of new technologies all contribute to this trend. As we look to the future, it will be crucial for the rail industry to address these challenges head-on. This may involve rethinking labor practices, investing in technology, and working more closely with shippers to better meet their needs.

Thank you for your time, and I look forward to any questions you may have.