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The Economic Benefits of CN's Acquisition of the EJ&E:

Enhancing the Chicago Region's Position as Freight Capital of North America

The proposed acquisition of the EJ&E Railroad by the CN Railroad will result in a \$60.1 million annual increase in the region's Gross Regional Product. It will create 649 jobs and generate new labor income of \$39.0 million. It will result in an increase in annual sales in the region of \$160.5 million. The economy of metropolitan Chicago is clearly a winner as a result of this proposed private transaction.

The acquisition will also benefit the national economy, adding \$267 million in annual Gross Domestic Product. The Chicago region will receive about 22 percent of those benefits; 78 percent will be spread to the rest of the nation.

These findings are the result of an economic study commissioned by Chicago Metropolis 2020, a business backed civic organization. The study was conducted by the Economic Development Research Group, Inc (EDRG) and Carl Martland a rail freight consultant and professor at MIT.

The study, commissioned by Chicago Metropolis 2020, involved three separate tasks:

- The first task was to translate the direct and indirect transportation consequences of transferring the EJ&E assets to the CN. This included an evaluation of the travel time changes for all freight rail traffic throughout the region. In addition we examined how the changes would affect at-grade crossing traffic delays, capacity for additional Metra service, changes in truck traffic, accidents, and changes in air pollution.
- The second task was to translate the changes in travel times and patterns for trains, trucks, and personal autos into dollar values of costs and benefits based on gains or losses of time and operating expenses.
- The final task was to aggregate these dollar costs and benefits and use them in an economic model of the region in order to calculate the net changes in jobs, sales, income, and ultimately the Gross Regional Product.

The region of our analysis included Lake and Porter counties in Indiana as well as Cook, Lake, Will, DuPage, Kane, and McHenry counties in Illinois.

The principal economic benefit from the proposed acquisition results from the increased speed and reduced wait time for all the freight rail traffic in the region. This amounts to an annual cost benefit, or gain, of \$49 million, which accrues to the railroads, the shippers, and/or the customers. In addition, as a result of shifting some truck traffic to rail, there is an annual benefit of \$17 million.

An additional economic benefit would result from reduced auto traffic if Metra were to add service on its North Central line between Vernon Hills and Union Station where CN would no longer need to run freight trains. The net benefit, after subtracting Metra's increased operating costs, would be \$18.4 million per year.

Other regional benefits result from improved safety that generates a \$6.6 million per year benefit, and reduced pollution that results in a benefit of \$2.8 million.

The net regional at-grade crossing delay does increase by 107 hours per day, which is less than one percent of the total delay in the region. Using standard measures of the cost of delay, this translates into an annual net cost of \$782,000 per year. This amount is offset by a net improvement in safety at the crossings.

All of the annual economic benefits (minus the economic costs) have multiplier effects on the local economy and generate an increase in the standard measure of the region's Gross Regional Product of \$60.1 million per year.

The increase in GRP does not include any additional economic benefit that might result from the CN's commitment that it will spend \$100 million to improve the rail lines and yards it will acquire. Further, we have not included the economic benefit of the \$60 million CN has indicated it would spend on mitigation measures. These investments have been excluded because they are one-time investments and not permanent, annual economic benefits. On the other hand, the rail line improvements and the at-grade crossing improvements could generate permanent time savings for rail freight as well as truck and auto traffic. It could reduce or eliminate the net regional grade crossing delay resulting from the EJ&E acquisition.

The methodology, modeling practices, and data sources are described in detail in the attached report and supporting studies that are available on our website, www.chicagometropolis2020.org.

As a result of this research, Chicago Metropolis 2020 has concluded as follows:

1. The Surface Transportation Board (STB) should approve the application of the CN to acquire the EJ&E Railroad. This acquisition is good for the regional economy and approval would indicate to other private investors that the Chicago region is committed to maintaining its preeminent position as an inland port for global commerce.

The STB, operating under the narrow mandate in the law that governs its proceedings, does not normally take into consideration regional economic costs and benefits. Instead, it limits its review to issues of competitiveness, customer service, and mitigation of ancillary costs. We would argue that the STB should, as a matter of sound public policy, consider the broader public policy and economic consequences identified in this analysis.

2. The costs and benefits of this proposed transaction are asymmetrical. Some communities experience less traffic, others experience more, and the overall economic gain is regional and benefits the entire regional economy. However, even under the worst case scenario,

the communities along the EJ&E right of way will not experience as much train traffic as is already experienced by many existing communities in the region.

Because those communities that will experience an increase in traffic have not had an opportunity to plan for or adjust to the change, the STB should attach conditions in their approval to ensure appropriate mitigation. There is, however, no justification for attaching conditions that would make the acquisition uneconomic for the CN or for the region's economy.

3. Although the scope of this research focused on the regional economy, sufficient data were collected to analyze the effect of the acquisition on the national economy. The rest of the nation, outside of the 8 county Chicago region, would receive an increase in annual Gross Domestic product of \$207 million. This is on top of the \$60.1 million increase for the Chicago region. This finding demonstrates that the Chicago region is part of a national system of goods movement. What is done in our region either helps or harms that national system. The national economic benefits are more than three times greater than the regional benefits. This is an important finding, given current economic conditions.

Based on the substantial national economic benefits that result from the proposed acquisition, we make two additional recommendations.

- First, federal policy and funding should be altered to reflect the national integrated character of goods movement. The CREATE program, which was designed to use some federal funds to invest in improvements in the regional freight system reflects this argument. We should, as a matter of regional public policy, advocate on behalf of a federal freight policy that recognizes the Chicago region's unique role in improving the national system. The national economic benefits would justify much greater federal funding for freight improvements in the Chicago region.

If the leadership of metropolitan Chicago does not support the private investment of the CN, it will be hard to argue that the federal and state governments should support the CREATE project. The CN acquisition and CREATE have comparable purposes, to reduce rail congestion and increase rail efficiency in the Chicago region so that we can continue to enjoy the economic benefits of this industry.

- Second, we recommend that the Chicago region develop a freight authority that can act on the financial and policy issues that are attendant to our stature as a freight center. This region is a port, similar to the ports of Los Angeles, Long Beach, Seattle, New Orleans, and so on. Those other ports handle freight by ship, train and truck. We are a land-based port, handling nearly twice as much freight as any one of the other U.S. ports. Yet, we are not organized to effectively lobby federal and state governments, nor generate income from our port status in order to improve the system and mitigate some of the costs of acting as a national freight center.

In conclusion, Chicago Metropolis 2020 supports the proposed acquisition in part because of the demonstrated economic gain documented by the research. Equally important, the acquisition reinforces the region's dominant role as a center of goods movement in North America, and the resulting employment and economic benefits that are the result of our position. Support for the proposed acquisition by civic and political leaders will convey to shippers, transportation carriers, and warehousing businesses that we welcome investment in this important part of our economy.

On the web: <http://www.chicagometropolis2020.org>