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BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.

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THE 25TH ANNIVERSARY OF THE STAGGERS RAIL ACT OF 1980:
A REVIEW AND LOOK AHEAD

STATEMENT OF CHARLES SWINBURN
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Mr. Chairman and Members of the Board. I am Charles Swinburn, Chief Executive Officer of RailAmerica, Inc. Thank you for allowing me to present my views today on the Staggers Act.

By way of background, RailAmerica is the largest short line holding company in North America. We built the Company over the last 11 years through 29 transactions involving 65 railroads and totaling over \$775 million in aggregate purchase price. We purchased our first railroad, the 83-mile Huron & Eastern Railway in Michigan from CSX Transportation in 1986. Our most recent transaction was the purchase of four short line railroads from Alcoa earlier this month. At present, we own 47 railroads, operating over 8900 miles of track in 27 states and six Canadian provinces. We employ 2000 people.

Our company exists because of the Staggers Act. Our employees have their jobs because of the Staggers Act. Many of our shippers receive railroad service because of the Staggers Act. Many of the small and rural communities in which we operate are far better off because we are there due to the Staggers Act.

All that is because the Staggers Act streamlined the procedures governing the abandonment and sale of non-economic rail properties by the Class I railroad industry. Prior to the Act, regulation essentially prohibited

those carriers from getting rid of many light density lines that were not paying their way. Further, passage of the Staggers Act provided short line operators freedom from traditional railroad labor agreements and restrictive work rules and thus the freedom to provide rail access at a significantly lower cost and with innovative service over revitalized lines.

The statement submitted for the record by the American Short Line Railroad Association contains numerous statistics that demonstrate the significant and beneficial effects the Staggers Act has had on the short line and regional rail industry. I will touch on a few here.

Since 1980, the number of short line and regional railroads has more than doubled, from less than 250 to 550. Track miles have grown from about 8,800 to over 42,000, making the industry collectively as large as the biggest Class I carriers. Approximately 20,000 people work on short line and regional railroads. One out of every four carloads in the United States originates or terminates on a short line or regional railroad, and short line and regional railroad shipments account for between 15 and 20% of Class I railroad revenues. Short lines serve nearly 12,000 facilities across the nation and provide their customers with rates that are 20-50% less than comparable truck rates.

Short line and regional railroads play a crucial role in the railroad industry. They have succeeded by offering their customers a higher level of service at lower rates. The shippers they serve are disproportionately located in rural and otherwise underserved areas of the country. Their employees often live in the communities they serve. Their trains link these small communities and their shippers to the national and international transportation networks, usually providing them with flexible operating schedules. Additionally, as the large railroads struggle with capacity constraints and it becomes more difficult for small shippers to obtain regular low cost service, the short lines carriers work with shippers and the Class I's to find a way to move the goods.

Short lines often provide the communities they serve with the first real opportunities to grow that they have seen since the middle of the last century. For instance, in some areas of the country we serve, we work with local community industrial development boards to encourage shippers to locate on our lines, bringing jobs and relative prosperity to those communities. Through a relationship with Agracel, an industrial development company specializing in rural rail promotion, we have developed a web site www.shortlineadvantage.com to highlight available properties in communities on lines of ours that interchange with two or more Class I's.

I think it will be useful to you to hear about some brief examples of short line railroads in our RailAmerica family that have provided significant stimulus for renewed economic growth in communities that had gone stagnant.

The first example is the Port of Grays Harbor in western Washington. There, our Puget Sound and Pacific Railroad, which serves the Port, teamed with Port officials to bring new companies to unused port facilities. One of the results is that the Puget Sound and Pacific now brings unit grain trains to the Port from the Union Pacific and the BNSF, to be unloaded at Ag Processing, Inc., for export to the Pacific Rim. This has significantly increased business at the Port, has doubled the employee base of our railroad, and has increased longshoremen jobs, and through ripple effects, other jobs in the local community. Elsewhere on the railroad we have worked with Sierra Pacific Lumber as they put in place a new state-of-the-art sawmill which employs over 200 people.

It is a measure of the increased business our Puget Sound and Pacific Railroad has brought to the economy of Western Washington that in 1997, the year the railroad was purchased from the BNSF it moved 7,700 carloads a year. This year we expect the railroad to move over 29,000

carloads. In 1997, one railroad crew served the Port of Grays Harbor every other day. Today, 3 crews per day serve the harbor, seven days a week.

As a second example, in Tunis, North Carolina, in 2000, Nucor Steel built a steel-making plant on RailAmerica's North Carolina and Virginia Railroad, which we bought from CSX Transportation in 1987. Nucor did so because they had successful experience operating on another short line in South Carolina. Over 20,000 carloads move in and out of this facility annually and it employs 350 people in jobs that pay well above the average in the local community and that are there only because our North Carolina and Virginia Railroad is there.

As a third example, Wellman, Inc., based on very favorable experiences on our South Carolina Central Railway, has referred two other manufacturers to the line. Polyquest, Inc., a manufacturer of plastic pellets recently built a manufacturing facility on the railroad in Darlington, South Carolina and NTM, a plastics manufacturer, built a facility in Hartsville, South Carolina. Both of these facilities, which we estimate employ 50 people, came into existence because we had done a good job serving Wellman's needs. We bought the South Carolina Central in 1987 from CSX Transportation.

Prior to the Staggers Act, the manufacturers that I just talked about would not have had the incentives to locate their facilities in these communities. They simply would not have been able to obtain low cost and reliable rail service there. Importantly, these are not isolated instances. Short line railroads elsewhere have similarly succeeded by offering their customers a high level of service at competitive rates. The combination of customer-oriented philosophy, lower cost structures and aggressive marketing strategies has enabled short line and regional railroads to capture an increasing share of the rail transportation market.

As to where the short line and regional rail industry will go in the future, my expectation is for more of the same. The industry will continue to grow. Shippers and communities will continue to be well served. More traffic will move from our nation's overcrowded highways onto the railroad system, through entry points in the short line industry. I see no reason to tinker with a system that is working so well. From my point of view and that of my company, no changes to the Staggers Act or to the Board's administration of its provisions are necessary to the continued success of the short line industry.

That completes my remarks specifically about the short line industry. Before closing, I would like to make a few remarks about the more general

effects of the Staggers Act on the railroad industry and the shipping community. I do so from the perspective of one who as a much younger person working in the Department of Transportation as the Deputy Assistant Secretary for Policy, managed many of the Department's efforts in response to the railroad industry crises of the 70s, as well as the Department's efforts in support of deregulation of the railroad industry and in support of the Staggers Act.

Based upon my experiences in the 70's as well as upon what I have learned recently on returning to active involvement in the railroad industry after a twenty-three year absence, I am comfortable sharing with you the following personal observations.

First, those few who call for re-regulation of the railroad industry are simply not mindful of the lessons of history. When I joined the DOT in 1971, the railroad industry was reeling from the shock of the bankruptcy of the Penn Central in the prior year. Like dominos, most of the rest of the Northeastern railroads and several major Midwestern railroads followed. By the end of the decade, twenty percent of the system's route miles were operated by bankrupt railroads, deferred maintenance was prevalent, derailments were common, Congress had been forced to pump money into the industry, and the specter of nationalization was real.

There is no question but that the sorry state of affairs that the railroad industry reached by 1980 was directly traceable to ninety-three years of failed government regulation. The events of the 1970s proved beyond doubt that the government cannot successfully replace the marketplace in controlling decision making in the railroad industry. That was true then and it is true now. Nothing has changed in the last twenty five years to cause me to believe differently.

Second, I believe that the Staggers Act has worked even better than those of us who argued for it in 1980 expected. The teachings of staff economists at the Department of Transportation combined with common sense led me to testify then on several occasions to Congress that deregulation of the industry would give well-run railroads a shot at returning to a reasonable level of profitability, and that safety and service to shippers would improve. However, I never dreamt that the results would be as dramatic as they have been. Data in the Association of American Railroads' comments sent to you for the hearing, which as far as I know is not contested, shows almost a three-fold increase in rail industry productivity in the past twenty-five years, while at the same time rail industry traffic rose by 80 percent. Yet even while the industry was benefiting from those accomplishments, the shipping community also benefited from significant

decreases in rail rates as shown by the fact that inflation adjusted revenue per ton mile fell by 60 percent through 2004. I conclude that the Staggers Act has worked phenomenally well. To retreat now from its basic premises would clearly be folly.

That completes my testimony Mr. Chairman. I will be pleased to answer any questions that the Members may have.