

Date: November 9, 2006

218074



From: Stephen J Thompson
320 Independence Avenue, Southeast
Washington DC 20003-1044

phone: 202 544 2111
email: verbs_verbos@yahoo.com

To: Mr. Vernon Williams, Secretary
Surface Transportation Board
1925 K Street, Northwest
Washington DC 20423-0001

Re: Ex Parte 665: Rail Transportation of Grain
Notice of intent to participate
Written statement for inclusion in the record (one original plus 10 copies)
Proof of service to parties of record in the proceeding

Dear Mr. Williams:

The purpose of this letter is to give you notice of my intent to participate as a party of record in Ex Parte 665: Rail Transportation of Grain.

I have served all parties of record in this proceeding with a copy of my written statement executed November 9, 2006. Enclosed for reference is a copy of the 27 Service List entries to whom the written statement was sent today by United States mail. Stapled to that list is a copy of the address labels that I used in sending them a copy of my statement.

Enclosed are one original and 10 copies of my written statement for use by the Surface Transportation Board.

I appreciate the opportunity to participate in this proceeding.

Sincerely,

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Public Record


Stephen J Thompson

Enclosures: Written statement (one original and 10 copies)
Service List of Parties of Record to whom a copy of my written statement was mailed today



Written Statement of Mr. Stephen J Thompson
Submitted to the Surface Transportation Board on November 9, 2006
For inclusion in the record of the November 2, 2006, public hearing on
Ex Parte 665: Rail Transportation of Grain

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Written Statement of Mr. Stephen J Thompson
Submitted to the Surface Transportation Board on November 9, 2006
For inclusion in the record of the November 2, 2006, public hearing on
Ex Parte 665: Rail Transportation of Grain

My name is Stephen J Thompson. I was an economist employed in the Bureau of Economics of the Interstate Commerce Commission for about 2 years, where I worked on economic issues related to railroads, trucking and intercity bus transportation. For the next 25 years, I held the title Specialist in Transportation at the Congressional Research Service (CRS). CRS is a division of the Library of Congress that is dedicated to helping Members of Congress in their legislative duties. At CRS, I wrote CRS Reports, Issue Briefs, and memorandums for Members of Congress and their staff. I conducted briefings for Members of Congress and their staff. My subjects of specialization at CRS were the rail and trucking industries, although I did work on almost the whole range of transportation public policy topics. The Library of Congress, at the request of the congressional committee, assigned me full-time to the Senate Commerce Committee during the preparation of the legislation that became the Staggers Rail Act of 1980. I am the principal editor of a congressional committee print entitled ICC Implementation of the 4R Act (Synopsis of Views Presented at Hearing Before the Subcommittee on Surface Transportation of the Senate Committee on Commerce, Science, and Transportation, February 7, 1979). (Library of Congress Call Number KF2275.5.T56) The report is dated May 1979. The 4R Act, also known as the Railroad Revitalization and Regulatory Reform Act of 1976, began the economic deregulation of railroads. The 4R Act set the stage for the Staggers Rail Act of 1980. I have a Bachelor's degree in accounting, with a double minor in business administration and economics. I have a masters and a doctorate degree in economics from the University of Illinois. One of my areas of specialization was transportation economics. My master's thesis is on the topic of the economic conditions in the rail industry, and public policies toward railroads, prior to the creation of Amtrak. I have taught a course entitled Public Policy Toward Business for 2 universities, including the University of Maryland University College. At that time, the course was a senior-

level college course that was a graduation requirement for students majoring in business management. I was chair of the Transportation Research Board's Committee on International Trade and Transportation for about 3 years. The Transportation Research Board is part of the National Institutes of Science. I have held various local and national offices in the Transportation Research Forum (TRF), including national program vice president and national president. TRF is a national, professional organization of transportation industry employees, academicians, and government employees. The year that I was program vice president, more than 100 peer-reviewed papers were presented at the TRF Annual Forum, including papers on public policies toward transportation. For several years, I was co-editor of the annual Proceedings of the TRF Annual Forum that consisted of summaries written by myself and the other co-editor of the various presentations at the TRF Annual Forum. (Okay, so I am also an Eagle Scout and a Returned Peace Corps Volunteer to India!) I am currently retired and I am engaged in activities that are not directly related to transportation. This statement represents my own views and it is not intended to represent the views of any organization or other individual.

There is widespread agreement that the 4R Act and the Staggers Rail Act constituted a new and favorable direction in public policy toward the rail industry. As a result of these 2 Acts, rail customers are better off, and the rail industry today is financially stronger and more stable than perhaps at any time since about 1920. The challenge before us is to build on the achievements of the 4R Act and the Staggers Rail Act in order to continue to promote the financial strength of rail carriers while providing better rates and services to rail customers. The Surface Transportation Board (STB or Board) may well be able to meet that challenge by more vigorously utilizing the authority granted to it in the 4R Act and the Staggers Rail Act.

During the STB hearing on November 2, 2006, Board Chairman Nottingham asked a poignant question. He asked what it would take for rail customers to be satisfied with the rates and services provided to them by railroads. An appropriate response to the Chairman's question might be: "When rail customers have access to as many rail service providers as air passengers and air freight customers have among air carriers". That much competition might never be permitted in the rail industry. But, we won't know whether that much competition

in the rail industry can work to the advantage of railroads and rail customers unless we try. To be sure, just as in relationships between customers and service providers throughout the economy, air freight customers and airline passengers are unlikely to ever be completely satisfied with the services and prices provided to them by airlines. Equally important, there is widespread agreement that there is no need to recreate an independent federal regulatory agency such as the Civil Aeronautics Board (CAB) to mediate between airlines and their customers. Perhaps the rail industry offers commensurate possibilities compared to the possibilities that existed in the airline industry before deregulation of that industry.

During the STB hearing on November 2, 2006, the GAO witness urged the STB to conduct a study of conditions in the rail industry that would refine the findings of the GAO's recently concluded study Freight Railroads: Industry Health Has Improved, but Concerns about Competition and Capacity Should Be Addressed, GAO-07-94, dated October 2006. Such a study of the rail industry by the STB might be very fruitful. A more fruitful use of STB resources might be for the STB to use its authority under the 4R Act and the Staggers Rail Act to increase competition in the rail industry and study the effects of those changes on the rail industry. Competition usually results in a faster rate of innovation, greater operating efficiencies, and reduced costs. The benefits from such changes are generally shared among the firms providing services, their employees, and their customers. Perhaps that generalization would be true for the rail industry. Additionally, increased intrarail competition might increase the demand for rail carrier services as a result of lower prices and better service options. Lower rail carrier costs and higher demand for rail carrier services might make rail carriers financially better off than they were before the increased rail carrier competition. The relevant effects of increased intrarail competition clearly would include any adverse financial impacts on rail carriers, and a firm estimate of how soon any such adverse financial impacts might disappear as a result of increased rail traffic, carrier innovations, more efficient operations by carriers, and reduced costs among rail carriers. One source of higher demand for rail transportation might come from freight that now travels by truck. Rail transportation of freight that now moves by trucks would probably be environmentally friendly because rail carriers are generally thought to be

more fuel efficient than trucks. Such a shift of traffic from trucks to railroads might also reduce highway congestion, and thus improve highway safety. Because railroad transportation is important to the economic welfare of the nation, and important to the ability of the United States to compete in the international marketplace, better public policy toward railroads would likely be a boon to the general welfare of the United States. However, a report by the Federal Railroad Administration concluded that “railroads are natural monopolies in providing transportation services over their own network, suggesting that multiple-firm competition over such a network would result in increased resource costs. These findings suggest that policies introducing railroad competition through ‘open access’ or on bottleneck segments would not be beneficial from a cost perspective. Moreover, the price decreases that would be necessary for the introduction of such competition to be beneficial would be large. Thus, to the extent that rate and service problems exist in the railroad industry, policies aimed at strengthening rate reasonableness guidelines and service guidelines would be preferred to policies aimed at introducing or preserving competition.” (Railroad Cost Conditions -- Implications for Policy, June 2000, Grant # DTFR53-99-H-00025, page 100.) This conclusion seems counter-intuitive in the context of most sectors of the U.S. economy. Perhaps railroads are necessarily unique. But, perhaps they are not. Perhaps increased efficiencies by rail carriers and/or increases in rail traffic resulting from lower prices and better service would overcome these objections to increased intrarail competition. STB resources used to explore such possibilities might be money well spent.

As mentioned in the November 2, 2006, STB hearing, Canada allows rail customers who are located within 18 miles of a second rail carrier to have access to the services of the second rail carrier. The STB might want to investigate how well the Canadian rail policy has worked for Canadian rail customers and rail carriers, and investigate whether a similar policy in the United States would likely yield similar results in this country.

If the STB further reduced its regulation of some commodities shipped by rail, thus allowing greater intrarail competition for the shipment of those commodities, would that result in better prices and service to rail customers without adversely affecting the financial health of railroads? The STB might want to investigate this

possibility.

During the STB hearing on November 2, 2006, Board Chairman Nottingham asked another poignant question. He asked why there are so few new rail carriers (other than short-line railroads taking over branch-line track and/or equipment from a parent railroad under circumstances in which the new railroad typically agrees not to compete with the parent railroad). Chairman Nottingham could have pointed to the example of Southwest Airlines in the airline industry. Arguably, the Southwest Airlines experience helped shape the public policy dialog over whether to reduce airline economic regulation. That reduction in airline economic regulation eventually obviated the need for the CAB. Of course, in the airline industry, airlines typically don't travel over the property and right-of-way of a competing airline. Some have argued that airline-style economic deregulation of the rail industry is not practicable because of this difference between the airline and rail industries. However, that argument may not be a sufficient deterrent to increased rail economic deregulation because railroads today do travel over the property and right-of-way of competing railroads all the time, through reciprocal switching, trackage rights, and joint use of terminals. Current STB authority and policy permit this intrarail competition and it works satisfactorily. (A description of these forms of rail cooperation and competition are described and illustrated in the GAO report cited above.) Arguably, one of the most important circumstances that led to the Southwest Airlines success was the opportunity for Southwest Airlines to have a fresh economic relationship with its employees (including work rules and compensation). The STB might consider asking Congress to allow a Southwest Airlines-type rail carrier to exist in the rail industry. Suppose a Southwest Airlines-type railroad were to begin operating in the United States. Could we eventually have a railroad industry that did not need the intervention of the STB, just as the airline industry no longer needs the intervention of the CAB?

Thank you for giving me the opportunity to submit this written statement for inclusion in the record of the STB's Ex Parte 665: Rail Transportation of Grain.

I, Stephen J Thompson, declare under penalty of perjury that the forgoing is true and correct. Further, I certify that I am qualified and authorized to file this pleading. Executed on November 9, 2006.

Stephen J Thompson
Signature of Stephen J Thompson

November 9 2006
Date

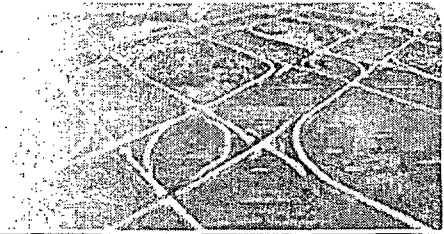
I, Stephen J Thompson, hereby certify that I have served all parties of record in this proceeding with this document by United States mail.

Stephen J Thompson
Signature of Stephen J Thompson

November 9 2006
Date



Surface Transportation Board



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Docket #: **EP_665_0**

Case Title: **RAIL TRANSPORTATION OF GRAIN**
27 Service List entries found.



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U.S. Department of Transportation

FIRSTGOV.gov

Date: November 9, 2006

From: Stephen J Thompson
320 Independence Avenue, Southeast
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phone: 202 544 2111
email: verbs_verbos@yahoo.com

To: Party of Record in STB Ex Parte 665: Rail Transportation of Grain

Re: Ex Parte 665: Rail Transportation of Grain
Notice of intent to participate
Written statement for inclusion in the record

Dear Sir or Madam:

The purpose of this letter is to give you notice of my intent to participate as a party of record in Ex Parte 665: Rail Transportation of Grain, and to provide you a copy of my written statement that I have mailed today to the Surface Transportation Board for inclusion in the record of the proceeding. The written statement was executed on November 9, 2006.

I hope that you find the enclosed written statement interesting and helpful in the public policy discussion of rail transportation of grain and in the broader context of public policy toward the rail industry.

Sincerely,



Stephen J Thompson

Enclosure: Written statement of Stephen J Thompson executed November 9, 2006



P.1



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P. 2



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