

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 671

RAIL CAPACITY AND INFRASTRUCTURE REQUIREMENTS

WRITTEN STATEMENT OF R. ADM. RICHARD M. LARRABEE, USCG RET.
ON BEHALF OF THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

I. INTRODUCTION

My name is Richard M. Larrabee, and I am Director of Port Commerce for the Port Authority of New York and New Jersey (“the Port Authority”). In that capacity, I am responsible, along with other private and public partners, for the promotion, protection and development of the Port of New York and New Jersey, and the initiation, development and operation of the facilities and programs that support the region’s economy.

My responsibilities include management and direction of the Port Authority’s marine terminals in Elizabeth, Newark and Jersey City New Jersey as well as in Brooklyn and Staten Island, New York. I am responsible for guiding policy implementation for the Port Commerce Department specifically including investments in rail freight infrastructure and the Port Authority’s relationships with rail carriers serving its marine terminals.

II. PORT AUTHORITY CAPITAL EXPANSION

The facilities of a large port such as New York/New Jersey cannot be efficiently operated unless export and import traffic can move freely to and from the terminal facilities. The New York/New Jersey region is particularly challenged in this regard because of its dense population and relatively constricted geographic area. Highway congestion, with its resulting negative economic and environmental consequences, is a concern.

Globalization of the world's economies has resulted in unprecedented growth of international trade, and cargo volumes through the Port of New York and New Jersey hit record levels in 2006. Projections for continuing robust growth have prompted the Port Authority to plan \$2 billion in seaport investments in the next 10 years. In anticipation of this growth and the corresponding highway congestion, the Port Authority, starting in the early 1990s, began to invest in the expansion of its on port rail transportation capacity.

The results of our rail investment program have been remarkable. The Port's on-dock rail volumes increased from approximately 50,000 containers in 1993 to nearly 340,000 in 2006, an annual compound growth rate of nearly 16 percent. In the period between 1994 and 2007, the Port handled 2.6 million marine containers at its rail facilities, representing the equivalent of more than 4 million truck trips, not including containers that moved by rail via other NY/NJ regional intermodal terminals. In addition to the intermodal rail activity, the Port's customers use rail for general merchandise, bulk commodities and import/export automobiles.

Needless to say, such increases in rail volumes could not have been achieved without substantial Port Authority investment in rail and terminal facilities. Nor can we expect those increases to continue without an even greater investment program moving forward.

Accordingly, the Port Authority capital plan provides for investment of some \$600 million between 2002 and 2010 to improve and expand rail capacity at facilities served by Conrail, Norfolk Southern and CSX. Projects include; new or expanded on-dock rail terminals for each major marine terminal, new connections to improve rail access to these marine terminals, associated storage and support yards, infrastructure improvements to regional freight rail routes, restoration of a dormant line to Staten Island and regional rail capacity enhancements outside of the Port itself. Port Authority investments in the last decade in freight rail improvements has exceeded Federal contribution to the freight rail network serving both New

York and New Jersey, which ultimately provides great economic benefit to the Nation's hinterland and regions that do not have direct access to deepwater ports.

III. RAIL CAPACITY ISSUES

As the Port began investing to expand rail facilities, the one thing that never was an overriding concern was the ability of the rail network outside of the port to handle the increasing volumes. The railroads proved to be willing partners in working with us to expand the role of intermodal transport in the port's overall transportation mix, and indeed, since our rail program started, the rail share of our total inland movements has tripled. Plainly, it would have been highly imprudent for the Port Authority to make plans and expend monies on rail infrastructure improvements unless we were confident that the routes to the Port's inland markets also had the capacity required to handle ever-increasing volumes of international trade. Now, however, we are becoming increasingly concerned that this may no longer be the case. In recent years, the growth of rail freight and development of new markets has been unprecedented. During this timeframe it has outpaced the growth of the trucking sector for the first time ever. Some of this growth, like the development of the ethanol market, is a product of government-mandated programs and represents new volumes of cargo that have to share the already constrained infrastructure with existing cargo shipments.

Today, the Rail Industry is laboring under significant capacity constraints for the first time in over 50 years¹. According to the Association of American Railroads' overview of recent policy studies the freight transportation industry must increase its capacity if the U.S. economy is to maintain adequate growth rates in the coming decades. Further, according to the American Association of State Highway and Transportation officials (AASHTO), without sufficient

¹ John Ficker, National Industrial Transportation League, Hearing before the Committee on Commerce, Science and Transportation, 2006.

investment, by 2020, only half of the forecasted growth in freight rail tonnage can be accommodated by the current freight rail system. The balance would likely shift to trucks and the highway system², which would have a detrimental impact on the environment.

There are positive business and environmental implications to enhancing the nation's freight rail system. For example, a single intermodal train can take up to 280 trucks off our highways, and railroads on average are three times more fuel-efficient than trucks. Also, for every ton-mile hauled, locomotives emit one-third as much nitrogen oxide and particulates as trucks³.

AASHTO also pointed out that the social and economic costs of adding new highway capacity are prohibitively high in many parts of the nation and opportunities for relatively inexpensive expansions to the highway system are nearly exhausted – a constraint we can attest to in the New York/New Jersey region. In fact, the current rail line moving over the Port of New York and New Jersey's on-dock rail terminals is the equivalent of about 500,000 truck trips annually helping to reduce highway traffic in an already overextended highway system.

Routine advisories from both of our Class I carriers continually remind us of capacity “restrictions” along their lines or at inland terminals due to operational problems. Services we once took for granted, such as the number of inland points served by direct train service from the port, have been slowly but steadily reduced particularly during the past 5 years. In recent years, railroads have found themselves with significantly improved competitive positions, allowing greater pricing leverage even though service levels continue to erode. In 1993, when we began to grow our on-dock rail services, the railroads offered significantly more destinations from our NY/NJ Ports than what is offered today. Now when we discuss new train starts or new services, such as short-haul rail, the availability of adequate line, yard and terminal capacity is a greater constraint than ever before.

² AASHTO - Freight-Rail Bottom Line report, 2003

³ Association of American Railroads – Overview of U.S. Freight Railroads January, 2007

Another concern we have is the lack of redundancy in the rail network. AASHTO found that a transportation system must provide an excess of capacity --- some amount of “transportation redundancy” --- or face the possibility of catastrophic breakdown². This was graphically demonstrated to the Port of New York & New Jersey in mid-March of this year, when a major derailment and fire blocked the main line of one of the rail carriers serving the Port. In the past, trains would have been re-routed around the problem on essentially parallel routes. This time, due to lack of redundant routes only a few trains managed to find alternative access and the Port had no intermodal service from that carrier for a period of four days, a circumstance totally unprecedented in my experience as port director.

In some cases this lack of redundancy isn’t due solely to lack of parallel rail lines, but because existing routes may not have the capability to handle increased rail traffic or in the case of seaports, do not have adequate clearances for doublestack containers. Rail route capacity is not just a function of the number of tracks, but is the result a number of factors including the network capacity of yards, terminals, main line track, passing sidings and axle weight limits of equipment, bridges and even the rail itself.

IV. ENHANCING RAIL INFRASTRUCTURE

Although there are different approaches to increasing rail capacity, infrastructure enhancements are an essential component to any long-term solution. The New York/New Jersey region’s successful rail capital expansion program provides real proof. We also know from first-hand experience how expensive rail construction can be, and we are increasingly concerned about the railroads’ ability to self-finance the improvements that will be needed to keep up with the demand for services.

In its October 2005 determination of railroad revenue adequacy⁴, the Surface Transportation Board found that only one of the seven Class I railroads in the United States was considered “revenue adequate” and thus was capable of earning its cost of capital. Recently, STB Vice Chairman Frank Mulvey identified Capacity and Congestion as a major issue facing railroads and the industry’s inability to achieve revenue adequacy was cited as one reason for the constraints on rail capital investments⁵.

The inability of railroads to raise capital needed to keep pace with traffic growth suggests one solution deserving of further study, that is, the Federal Government participation in public-private partnerships for rail freight infrastructure enhancement projects. Freight railroads are an integral component of the country’s transportation network, offer an alternative to building more highways and are more fuel-efficient and environmentally friendly than trucks, and it is increasingly clear that rail transport must be part of a balanced National transportation policy.

In the past, the Federal Government has approached major rail infrastructure needs with ad-hoc projects such as the Alameda Corridor in Southern California. Some funding has been provided for individual needs such as CREATE in Chicago and the Heartland Corridor in Virginia as part of the 2005 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). But, while these projects are vital and may contribute to the capacity of the nation’s transportation system, the Federal Government should begin now to develop a source of funding and a standardized methodology to evaluate and provide funding for rail freight capacity enhancements, as a supplement to or perhaps in some cases as an alternative to building additional highway capacity.

Such a methodology should include identification of current and future freight bottlenecks, alternatives analysis and in particular, assessment of public costs and benefits. Projects of National Significance should be evaluated and prioritized according to a number of

⁴ STB Ex Parte 552, Sub 10, RAILROAD REVENUE ADEQUACY – 2005 DETERMINATION, Decided October 17, 2006.

⁵ The STB and the Nation’s Railroads, Francis P. Mulvey, Remarks to the American Forest & Paper Association May 23, 2006

criteria including but not limited to financial viability, social and environmental factors, energy independence, employment and economic development, safety, security and national defense. The existing Metropolitan Planning Organizations may be logical entities to research, prioritize and sponsor certain rail freight projects, but another approach is also needed that will transcend local jurisdictions and provide separate funding for major projects that benefit a large region of the country.

The Mid-Atlantic Rail Operations Study⁶, for example, identified over 70 specific choke points in the rail freight system spread over five different states, that are mostly local in nature, but impact a very large part of the country outside of the study area. The problem is that some bottlenecks that were identified, such as a rail tunnel in Baltimore, may not provide enough benefits to the local jurisdiction to justify the cost but if viewed from a broader perspective, might be assigned a high priority on the National level.

One example I am familiar with, that may serve in part as a model, is the current Federal approach to deepening the channels of the nation's navigable waters. The importance of ports, channels and inland waterways has been well established as a major means of commercial transportation and as a part of national defense. Congress uses a disciplined approach to funding the maintenance and improvement of the nation's navigation system. Individual navigation channel improvements must be demonstrated to be in the Federal interest before becoming eligible for Federal funding. The *Federal Principles and Guidelines for Water and Related Land Resources Implementation Studies*, which were approved in 1983, describes the analytical and policy framework for determining the appropriate participation of the Federal government in dredging projects. Channel deepening projects are proposed by "local sponsors", such as port authorities, and the US Army Corps of Engineers determines the costs and expected benefits of proposed projects as part of its determination of the Federal interest. In the past, the benefits have

⁶ Mid-Atlantic Rail Operations Study, I-95 Corridor Coalition, April 2003, Report

been almost exclusively determined by estimating the transportation cost savings that would result to the nation's economy with the proposed improvement. Projects with a positive cost benefit analysis are eligible for consideration for Federal funding, but such projects must subsequently be authorized, and funded, by Congress. Additionally, total project costs are typically shared between the local sponsor and Federal Government. At least on the conceptual level, we believe a similar approach could be developed as an equitable framework for determining whether Federal funding should be applied to rail projects that could have a significant benefit to the nation.

It's going to take time to fix this problem – time to develop funding and standardized methodology; time to identify bottlenecks and solutions, and time to design and build the infrastructure. While we are working on this, international trade and demand for freight transportation will continue to grow. This is a very real problem that needs a very realistic solution, and I urge this Board to formulate and recommend a workable approach before we are overwhelmed with congestion and lose freight mobility that is vital to the national economy. With international trade becoming a larger segment of the US economy, we must insure that our national transportation system can sustain the growth in freight movements, and do it in an economically and environmentally sustainable manner.

Thank you Mr. Chairman for the opportunity to present these remarks.