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SURFACE TRANSPORTATION BOARD

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RAIL CAPACITY AND INFRASTRUCTURE REQUIREMENTS

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**Comments Submitted By: J.J. Keever
Deputy Executive Director
Virginia Port Authority**

On behalf of the Virginia Port Authority, and our Executive Director, Jerry Bridges, thank you for inviting us to provide our comments regarding rail capacity and infrastructure requirements from the port perspective.

It has been widely publicized that rail freight is forecast to nearly double by 2020. The driving force behind this dramatic rise is the ever growing international trade we enjoy with our foreign partners all over the world. In terms of rail freight, this growth will be seen in bulk commodities, such as coal and grains for export, and containers used for import and export of goods. I will focus my remarks on the growth we see in the movement of containers.

Inexpensive transportation, due in large part to the advent of containerization, has made goods movement very efficient for factories overseas to move goods to the U.S. at very low costs. In 2005, over 48 million TEU (Twenty foot Equivalent Units) were handled at North American ports.¹ This is expected to grow to over 130 million TEU by 2020². Every major port in the U.S. has plans to expand capacity to be able to handle

¹ American Association of Port Authorities (AAPA) Advisory, May 8, 2006, North American Container Traffic 2005

² 2005 Moffatt & Nichol forecast for the Virginia Port Authority

this expected growth. Take for example, the Ports of Los Angeles and Long Beach, the largest container port complex in the U.S., is implementing innovative projects, such as the Pier Pass program to handle the increasing growth; the Georgia Port Authority has plans to more than triple their capacity and has recently announced plans to work with the South Carolina State Ports Authority to develop the Jasper County site into a container terminal. Prince Rupert, British Columbia is building an all intermodal terminal, with a potential two million TEU capacity, that will move cargo from the west coast of Canada, via rail, to points in the U.S Midwest.

In our own port in Hampton Roads, APM/Maersk will open a new terminal this July that will add over 2 million TEU of capacity to our local port. We expect this capacity to be fully utilized in less than 10 years, and the VPA intends to open the Craney Island Marine Terminal by 2017. Combined these projects will more than triple the capacity of our marine terminals.

These are a few examples of the port growth that is currently underway to facilitate the ever growing trade that moves in containers. If we consider all of the planned container terminal capacity that will be created over the next 15 to 20 years the port industry is poised to handle the nearly 130 million TEU forecast for 2020.

In Virginia we know the use of containers will continue to rise. Recently, the people of Panama fully embraced the growing use of the container. In October, 2006, the people of Panama overwhelmingly passed a referendum to support funding and building a new set of locks designed to significantly increase the capacity of the Panama Canal. This capacity is designed to allow the passage of larger container ships. People all over the world recognize the importance of using containers to move goods.

Our trading partners will continue to make the goods that we find on the shelves in our stores. In order to take full advantage of the low cost of production, we must continue to provide a low cost method for our inland distribution network. As a Nation we face a large challenge as to how we move these goods to and from inland destinations.

In the 1800s our nation, driven by the Federal government and private partners, built the transcontinental railroad to move goods and people across this great country. In the 1900s we fell in love with the automobile and its heavy duty cousin the truck to move goods and people across the nation. As our highways become more and more congested, it is time that we reconsider our use of the rail network to move goods across the nation at the lowest possible cost – thus benefiting our National economy.

The Class I railroads have recognized the growing potential of intermodal freight – the movement of containers on rail cars – and have made substantial investments in intermodal capacity in recent years. BNSF and Union Pacific (UP) are working with the Ports of Los Angeles and Long Beach to build additional rail capacity with the Southern California Intermodal Gateway. The CN railroad will serve the Prince Rupert Intermodal Terminal delivering goods to the Midwest. The Port Authority of New York and New Jersey is working with CSX and Norfolk Southern (NS) to improve on-dock and near dock intermodal capacity through their Port Inland Destination Network (PIDN) to move goods to inland destinations. In Virginia we plan to more than double our on-dock intermodal capacity.

Rail roads are a very capital intensive industry and they cannot be forced to shoulder the investment alone. The benefits of low transportation costs accrue to the consumer, and thus benefit our National economy. Railroad projects that reduce

transportation cost, but do not create opportunity, or profit, for the railroad will not be constructed. This brings me to the issue of public private partnerships.

No project exemplifies the idea of a public private partnership better than the Heartland Corridor. Norfolk Southern's shortest rail route from Hampton Roads to Chicago is over an old coal route through West Virginia. Low tunnel clearances in the mountain tunnels prevent the use of double stack container trains over this route. The current alternative is a rail route through Harrisburg, Pennsylvania, which adds over 230 miles to the journey.

Several years ago, Norfolk Southern began considering the potential for increasing the tunnel heights and improving the route for double stack container trains. Early studies conducted by Marshall University³ demonstrated a positive benefit cost ratio for the consuming public. However, capital cost and the benefits generated for the railroad did not make the project financially viable for Norfolk Southern. In addition, no single state along the route would consider improving the rail route to benefit the adjacent states.

SAFETEA-LU provided \$140 million of the \$309 million required to improve the rail route, clear the tunnels, build additional intermodal yards, and eliminate grade crossings in Portsmouth and Chesapeake, Virginia. With the seed money provided by Congress, Norfolk Southern, Virginia, West Virginia, and Ohio have committed to funding the remaining \$169 million. I am happy to report that this project is well on its way to being completed over the next 3 years.

³ Central Corridor Double Stack Initiative, Nick J. Rahall, II Appalachian Transportation Institute, Marshall University, March 2003

The Heartland Corridor is a prime example of why public-private partnerships should be considered to improve the freight rail network. In this example, the low transportation cost will benefit the consumers in the Midwest, and the rail improvements are mostly in the Mid-Atlantic. The benefits to the railroad could not justify the capital expenditure by Norfolk Southern. The funding provided by SAFETEA-LU made this project possible, and the American consumer will benefit from lower transportation cost.

A secondary benefit, but very important benefit from the Heartland Corridor, is the reduction in air emissions. Moving containers on rail instead of trucks, reduces air emissions by 60% to 75% per ton mile. For every truck we remove from the highway we reduce air emissions and if we can find shorter rail routes we further reduce emissions.

I previously pointed out that North American Ports moved over 48 million TEU in 2005 and that forecasts predict we will move over 130 million TEU by 2020. In 2006 approximately 11.8 million containers (almost 21 million TEU) were carried on the rail network.⁴ I do not have exact numbers on the capacity of the existing intermodal network; however, it is easy to expect that we will have to create additional capacity if we expect to be able to maintain the status quo, just moving 40% of the containers on rail – results in over 52 million TEU that would need to be shipped on rail by 2020. If we take this one step further and build additional rail capacity, and make even a modest increase in the intermodal split, say to 50%, then we can move an additional 13 million TEU by rail. This would equate to removing 7.5 million trucks from our highways, reducing traffic congestion, reducing air emissions, and saving wear and tear on the interstate system.

⁴ Intermodal Association of North America. Intermodal Market Trends & Statistics Report. "Container Volume Figures 2002 -2006"

Clearly the trend over the next 15 to 20 years is for more containers to move through our ports. The port industry is making plans to accommodate this growth at the waterfront. We must improve our rail network and increase our rail infrastructure to handle the growing demand from containerized freight. Leadership from the Federal government is required to leverage state and private partnerships to the fullest extent practical. When evaluating projects, we must recognize and consider the full benefits that accrue to the National economy in terms of lower transportation costs, reduced air emissions, and increased safety.