

Wim de Vriend
573 South 12th
Coos Bay, OR 97420, USA
(541) 267-6177
costacoosta@coosnet.com

1223392
223436

AB-515 Sub 2
FO 35160

18 August 2008

Statement to: the U.S Surface Transportation Board

Re: The Port of Coos Bay's bid to purchase the CORP
(Central Oregon & Pacific) branch from Eugene to Coquille.

During your deliberations about the Port of Coos Bay's quest to "acquire" the Eugene-to-Coquille branch of the CORP, inoperative since last September, I hope you will consider these comments. They are based on decades of study, backed by many sources, of the operations of the Port; should you wish additional documentation, feel free to ask me. In order to expedite your perusal, I highlighted my conclusions with captions:

1. Having a railroad has not been "vital" to Coos Bay for years.

The opposite opinion has been conventional, of course, as expressed in one past Coos Bay port manager's claim: "Without it (the railroad), we're not a real port."¹ But such claims may paint the official more as a status-seeker than as an economic expert; being a viable port is less about how much third-rate "infrastructure" that port has than about markets and shipping opportunities, factors largely beyond the port's control. As one hired expert told the port of Coos Bay: "Ports can attract ... cargo if they have efficient water and inland access routes, and a sufficient local market to attract frequent common carrier service."² Coos Bay does not have any of those things, nor will a railroad line like CORP's provide "efficient inland access", even if the port owns it.

The unflattering truth is that Coos Bay is only one of a string of dead or dying harbors on the Pacific coast, from northern California to Puget Sound. As to rail service, some of those little old harbors still have it, others (like Eureka and Port Angeles) don't. The fortunes of all have been impacted much less by railroad connections than by bigger trends. One such trend has been the decline of the northwest timber industry, which in the case of Coos Bay has shrunk from one-third of local employment in 1969 to less than ten percent.³ Another trend has been the concentration of world seaborne commerce in fewer but larger ports, mainly because of the intermodal system. As a result, in the last twenty years the number of ocean freighters calling at Coos Bay has shrunk from 300 - 400 to a few dozen a year. At some long-time harbors in the region (Newport, Astoria), despite the presence of a railroad, no ocean vessels have docked for years.

It might be useful, therefore, to ask the supplicants for railroad service at the hearing why Coos Bay's economy, since CORP ceased operations in September 2007, has not collapsed. No soup lines have appeared; local employers are still seeking to fill job openings. Moreover, of the sizable, new job-creating enterprises that have settled

here during the last 10 - 15 years, none were attracted by the presence of the railroad, nor did they need it. Those enterprises were: ACS (Associated Computer Services, a call center); the Mill Casino; and the world-class Bandon Dunes golf courses. The same applies to the area's now-largest employer, 35 year-old Bay Area Hospital: it doesn't need a railroad. Local officials who obsess about the railroad, therefore, are much like generals fighting the last war. Or the one before that.

2. The Port of Coos Bay's "purchase" proposal looks like a poison pill.

The Port of Coos Bay has always had public relations problems, which presently include its multi-million dollar investments in a new railroad spur on the North Spit and its acquisition and partial repair of the rusty old Coos Bay railroad bridge nearby. Clearly, if the port did NOT show any zeal in reviving the CORP line, its tenuous hold on the public's affection would weaken even further. The port's taxpayers would condemn its folly in failing to consider that since Coos Bay's heyday as a lumber town, railroad carloads had already dropped by 90%, and the railroad had made it clear that 4,000 annual carloads were not enough for a viable rail operation. Before spending all that money on railroad infrastructure, the Port should have done its homework.

According to the latest reports, the port now wants to buy the rail line for \$9.8 million (which probably would have to come from other public sources), but as part of the deal they demand that CORP also give them the last 17 miles of the line, those closest to Eugene, and that CORP repair the defective tunnels, at an estimated cost of \$23 million.⁴ Since CORP wants to keep the potentially profitable 17 miles, the first part sounds like expropriation, the sort of thing dictators do. Stranger yet, if the Surface Transportation Board were to go along with the port's demand that CORP fix the tunnels, and at its own expense, CORP would in effect be giving the Port \$13.2 million while throwing in the railroad for free. This is so outrageous, it makes me wonder if the port's proposal is designed to fail: is the port's real agenda to obtain political cover for its own carelessness?⁵ It would not be the first time. Alternatively, we might consider the benefits to the port should it decide to abandon its newly acquired railroad after a spell. In that case the port would derive considerable funds from selling the track materials.

3. The Coos Bay area's future is unlikely to be enhanced by the preservation of the railroad.

This conclusion is warranted by two factors: negligible chances of increased exports and imports through the Coos Bay harbor, as well as of lumber shipments from the Coos Bay area inland.

In 2002 and 2003 the Port of Coos Bay commissioned, at great cost, two professional surveys of opportunities to increase exports and imports through the Coos Bay harbor.⁶ Some of those imports and exports could presumably be hauled by rail. But the studies assessed such chances as negligible: Coos Bay's "hinterland" cannot produce enough freight for exports to support a modern shipping dock, and Coos Bay's small population and third-rate inland connections make imports highly unlikely. In fact, Coos Bay has always been an export-only port: ships arrived empty, in order to take away wood products. It is true that if a miracle occurred - specifically, the highly speculative

container port proposal, which may have been another pipe dream - a railroad would be essential, but one many grades better than the CORP line. We can cross that bridge if we come to it, provided it has not rusted away.

With regard to the possibility that more products might be hauled by rail from Coos Bay's industrial plants to the valley, such products would obviously be lumber. But lumber processing in Coos Bay is a shadow of its former self, and unlikely to recover because major wood products firms nowadays prefer to establish their mills inland instead of on the coast, so they can draw their raw materials from a larger area.⁷

4. Abandoning rather than preserving the railroad could bring substantial benefits.

This is an aspect carefully ignored by those who favor expensive Great-Leaps-Forward (only to land on the inevitable banana peel). South of the railroad bridge, CORP's rusty tracks continue to block access to miles of idle waterfront, on the slim chance that some day a train will call again at the GP mill at the south end of Coos Bay, or at the Roseburg mill in Coquille. Many times, when CORP or its predecessor, the Southern Pacific, was still operating, visitors to public events scheduled on the Coos Bay boardwalk would find their path blocked by parked, graffiti-covered boxcars. In addition the city of Coos Bay has been eager to gentrify Front Street, an old stretch of light-industrial property on the bay, to create a tourist-friendly waterfront area. The railroad tracks run right down the middle of Front Street, so this could create all kinds of hazards. There have also been proposals for waterfront condos, motels and a museum, all of which are problematic because of the railroad's presence. Coos Bay has the potential of replicating the gentrification of old industrial waterfronts that has occurred all over the world, from London, England to Portland, Oregon. Instead of continuing to throw good public money at declining old industries, we would do better to let nature take its course, tear up the railroad tracks, and allow Coos Bay's lengthy waterfront to be re-developed according to its best and highest uses. For Coos Bay as well as for adjacent North Bend, it could mean a civic and economic rebirth. Besides improving access and safety, many acres of waterfront land would become available for development and parking.

5. Most of those advocating the resurrection of the railroad are insiders with an agenda.

I regret that I was unable to verbally testify at your hearing, because the deadline was not publicized. I'm particularly sorry because news reports suggest that most of the testimony will come from insiders with an axe to grind. Those insiders include port officials, local politicians, and putative clients of the railroad.

Starting with the first group, it stands to reason that port officials, who like to claim the power to "create jobs", want to look like they are doing something about industrial development. After all, the day may come when the public finally asks how they justify their jobs. But even if the port should acquire the railroad on its audacious terms, that may not be the end of the problem, because: (1) it seems near-impossible that anyone can run the line at a profit, given the decline of local shipping and heavy industry; and (2), throughout its history the port of Coos Bay has never run anything at a profit in

the first place. If the port cannot find an operator, or if the operator gives up, will the port end up running the line? Given the port's track record it is highly probable that this will turn into another failure, following the port's historical pattern (see table below).

Failed "Development" Projects of the Port of Coos Bay

(This list is not complete)

The Crosline Ferry, 1975/76: A derelict ferry boat acquired as a "tourist attraction". Total expense about \$118,500; no revenues. Finally sold for \$10,500 to a salvage yard.

The T-Dock, 1979-80: A dock built purely on spec for an industrial fish complex that never materialized. Cost: between \$1.5 and 2.5 million, depending on source of information. Revenues: negligible. Present condition: unsound.

The Charleston fish plants, 1979-85: A fish plant and a fish waste plant, both of which went broke despite massive official subsidies.

The Coal Export Terminal, 1980-84: During the oil crisis mania of the early 1980s the port sold a lease option and offered to issue \$150 million of tax-free bonds to a promoter for a coal shipping terminal that never got built. While the port did not lose money on this ill-considered scheme, some local private investors were victimized.

Great Leap Forward, 1983-1988: With much fanfare a Chicago politician was hired to be Coos Bay's economic savior. After giving his staff a raise and making outrageous promises, he multiplied the port's tax levies and its spending, but achieved nothing. He also committed larceny with federal assets, and he destroyed the local voters' right to elect the Port Commissioners.

The barge slip, 1983-1986: At a cost of \$1.3 million, the port's new manager constructed a barge loading facility to serve hoped-for industries that built oil field equipment for Alaska. But the oil bubble burst, and the industries never came.

The Trans-Pacific Parkway, 1987: This oddly-named road was built at a cost of about \$4 million to serve the port's "industrial park" on Coos Bay's North Spit, despite an ample supply of private industrial land. It took ten years for the port to attract the first industry served by its road, DB Western, a local equipment fabricator which moved from across the bay.

The Distant Water Fleet Facility, 1986-90: The port acquired a large property with small boat works in Charleston, to attract Alaskan fishing vessels and to create a dock for a Coast Guard cutter. The project was mismanaged, the Coast Guard moorage was unusable, and the port lost \$322,000 during the first year of operation.

The Pulp Mill, 1990: The port spent millions on water supply studies to lure a pulp mill to its North Spit property. But the pulp mill proved to be another promoter's scheme, as many other proposals have before and since.

The railroad bridge and the North Spit spur: In 2000 the port acquired the rusty Coos Bay railroad bridge, which its owner was determined to do nothing about. The port then raised 5 or 6 million for a "band-aid" to extend its life 5-8 years. At that time already CORP, the railroad's operator, indicated it would need to double carloads to be profitable. (See endnote #5.) In 2005 the port obtained millions more in grants to build a railroad spur to the Southport lumber plant, an existing rail user which was moving from Coos Bay's Bunker Hill area to the North Spit. In September 2007 CORP ceased operating the line, citing financial losses and insufficient carloads.

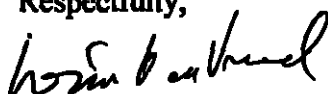
The second group of insiders at the hearing, the local politicians, always favor the status quo, plus the granting of government subsidies to preserve it. That's because they know most people don't like change very much, and politics is an emotional business. In the process they have no trouble ignoring the morality of dumping public funds down a bottomless hole. As a result, the money spent for and by the port of Coos Bay has long dwarfed its usefulness. In contrast, during Coos Bay's heyday as a lumber port, the only subsidy required was for dredging the 13-mile shipping channel and maintaining the jetties, and people did not expect the port commission to get involved in all the things they do now. But today, with the port near-dead, every year brings news of more grants, loans and other subsidies for "creating jobs", while the ship channel is as long as it ever was, thanks to continuing annual dredging costs of \$6 million for a few dozen ships. Ninety percent of those steam less than halfway up the channel, and none to the end of it.

Finally, you should ask the third group testifying, i.e. the industrialists pining for rail service, why, if rail is so vital, they don't pool their resources to acquire the line and run it themselves. After all, those industries have no less experience in running railroads than does the port of Coos Bay: i.e., none at all. The answer is at hand: they don't want to pay any more for freight than they used to, and you can't blame them. But how much more corporate welfare can the area afford, for people who don't want to contribute? Consider that when, a few years ago, the port bought the rust-eaten Coos Bay railroad bridge for a dollar and spent \$6 million for a "band-aid" fix, the beneficiaries of its largesse, the GP plant in Coos Bay and Roseburg Lumber in Coquille, refused to pay the suggested contribution of \$30 a carload to help repay the bridge job, pleading poverty. At that rate it would have taken a hundred years to pay back the port's expensive band-aid. Had the job been completed, add another century. And what does that tell you about the long-term viability of these industries? One of these days these corporate mendicants may melt away like so many wood-related enterprises have done in the past, leaving the port holding the bag.

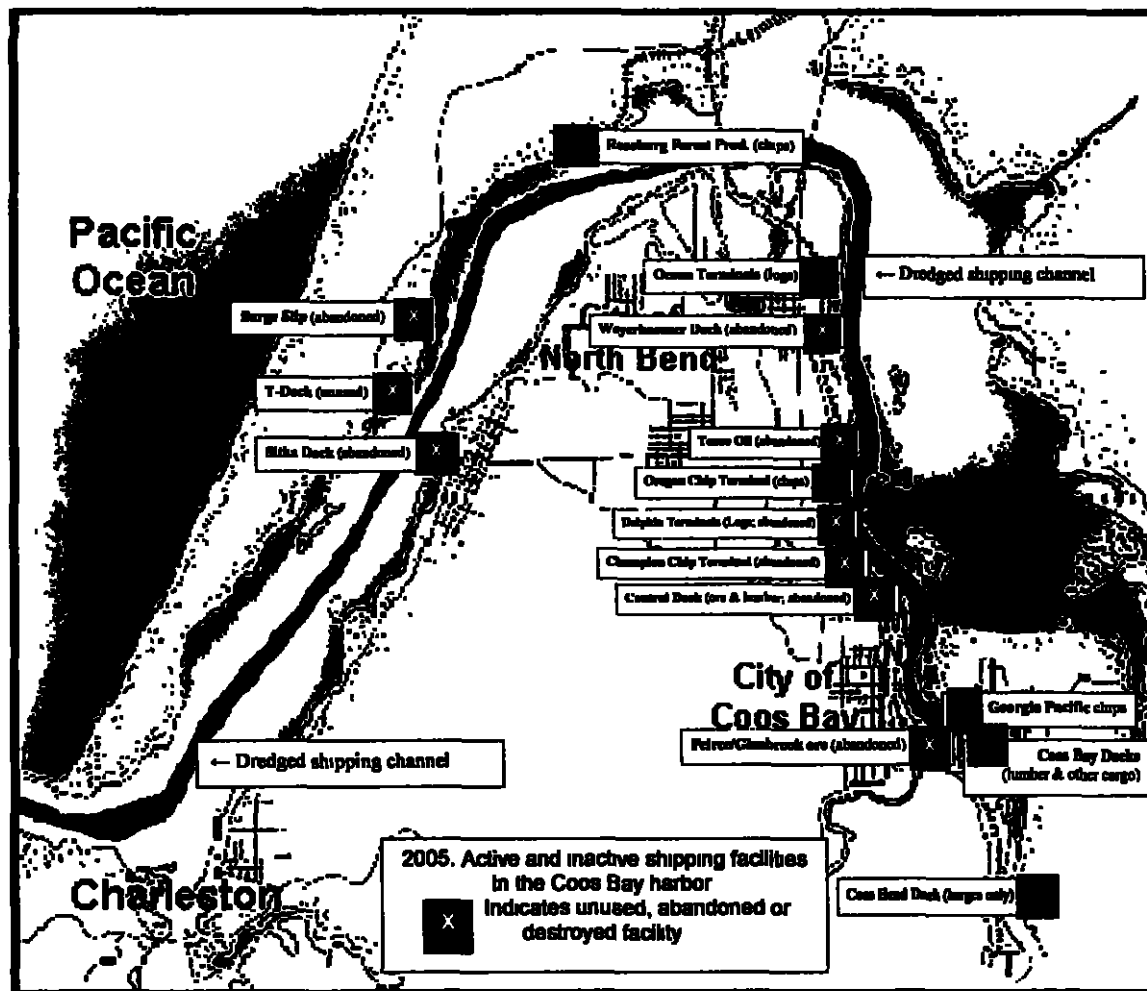
If you want to predict the future, look at the past. Even if the port seriously wants to buy the rail line, and succeeds in doing so, operating losses are near-certain. CORP's experiences should tell us this. And the odds are that the port's taxpayers will refuse to cover the losses. At that point the railroad will become just the latest item on the port's boondoggle list. Not that this will bother the people in charge. As one past port manager explained when he quit, someone in that position "... has to have a sense of timing. You've got to know when to get in and when to get out."⁸ Similarly, when his successor left some years later, after creating an even worse mess, he explained it was "time to do something else." He added: "I feel I've accomplished a great deal here, and it's been rewarding".⁹

Thank you for your consideration.

Respectfully,



Wim de Vriend



Footnotes:

- ¹ "Rail bridge vital to Bay Area's future," *The World*, May 30, 2002.
- ² BST Associates: "Evaluation of Marine Cargo Opportunities for the Port of Coos Bay, Oregon". Final Report, April 2002. p. 52.
- ³ Ibid.
- ⁴ "Oregon International Port of Coos Bay eyes freight rail line", *Daily Journal of Commerce*, July 21, 2008.
- ⁵ The railroad at that time indicated that to be profitable, they had to double their carloads out of Coos Bay. See "Rail bridge vital to Bay Area's future," *The World*, May 30, 2002.
- ⁶ BST Associates: "Evaluation of Marine Cargo Opportunities for the Port of Coos Bay, Oregon" Final Report, April 2002, and PB Ports & Marine, Inc.: "Feasibility Analysis for a Modern Marine Cargo Facility in the Port of Coos Bay, Oregon", May 2003.
- ⁷ This is confirmed by a local timber executive, and by the port's own study (See: BST Associates, p. 52.)
- ⁸ "Felkins Timing Good", *The Bay Reporter*, September 2, 1981.
- ⁹ "Coos Bay Port Chief to Resign", *The Oregonian*, August 13, 1988.