



September 24, 2007

The Hon. James Oberstar
Chairman
Committee on Transportation and Infrastructure
2165 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Oberstar:

On behalf of intermodal rail users, the Waterfront Coalition (TWC) submits these comments to the House Transportation and Infrastructure Committee for its hearing on freight rail competition and service in the U.S. freight rail market. By way of background, the Waterfront Coalition represents retailers, product suppliers, manufacturers and agricultural producers moving international commerce through America's blue water ports. A significant portion of the nation's international trade transiting marine terminals ultimately moves on to its final destination by way of the freight rail network. In fact, roughly 9.4 million containers moved by rail representing about 23% of total freight rail revenue in 2006. Waterfront Coalition shippers and the U.S. economy depend on this swift delivery of cargo to fulfill orders overseas and ensure that products reach store shelves and factory floors in the U.S.

TWC would like to thank the Committee for focusing attention on freight rail service. The American economy has changed significantly over the past several decades such that the key to productivity and competitiveness is now speed to market, both here and abroad. The nation's freight rail network remains an integral component to the U.S. supply chain.

As the nation's economy continues to expand, the current capacity of track, rail yards and equipment is unable to effectively meet this growing demand for freight mobility. Many rail customers are experiencing increasing freight rates and declining service measured by costly congestion and cargo delays. Clearly, the freight railroads must expand the capacity of this network to meet the demands of all customers. Already, Class I railroads are investing a significant amount of profit into growing this network. In fact, \$9.4 billion is planned for 2007. However, the railroads cannot do it alone and need access to additional finance to make all the needed investments to ensure that the nation's commerce moves efficiently.

Freight rail is one of the most capital intensive industries in the U.S. that frequently hinders railroads from receiving private sources of capital needed to expand the network. The Association of American Railroads estimates that Class I railroads spend almost forty cents on every dollar of revenue to meet capital costs making the industry one of the most capital intensive

in the nation. These very high capital costs reduce the return on equity below that demanded by capital markets.

TWC supports policies that would help increase this return on equity enabling Class I railroads to gain access to private capital to expand the freight rail network and meet the demands of all freight rail customers. TWC, along with other industry stakeholders, urges members of Congress to support HR 2116 that would provide a twenty-five percent tax credit to investors in freight rail expansion projects. This tax credit would offset high capital costs and help improve the return on equity demanded by capital markets.

Rather than endorse policies to expand freight rail infrastructure for all rail users, a certain segment of rail customers are urging Congress to mandate certain regulations on freight rail operations in order to ensure that rates are capped and minimum service is guaranteed only on the routes that serve their interests. In fact, this segment of rail shippers claims to speak on behalf of all rail customers in urging support of these mandates as a necessary measure to promote economic growth.

TWC, along with a growing group of other rail customers, does not support this policy. Proposed re-regulation of the rail industry that only serves one segment of users could force Class I railroads to raise rates and reduce service for all other rail users just to meet these mandates. Furthermore, re-regulation will do very little to address the underlying cause of concern, namely expanding rail capacity. As a solution to this problem of under-capacity, we ask Congress to consider policies, such as investment tax credits outlined in HR 2116, that help Class I railroads expand the current network of track, railyards and equipment that serve all customers not just a certain segment of users.

In closing, TWC thanks the Committee for holding these hearings on freight rail service. If you have any questions about TWC or its positions on these issues please contact Ezra Finkin, Legislative Director at (202) 861-0825 or ezra@portmod.org

Sincerely,

Ezra Finkin
Legislative Director
The Waterfront Coalition