

Michigan RAIL UPDATE



A publication of the Michigan Railroads Association

FALL 2010

Proposed Federal Railroad Regulations Would Harm The Rail Freight Industry

The Staggers Rail Act of 1980: An American Success Story

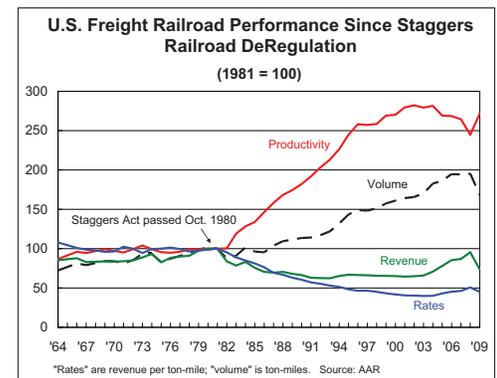
- By the 1970s, decades of over-regulation had brought America's freight railroads to the brink of ruin. More than 20 percent of rail mileage was owned by bankrupt railroads, safety was deteriorating, and rail tracks and equipment were literally falling apart because railroads couldn't afford the repairs. Railroads were prevented from providing the efficient, cost-effective rail service that America needed.
- Recognizing the need for change, Congress passed the Staggers Rail Act of 1980, which established a more responsible regulatory environment for the rail industry.
- The facts show that the **balanced regulation of Staggers works**. Since it was passed:
 - ✓ Average inflation-adjusted rail rates are down **55 percent**. That means the average shipper can move **twice as much freight for the same price** as it paid more than 25 years ago. Lower

rail shipping costs have saved American consumers hundreds of billions of dollars.

- ✓ Railroads are much safer. In fact, **2009 was the safest year ever for railroads**. From 1980 to 2009, railroads reduced their train accident rate by 75 percent and their employee injury and illness rate by 82 percent.
- ✓ Freight railroads reinvested **\$460 billion** back into their operations, creating a national network that is **second to none worldwide**.
- Under Staggers, regulators retained authority to **protect shippers** against unrea-

sonable railroad conduct. **Regulators still have this authority today**. This ensures

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"We vehemently disagree that there is a need to roll back the successes achieved since the 1980 Staggers Act. The vision held by Congressional Democrats and President Carter 30 years ago—allowing railroads to succeed or fail in the marketplace—has resulted in railroads becoming a true American success story. Imposing new Washington regulations will undermine railroads' ability to sustain the private investments in the nation's rail network that provides hundreds of thousands of American jobs, and the foundation for both freight and passenger rail."

Statement by Ed Hamberger, President and CEO of the Association of American Railroads, in response to a U.S. Senate Commerce Committee staff report outlining the potential need to regulate rates of the freight railroads.

Railroad Industry Offers Career Opportunities



From the President
Robert
Chaprnka

The railroad industry is in need of qualified workers. Locomotive engineers, car men and women, conductors, track workers, as well as highly skilled technicians are needed for today's technologically advanced railroad industry. Railroad personnel help operate some of the largest computer and private telecommunication systems in the world. As the economy begins to get back on track, freight demand is expected to jump over 50% in the next 20 years, creating a demand for thousands of new workers. The rail

industry offers stability with excellent opportunities for a long-term career path and competitive salaries.

Employees from the large railroad companies earn an annual average salary of over \$60,000. Locomotive engineers earn an average of \$75,000 per year, conductors earn an average of \$67,000 and locomotive and freight car maintenance workers typically earn \$48,000. On top of high salaries, employees receive annual benefit packages averaging nearly \$23,000.

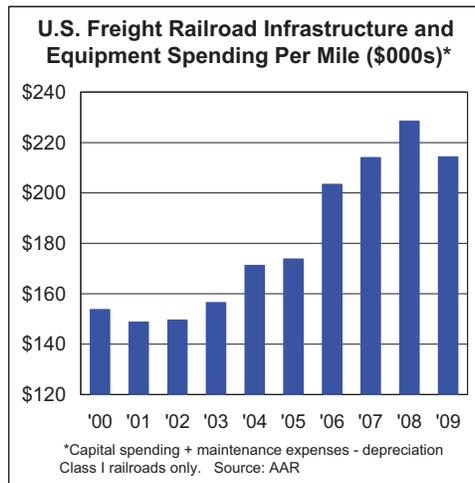
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that freight rail is fair and competitive, and that railroads are held accountable for their actions.

- In the words of the World Bank’s top expert on railroads, “Because of a market-based approach involving minimal government intervention, today’s U.S. freight railroads add up to a network that, comparing the total cost to shippers and taxpayers, gives the world’s most cost effective rail freight service.”

Why Keep Staggers?

- Some rail shippers support legislation that would reverse the Staggers Act and reimpose excessive and counterproductive regulation on railroads.
- Trucks, airlines, and barges operate over highways, airways, and waterways that the government provides. By contrast, America’s freight railroads pay nearly all of the costs of their tracks, bridges, and tunnels themselves. To keep their existing networks in top condition and to build the new rail capacity that America will need in the years ahead, railroads must be able to earn enough to pay for it.
- New heavy-handed regulation would send railroads down the wrong track — away from financial sustainability. It would force railroads to lower their rates to certain favored shippers to below-market levels at the expense of other shippers, rail employees, and the public at large. **Several billion dollars** in rail revenue could be lost each year.
- Going back to an unbalanced regulatory environment would artificially cut rail earnings and **harm railroads’ ability to reinvest in their networks**. It would mean less new rail capacity and less reliable rail service. Freight that otherwise would move by rail would move on the highways instead — meaning more highway gridlock, more greenhouse gas emissions, and,

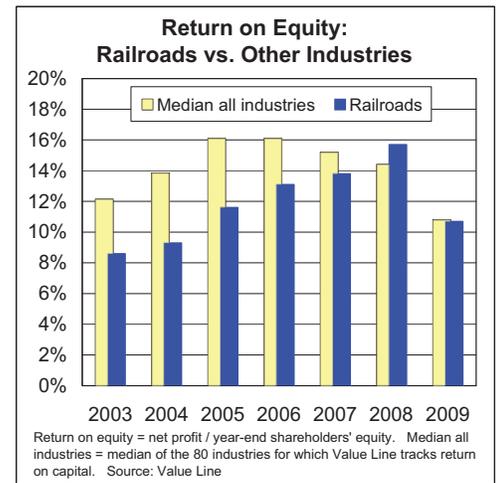


ultimately, **higher costs for the general public.**

- Conversely, keeping Staggers intact will ensure that the tremendous successes of balanced railroad regulation will continue into the future.

Railroads Operate in a Highly Competitive Environment

- Those who want to over-regulate railroads say that if a shipper is served by a single railroad, that railroad has unconstrained market power. That’s wrong. In the long run, two railroads can serve the same shipper only when there is sufficient demand to sustain two railroads. Otherwise, one railroad eventually fails. That’s why most shippers have always been served by just one railroad. Claiming that every shipper should be served by two railroads just because some shippers are is like saying that every city should have two major league baseball teams just because Chicago and New York do.
- The fact is, whether it’s competition between two or more railroads, competition from trucks and barges, or the influence of other competitive forces, freight railroads



operate in a highly competitive environment. Moreover, regulatory safeguards **protect shippers** from unreasonable rail behavior.

- Supporters of over-regulation say that what they want is consistent with the intent of the Staggers Act. But Staggers was about getting the government out of the business of running railroads. Supporters of more regulation are really proposing to put Washington **back in control** of railroads — the **opposite** of what Staggers was all about.
- In recent years, rail industry profitability has improved — and railroads have responded by **reinvesting record amounts** back into their systems, helping to ensure that America has railroads that work. Even after recent improvements, though, rail industry profitability has still typically been lower than average compared to other industries.

Staggers: Backed by the Facts

- In September 2007, the Surface Transportation Board (the federal agency that oversees rail rates and service) sponsored an independent study to examine the com-

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Railroad work is often physically demanding. Much of it must be performed outside in all types of weather and with 24/7 schedules that cover the entire United States, Canada and Mexico.

With railroad retirements on the rise, opportunities within the industry are available. The Railroad Retirement Board Jobs Page (www.rrb.gov/PandS/Jobs/rrjobs.asp) is an excellent resource for job openings in the railroad industry. America’s Job Bank (www.ajb.dni.us/) is another. Railroads frequently conduct recruitment and orientation sessions in conjunction

with state and local community job fairs and recruit heavily at colleges and universities across the country.

As the nation emerges from the recession, large and small railroads alike are beginning to hire new workers. Hiring is expected to accelerate as over 50% of the rail workforce will retire within the next eight years. For more information regarding large railroads see www.aar.org or www.aslrra.org for short line railroads.

MOVING MICHIGAN

CSX Transportation

Michigan Headquarters: Livonia, Michigan
Michigan Payroll: \$40 million
Michigan Employees: 550
Michigan Track Miles: 570
Michigan Major Commodities: Consumer goods, coal, grain, autos, iron, steel & chemicals
Michigan Government Relations Rep: Thomas Drake (810) 229-7250



Introducing CSX: The Largest Freight Railroad in the Eastern U.S.

Overview

CSX provides a crucial link to the transportation supply chain through its approximately 21,000 route-mile rail network, which serves major population centers in 23 U.S. states east of the Mississippi River, the District of Columbia, and the Canadian provinces of Ontario and Quebec. The company serves 70 ocean, river and lake ports along the Atlantic and Gulf of Mexico coasts, the Mississippi River, the Great Lakes and the St. Lawrence Seaway. CSX also connects to more than 240 short-line and regional railroads.

CSX's service area covers the territory in which more than two-thirds of Americans live and about three quarters of the nation's consumption occurs. Through strategic alliances with other railroads, CSX's reach extends across North America.



*Micheal J. Ward
Chairman, President &
Chief Executive Officer*

CSX in Michigan

CSX has a significant presence in Michigan, with approximately 570 miles of track over which about 316,000 rail carloads of freight move each year. Nearly every consumer product used by American households moves on CSX lines, including coal, grain, iron, steel, cars and trucks.

Several Michigan cities are hosts to CSX facilities. These include major rail yards in Detroit and Grand Rapids (Wyoming); an intermodal

terminal in Detroit; and TRANSFLO (rail-to-truck loading) facilities in Detroit, Grand Rapids, Wixom and Melvindale. CSX automotive distribution centers are in Flint and New Boston. CSX invested more than \$17 million in its network in Michigan in 2009. About 550 people were employed by CSX in Michigan at the end of 2009, and the company reported more than \$40 million in compensation for employees, past and present, in Michigan.

Across the CSX Network

CSX's lines of business generated \$9.6 billion of revenue during 2009 and served four primary lines of business:

- The merchandise business is the most diverse market with nearly 2.5 million



carloads per year (2009) of crushed stone, sand, gravel, metal, phosphate, fertilizer, food, consumer, agricultural, paper and chemical products. This line of business constitutes approximately 36 percent of freight volume.

- The coal, coke and iron ore business delivered approximately 1.9 million carloads to electricity generating power plants, ocean, river and lake piers and terminals, steel makers and industrial plants. It constituted about 27 percent of freight volume in 2009.
- The automotive business, which delivers finished vehicles and auto parts, gener-



Automobiles being loaded on a tri-level automobile carrier at CSX's auto distribution center in New Boston, Michigan. Automobiles at this distribution center will be shipped to locations throughout the United States.

ated about four percent of the company's volume in 2009. CSX delivers about 30 percent of North America's light vehicles, serving both traditional manufacturers and an increasing number of global manufacturers.

- CSX's intermodal business includes a network of more than 50 terminals handling primarily consumer goods in containers. CSX is active in terminal projects along the U.S.'s Atlantic Coast and Gulf ports to expand its capacity and rail infrastructure in support of international trade. In 2009, intermodal accounted for about 33 percent of the company's volume.

Automobile Trade

CSX's automotive portfolio is evolving, reflecting the changing automotive market. Its portfolio is comprised of traditional domestic, European and Asian manufacturers, along with its continued support of "new domestic" auto lines.

Today, in addition to its longstanding relationships with traditional domestic manufacturers Chrysler, Ford, and General Motors, the CSX Auto team has cultivated and nurtured relationships with "new domestics" including Honda, Nissan, Toyota, Mercedes-Benz, Kia, Subaru, Mazda, VW and Hyundai. To do so, with its supply chain partners, CSX reaches a wide network of traditional assembly plants, ports and satellite vehicle loading and unloading distribution centers. CSX's reach is expansive and stretches beyond its own infrastructure, connecting with other Class I rail service providers and short-line railroads,

virtually providing connectivity throughout all of North America.

An integral component of the CSX Automotive Network is its New Boston, Mich., auto distribution terminal. It provides service to the Detroit 3 automakers, affording them efficient, cost-effective access to markets throughout North America.

"CSX creates value for customers by providing a network of auto distribution centers targeted at major metropolitan consumption markets, cutting-edge inventory and facility management technology, as well as multi-level and specialty car equipment," said Andy Strok, CSX assistant vice president-Automotive.

Investing in Critical Infrastructure

CSX is committed to maintaining a safe and efficient network to meet customer needs through strategic investments. Between 2007 and 2009, CSX invested nearly \$5 billion, including \$1.6 billion in 2009, to maintain and expand its vital infrastructure to improve customer service, create greater efficiencies and prepare the company to effectively manage projected growth. It plans to invest \$1.7 billion in 2010.

As part of that commitment, CSX is a founding member of the National Gateway, which is a public-private partnership whose goal is to provide higher clearances under bridges and through tunnels for trains to move double-stack containers between the deepwater ports on the East Coast and manufacturing and distribution centers in the Midwest.

The National Gateway program benefits will include lower carbon dioxide emissions, lower

shipping costs for businesses, reduced fuel consumption and reduced congestion on the nation's highways.

Energy and the Environment

Freight rail is widely recognized in the U.S. as providing the most environmentally friendly and energy-efficient mode of surface transportation. Trains can move a ton of freight nearly 500 miles on a single gallon of fuel. Freight rail possesses the unique ability to reduce highway gridlock, fuel consumption, greenhouse gas emissions and pollution.

CSX was the first transportation company to set a voluntary greenhouse gas reduction goal, pledging to reduce its greenhouse gas emissions intensity 8 percent by 2011. In September 2010, CSX was recognized as a Top 10 company in the Carbon Disclosure Project's 2010 S&P 500 Report, the highest score for an industrial company.

CSX's policies are promoting rapid and widespread research, development, deployment and commercialization of innovative, advanced clean coal and other energy technologies vital to the success of air quality and energy policy.

Summary

CSX's goal is to provide safe, efficient, competitive transportation and related services to customers, both domestic and international. CSX has enormous confidence in the role that railroads will play in bringing solutions to some of the U.S.'s most critical problems by offering the most efficient and environmentally friendly mode of surface transportation.

Michigan Operation Lifesaver News

Michigan Operation Lifesaver is a volunteer-based statewide organization established to combat the growing number of highway-rail grade crossing crashes. Michigan OL volunteers meet quarterly to discuss and plan OL activities. A major focus of Michigan OL is to facilitate grade crossing safety presentations by trained volunteer presenters to various groups throughout the state.

Listed below are a few of the latest OL activities, as well as guest speakers, awards and promotions made at the last two Michigan OL meetings:

- ✓ Twenty new OL presenters have been trained as presenters at classes in Durand and Grand Rapids with an additional class scheduled for Detroit later this year.



**OPERATION
LIFESAVER®**
Look, Listen & Live

- ✓ Special awards were made to two presenters for outstanding achievements:
 - Curtis Stewart of Lansing
 - Don Westcott of Flint
- ✓ Recent guest speakers making presentations at Michigan OL quarterly meetings in Durand were:
 - Neil Ferrone, Director of Conrail Risk Management, Philadelphia, PA
 - Terrence Jungel, Executive Director of Michigan Sheriffs' Assn., Lansing, MI
 - David Sprangle, Assistant Chief of Police CN Railroad, Homewood, IL
- ✓ Dave Cornelius of Holly was named Assistant Operation Lifesaver State Coordinator.

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Department of Transportation Developing State Rail Plan

The Michigan Department of Transportation (MDOT) has initiated the development of a State Rail Plan in response to a federal requirement in the Passenger Rail Investment and Improvement Act of 2008 (Public Law 110-432). The law also established new federal funding programs for passenger rail services, including High Speed Rail. Michigan has made significant investments to its passenger rail system and is committed to improve services on the federally-designated high speed rail corridor between Chicago and Detroit/Pontiac. MDOT anticipates applying for additional federal funds in mid-2011 which will require a State Rail Plan to be in place.



tion of public financing issues; a review of major passenger and freight intermodal connections and facilities; and a performance evaluation of passenger rail services.

Additional MDOT requirements of the Plan include an identification of rail-dependent commodities and industries; trends in industry and freight shipping patterns that affect rail transportation; an identification

of essential rail corridors and bottlenecks; a determination of rail lines at risk for future abandonment; and an identification of the public benefits of the rail system and public investments made. Extensive use will be made of existing MDOT data. The Plan will be closely coordinated with the State Long Range Plan.

Significant outreach will occur with rail stakeholders (including the railroads, shippers, passenger interest groups, MDOT, local agencies, etc.) and the general public. A first round of public hearings were held this past September in Negaunee, Traverse City, Detroit and Grand Rapids providing information about the study and collecting comments from the public. A second round of public meetings will be held in April 2011 to present a draft of the State Rail Plan.

MDOT also has established a website (www.michigan.gov/mirailplan) that has information about the State Rail Plan and allows comments to be submitted electronically.

The State Rail Plan will set forth state policy involving freight and passenger rail transportation, including commuter rail operations.

The consulting firm HNTB Michigan Inc. has been selected to undertake development of the State Rail Plan. A contract was executed on May 19th and the Plan will be completed in approximately twelve months.

The Plan will set forth state policy involving freight and passenger rail transportation, including commuter rail operations. The Plan will present priorities and strategies to enhance or preserve rail service that benefits the public, and will serve as the basis for federal and state rail investments within Michigan.

Federally-required components of the Plan include an inventory of the rail transportation system, services, and facilities; an analysis of rail's transportation, economic, and environmental impacts; a long-range investment program for freight and passenger rail infrastructure, a descrip-

MDOT has set up www.michigan.gov/mirailplan to give all interested parties the opportunity to stay informed about the plan. Information presented at the public meetings will be posted on the Web page. Individuals may also submit comments directly on the Web page.

(Michigan Operation Lifesaver News continued from page 4.)

- ✓ Rahn Stokes of Jackson has created a new web site for Michigan OL (www.mi-ol.org)
- ✓ Michigan OL has joined WMCPA (West Michigan Crime Prevention Association) in an attempt to reduce trespasser violations.
- ✓ The following received recognition plaques for their "special contributions" to the goals of Michigan OL:
 - Mike Reed, Iosco County
 - Judy George (in memory of James George), Lake State and Saginaw Bay Southern Railroads
 - Allen McGregor, Sheriff, Iosco County
 - Mary Fischer, in memory of her husband former Iosco County Sheriff
 - Peter Munoz, Col. Michigan State Police (now U.S. Marshall)
 - Creig Grey, District Law Supervisor, Michigan Department of Natural Resources
 - Terrence Jungel, Executive Director Michigan Sheriffs' Association
 - Thomas Hendrickson, Executive Director Michigan Association of Chiefs of Police

- ✓ This past September 20th a magistrate in Bay County rode a Huron & Eastern Railroad train observing traffic violations occurring at highway/railroad crossings.
- ✓ This past September 30th police officers wrote citations to motorists violating highway/railroad grade crossing laws at grade crossings along the Pontiac-Detroit-Ann Arbor portion of the Amtrak line, an area where crossing violations are prevalent. The citations were made in conjunction with an OL sponsored trooper-on-the-train exercise where police officers on a locomotive radio violations to police chase cars near the grade crossings.

The next quarterly Michigan OL meeting is scheduled for Friday, February 4, 2011 at the historic Durand Union Station, Durand, MI. Contact Sam Crawl (samcrawl@comcast.net or 248 823-7037), Michigan OL State Coordinator, if you would like to be placed on the Michigan OL meeting notification list.

petitive state of the America's freight rail industry. The study, released in November 2008 an updated in January 2010, concluded that restoring the excessive regulation of the past would harm both railroads and shippers. Among the study's findings:

✓ "There is little room to provide significant rate relief to certain groups of

shippers without requiring increases in rates for other shippers or threatening railroad financial viability."

✓ "Although the railroad industry's earnings have increased in recent years, earnings do not appear to be excessive...."

✓ "The overall assessment is that the [rail] industry has not used its pricing power to achieve excess profits."

✓ "The increase in railroad rates experienced in recent years is the result of declining productivity growth and increased costs rather than the increased exercise of market power."

Michigan Rail Update is a publication of Michigan Railroads Association, 120 N. Washington Square, Suite 601, Lansing, Michigan 48933. President: Robert J. Chapmka. Phone (517) 482-9413. Members of the Michigan Railroads Association are Ann Arbor Railroad, CN Railroad, Consolidated Rail Corp. (Conrail), CP Rail System, CSX Transportation, Escanaba & Lake Superior Railroad Co., Grand Elk Railroad, Grand Rapids Eastern Railroad Co., Great Lakes Central Railroad, Huron & Eastern Railway Co., Lake State Railway, Lake Superior & Ishpeming Railroad Co., Marquette Rail, Michigan Shore Railroad Co., Mid-Michigan Railroad Co., Norfolk Southern Corp. Saginaw Bay Southern Railroad.

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