

**Testimony of
The Transportation, Elevator, and Grain Merchants Association**

**On
The Impact, Effectiveness and Future of
The Staggers Rail Act of 1980**

**Before the Surface Transportation Board
Department of Transportation**

October 19, 2005

Mr. Chairman and Members of the Board:

Good morning. My name is Chuck Elsea and I am Senior Vice-President and Division General Manager of the Flour Mill Markets Division of Scoular Company. My office is in Salina, Kansas. I am also president of the Transportation, Elevator, and Grain Merchants Association (TEGMA) on whose behalf I appear before you this morning. TEGMA is a North American trade association that brings together railroads, global grain companies, shippers and receivers, ports, storage houses, inspection agencies and others involved in the shipment of North American grain to customers all over the world. TEGMA's mix of membership provides it with a unique perspective on grain handling and transportation. We have shared our expertise with you in the past and we welcome the opportunity to do so again today.

As an overview of our testimony, TEGMA believes that the market-oriented approach of the Harley O. Staggers Rail Act of 1980 (Staggers Act) has transformed the railroad industry and resulted in dramatic improvements that benefit the industry, its customers, and U.S. global competitiveness. Since 1980, the railroad industry has experienced an effective decline in rates, improved infrastructure, increased freight market share, and increased volume and productivity. As we look ahead, TEGMA supports the continuation of the market-oriented approach of the Staggers Act, while recognizing that there are opportunities for improvement.

After signing the Staggers Act, President Carter claimed it would "initiate a new era of . . . increased productivity and operating efficiencies." He also recognized at the time that the most significant challenge facing the industry would be "to improve a deteriorating physical infrastructure." Twenty-five years later, we have seen railroad productivity increase 172 percent. Inflation-adjusted rail rates have declined 60 percent while rail traffic volume has increased 81 percent. Meanwhile, Class I railroads have invested more than \$340 billion in their privately-owned networks since 1980. President Carter's vision for the industry is being realized and the benefits are improving the bottom line for rail customers and keeping the US competitive in global markets.

Reasonable Freight Charges

Today, you will hear from a number of sectors served by the railroads, but I am best positioned to speak about the impact of the Staggers Act on agriculture. Agricultural markets are not unlike other markets. They are competitive, dynamic and global in nature. An important component in maintaining a competitive position for US agricultural producers is a continuation of reasonable freight charges for delivery of products. US producers face stiff competition from other countries that have lower production costs; however, an efficient, economical transportation and handling industry has kept American farmers competitive in world markets. It is my sense that as they relate to agriculture, transportation costs have remained close to the prices charged in 1980, with increases in rates seen only in the last couple of years. When you factor in inflation, this represents significant savings, and the greatest beneficiaries have been the American farmer and consumers worldwide. These economies are the direct result of gains in efficiencies due to investment in transportation and handling infrastructure by both railroads and handlers of agricultural products.

Competing for Capacity

Each fall, TEGMA hosts a transportation symposium to discuss transportation issues facing the grain industry at fall harvest, and every year the railroads report increased demand for their services as other markets call for more and more freight to be carried by rail. Agriculture must compete with these other markets for transportation capacity. As grain producers continue to realize rapid gains in efficiency, they rely on the transportation industry to keep up and that requires investment. For railroads to manage volume increases and improve velocity, they need to continue to have the ability to invest in resources, such as hopper cars, locomotives, and track. It is critical that government policy continue to promote the level of investment in railroad infrastructure that we have seen over the last twenty-five years in order for the growing freight needs of our nation in general and agriculture, in particular, to be met.

Investment in Infrastructure

It is clear then, that as we look ahead, rail carriers will need access to capital for further investment in infrastructure maintenance and expansion. In order for the railroads to attract investors, they must be able to show competitive rates of return. While we have seen calls for “reregulation” of the railroads over the last few years, TEGMA strongly believes that such legislation risks the kind of infrastructure investment that has helped keep our industry competitive. By forcing freight rates lower or forcing inefficient operational practices, reregulation could restrict earnings which would severely limit the railroads’ ability to invest in infrastructure. If this investment is curtailed, it is likely that US rail carriers will not be able to keep up with the demands placed upon them by the US economy and our agricultural producers will lose their competitive place in the global market.

Maintaining a Modern Business Model

Rail transportation, like other markets, must maintain a modern business model. Over time, those that rely on the railroad network will be required to make investments that allow both the shipper and the carrier to be more efficient. The Staggers Act gave the railroad industry the pricing flexibility it needed to reward improved productivity. In return, the shippers and receivers in the agricultural industry have made substantial investments to support transportation efficiency. Today, an efficient shipper receives a lower rate than a less efficient shipper, which is good for both shippers and carriers. This is an example of how shippers and receivers can work with rail carriers to find market-based solutions that move the industry toward more productive operation.

Opportunities for Improvement

As I have outlined, the overall impact of the Staggers Act has been positive. However, while it has resulted in improvements for the industry, it has not, and cannot, solve all the problems. One issue that TEGMA is working on is fuel surcharge. While, we do not dispute the right of railroads to utilize a fuel surcharge to offset rising fuel costs, TEGMA supports the development of a market-based tool that allows railroad customers to hedge the financial risk associated with fuel prices.

Establishing a system that allows small shippers to economically challenge the fairness of rail rates is another issue faced by rail shippers. TEGMA has voiced its support for streamlining the rate case process at the STB. We believe the STB should be given an opportunity to exercise the new guidelines in a substantive case before other remedies are pursued.

Another concern involves resource allocation and utilization. To remain competitive, the grain industry continually works to improve efficiency; but if we cannot move our grain to market because rail resources are not available, those gains in efficiency are lost. We would welcome an expanded commitment of resources to agriculture by rail carriers as they continue to work to improve their performance and create capacity through better system velocity and infrastructure additions. As I previously stated, this will require continued investment in track, rolling stock, and personnel on the part of US railroads.

Conclusion

In conclusion, Mr. Chairman, we compliment you and the other Board members for your efforts and your attention to this important topic. While there are a number of challenges still facing the railroad industry, it is important to recognize that many of these challenges are not the result of the Staggers Act. In fact, the Staggers Act has served to prevent many other problems through the resulting investment made by railroads and industry as a result of the Act. We look forward to working with you to continue to push the industry toward ever more efficient and productive operation.