Question & Answer

"The Need to Move More Freight Will Grow"

An Interview with Dan Keen of the Association of American Railroads

DAN KEEN

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The freight rail industry has been enjoying a resurgence since the Great Recession. Over a longer time horizon, the industry's fortunes have improved markedly since it endured a crisis during the 1960s and 1970s. Dan Keen, assistant vice president of policy analysis for the Association of American Railroads, closely tracks business on the rails. Keen produces papers and testimony on freight railroad economic and policy issues and compiles extensive data on rail financial and operational matters. He is also responsible for *Rail Time Indicators*, a monthly publication that combines rail traffic data with current economic information.

EconSouth: *How would you describe the overall state of the freight rail industry?*
Dan Keen: The industry is in a good position. In recent years, railroads have been reinvesting record amounts back into their systems, including more than $25 billion in both 2012 and 2013 and at least that much again this year. The result is a physical plant that is in better overall condition than ever before.

Rail traffic is trending higher, too. Rail intermodal—shipping containers and truck trailers moving on rail cars—is setting new records this year, and rail traffic for a wide variety of other commodities—including steel, grain, lumber, petroleum products, and construction products—is up as well.

And railroads have been very successful in developing and implementing new technologies that improve safety and enhance productivity. The list is long, but just two examples are improved defect detector systems that use advanced electronic and optical instruments to inspect track and rolling stock. The goal is to catch potential problems before they occur, and sophisticated trip-planning software that optimizes how and when rail cars are assembled to form trains, when those trains depart, and how they are sequenced across the railroad.

To be sure, railroads also face serious challenges. Above all, railroads need to continually demonstrate the importance of the safety of their employees, their customers, and the communities in which they operate. It's also important that policymakers in Washington and elsewhere remember that, unlike other modes of freight transportation, railroads operate almost exclusively on infrastructure that they own, build, maintain, and pay for themselves. Railroads need to be able to earn enough to pay for all the things needed to keep their networks functioning now and growing in the future.

ES: *One of the major opportunities for freight rail is converting more truck cargo to train cargo. What are the keys to making that happen?*
Keen: Truck conversions happen when railroads are able to convince customers that they can provide a better combination of price and service than trucks

can provide. Recently, railroads have been doing a good enough job of this to convince a number of trucking firms that they can also provide their customers the best value by using rail intermodal

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service. These results can only happen if railroads have sufficient line haul and terminal capacity to keep trains moving and to avoid congestion or delay, and if rail operations are sufficiently reliable and efficient. This helps explain why railroads have been reinvesting so much back into their systems in recent years and why railroads put enormous effort into finding big and little ways to get the bugs out so that their operations are as problem-free as possible.

ES: *Freight rail is a heavily capital-intensive business, and railroads have made record levels of capital investments in recent years. Why? And are railroads likely to continue to invest in their infrastructure at or near record levels?*
Keen: America's demand for safe, affordable, and environmentally responsible freight transportation will grow in the years ahead, and railroads simply want to be ready.

No one disputes that trucks are indispensable to our economy and will remain so long into the future. That said, because of the enormous costs involved in building new highways, as well as environmental and land-use concerns, it's highly unlikely that sufficient highway capacity can be built to handle expected future growth in freight transportation demand. As it is, during the past 30 years, highway traffic volume growth has far eclipsed growth in highway lane-miles, and there's no good reason to think that will change in the years ahead. Fortunately, freight rail represents a viable and socially beneficial alternative.

Railroads will continue to reinvest huge amounts of their own funds back into their systems as long as they operate under a regulatory structure that allows that to happen.

ES: *It's well established that the freight rail business is closely linked to the health of the overall economy. Are there ways the industry and individual firms try to be less cyclical? Or is the cyclicality, for better or worse, something the industry really can't change?*
Keen: For many of the commodities railroads haul, cyclicality is simply a fact of life. Demand for rail service occurs as a result of demand elsewhere in the economy for the products that railroads haul, so if people and businesses are not buying and building things, then railroads are not hauling them. That's not going to change. That said, there is always a large amount of "churn" in a railroad's portfolio of business, so they are constantly searching for new opportunities.

And, of course, a lot of rail traffic isn't terribly cyclical. For example, poultry farms in the Southeast will always need a lot of grain for feed, and ports in the Southeast and elsewhere will always need exports delivered to them and imports moved from them inland. So cyclicality is mixed for railroads.

ES: *To what extent do fuel efficiency and other "green" factors such as lessening highway traffic congestion help railroads secure business?*
Keen: For a growing number of firms, "going green" isn't just an empty slogan. It's become a real, significant part of their corporate culture. And more and more, they're recognizing that the environmental advantages of rail are real and significant, too. On average, moving goods by rail is about four times more fuel efficient than moving them by truck, reducing greenhouse gas emissions by 75 percent. That's appealing to many firms, as is the realization that a single freight train can replace several hundred trucks.

Of course, railroads' environmental advantages can only get them so far. They also have to offer competitive prices and service levels, and they work hard every day to do that.

ES: *What are two or three of the biggest reasons freight rail will continue to flourish?*
Keen: First, as noted, as America's economy and population grow, the need to move more freight will grow, too. Recent forecasts from the Federal Highway Administration found that total U.S. freight shipments will rise from an estimated 19.7 billion tons in 2012 to 22.1 billion tons in 2020 and 25.1 billion tons in 2030. Some of this freight will move by truck or barge, but railroads will be the mode of choice for much of it as well.

Second, as I noted earlier, shippers choose to move their freight on railroads only if the value that railroads offer, in terms of cost and service, is superior to the alternatives. Rail employees today, from upper management all the way down the line, are acutely aware of this fact and know that a customer-first mentality is a necessity.

Third, railroads will benefit from headwinds faced by other transportation modes. For example, the days of cheap fuel are probably gone forever. Since railroads are much more fuel efficient than trucks, that's a competitive advantage for rail. Continuing truck driver shortages and highway congestion are other issues that are helping push more freight to rail. ∎

This interview was conducted by Charles Davidson, a staff writer for EconSouth.