MICHAEL SUSSMAN

Revitalizing direct rail service

North America has yet to achieve the full extent of the railroads' potential contribution to the economy, environment, and land use. In spite of the good work of railroad developers, investors, and staff, as well as public sector support, railroads remain somewhat underutilized for moving goods and people.

Our freight rail system is already so robust that it is easy to miss the possibility of a continental surge in capacity and reach. But railroads are energy-, capital-, and space-efficient, and these benefits are key to our future. It is time to get working on the rail system that a growing, modern society ultimately needs to be successful and sustainable.

We can rally all stakeholders, including citizens, around a public-private growth strategy for rail transportation. But we have to start by making it safe to speak to the truth of the matter.

An important part of that truth is that, for North America to succeed economically and environmentally, it must reverse the ongoing decrease in direct rail service, the under-the-radar flipside of the burgeoning drive toward intermodal freight and unit-train logistics.

This decline in direct rail service takes many forms. From our vantage point in rail finance, we have seen the wide-ranging manifestations of this trend. Million-square-foot Walmart warehouses are built truck-in and truck-out. Ethanol facilities in Iowa, built to ship by rail, instead ship product in trucks over rural roads to unit-train loading facilities.

From eastern Washington wheat to Nebraska corn, shippers are offered volume discounts to truck product to distant mega-loading facilities. Ironically, the market for shifting freight movements from truck to intermodal shrinks as the total truck drayage relative to the rail portion increases to reach locations that do not have, or use, direct rail service.

The overarching drive toward larger shipments detracts from an efficient freight system that includes a robust network of branch rail lines. In a modern society, all regions, cities, and towns need rail lines to serve increasing population and freight demand. Yet, just since 2005, we have lost 3,500 miles of our rail system in the U.S., with thousands more miles endangered. More than 80% of U.S. towns are now served by truck only. We are moving toward less transportation efficiency, not more.

> North America must reverse the decrease in direct rail service.

Freight is transported on trucks over local roads and bridges that states and counties are hard-pressed to maintain, instead of on privately owned and maintained rail lines. Since truck shipments use two to five times more fuel than rail, the impact on the environment and our economy is wasteful and unsustainable.

Yet 90% of the potatoes shipping from southern Colorado are shipped by truck rather than rail, in spite of a 1,000-mile length of haul. Inbound materials to all Ford factories are delivered 58% by truck and 22% by rail. ArcelorMittal ships 55% of its outbound steel from 20 plants by truck. The myth is that trucks only move lighter-weight, higher-value consumer goods. Meanwhile, only 6% of aggregates move by rail.

As Philadelphia Eagles quarterback Nick Foles says, "We can fix our mistakes." There is little to be gained from blaming shippers, transportation providers, or policy makers. But the time has come to address the detrimental impact of otherwise earnest individuals aiming to succeed in a marketplace that externalizes the costs to the environment, safety, congestion, and quality of life. Building a sustainable economy and environment starts with a marketplace that prices transportation services correctly by including all costs. Why delay?

As important as trucks are, we are relying on them much more than is healthy for the environment or the economy. Rail market share by tonnage in most states trails truck market share by 50%-90%. In Florida, for instance, freight rail tonnage in 2011 was 9% of the market share for trucking. Given the energy, capital, and space efficiencies of rail transportation, it is time to invest more in rail capacity.

Not that more money alone is the answer. Government rarely has enough capital to grow an industry, but it can "seed" private-sector capitalization. Producing real results takes whole-system investment strategies, thinking beyond typical public-private partnerships that, to date, have only focused on individual projects, not systems.

We can develop our infrastructure effectively and economically by instituting a comprehensive public-private sector action planning approach, rather than simply expecting that government funding or the marketplace will provide the answers. Intermodal can contribute to transport efficiency if we keep the whole system in mind. The current flood of public policy dilemmas requires this higher level of coordination, collaboration, and imagination. Unleashing the full potential of railroads is not about assigning, nor accepting, blame. As with many other challenges we face, the path to progress is built on our newfound capacity to work and think together.

Michael Sussman is President of Strategic Rail Finance and the founder of OnTrackNorthAmerica.