The Current Climate for Regional Railroads

Since deregulation the state of the railroad industry has improved, but its continued growth depends on the health of smaller regional carriers.

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The attitudes of, and relationships in, the railroad industry have increased in significance as a result of deregulation under the Staggers Act. In the last ten years, railroads have been able to price their services competitively, within the industry and within the total transportation network.

The Interstate Commerce Commission (ICC) has loosened regulatory constraints and prompted one of the greatest physical realignments of the railroad industry in its long history. Large Class I carriers (those carriers that have revenues in excess of $90 million per year), through a series of mergers, have become larger. Union Pacific absorbed the Missouri Pacific and more recently the Katie. Southern-Pacific and the Denver and Rio Grande Western railroads have combined. The Burlington Northern acquired the St. Louis and San Francisco; and the SOO line acquired the Milwaukee railroad. While the number of Class I carriers has decreased due to these mergers, the overall length of the Class I carriers has increased. Territorial expansion has enabled these carriers to serve more markets, which in a deregulated environment allows them to control more of the transportation pipeline. Concurrently, another phenomenon emerged in the formation of short line and regional carriers that feed into the larger Class I carriers. Since 1982, 197 regional carriers and short lines have been created consisting of 19,000 miles of track and employing some 6,400 people.

Before the formation of these feeder railroads, the normal course of events for unprofitable branch lines on large carriers was predictable and generally followed this course:

- Cut service from five days a week to three days a week then to two and then to one.
- Eliminate maintenance on the line.
- Eliminate marketing of the line.
- File for abandonment.

This four-step process has resulted in fewer branch lines and less business moving over a large carrier's mainlines. The emergence of short line and regional carriers has stemmed this deterioration within the railroad industry and has provided new growth.

This growth is analogous to that of an oak tree that requires a strong root system to provide water and nutrients from the soil. If rail branch lines are part of the root system and the regional economy is the soil, it is clearly apparent how that tall, sturdy oak tree is dependent on the system that supports it.

The Providence and Worcester Railroad is one such case study illustrating this process. The railroad was a marginal 45-mile railroad in 1973 with ten-mile-per-hour speed limits over much of the property. It has now become a 400-mile system with 40-mph freight train speeds that carries 25,000 carloads of freight a year. These carloads are interchanged with either Conrail, the Boston and Maine, or the Central Vermont railroads. If the Providence and Worcester Railroad had not reacquired its railroad in 1973 and additional trackage since then, most of the railroad's current 400 miles would have been abandoned by today, and the connecting carriers would not be sharing in the 25,000 carloads of revenue.

Large & Small Carriers: Developing a Mutually Beneficial Relationship

The relationship between large and small carriers has increased in significance over the last ten years because it makes sense for the larger railroads to look favorably on the short lines and regionals as contributors to their own growth instead of looking on them as competitors. Many of the nation's large railroads are moving in this direction, but there are some that view the regionals and short lines with disdain and attempt to keep every inch of track and every carload of freight on their systems, even if they cannot efficiently run it. Such an approach ultimately results in the loss of the trackage and, more importantly, the business that feeds a mainline system.

Once railroad tracks are abandoned and torn up they never return. The cry that there are too many railroad lines in this country and, more specifically, that there are too many branch lines has been raised over and over. However, the more roots a tree has feeding a trunk, the healthier the tree becomes and, so, the more traffic that a short line or regional can generate for a large carrier, the healthier they both become.

The nation's airline industry has had far greater vision than the railroad industry in utilizing and advancing the feeder line concept. Since their deregulation, airlines have been using what is known as the "hub and spoke" arrangement. Each major airline has a few hubs scattered throughout the country that are fed by feeder lines, or spokes. The major airlines actively market their services *in conjunction* with the feeder carriers — not in opposition to them. Frequent flier programs, ticketing, connecting schedules and through baggage handling are all integrated in the feeder and trunk line airlines' one-stop service. If trunk line railroads took a similar approach, they could greatly extend the reach of their marketing arm.

Over the last decade there has been a change in attitude among many who now recognize that regional rail systems, like the airlines' spokes, have inherent strengths that, when allowed to flourish, benefit the trunk line carriers, and the regions they serve. There is now little dispute that short lines and regionals offer efficient, lower cost terminal operations with the flexibility to tailor those services to customer requirements. That these companies are "local" enhances communication and understanding with customers and local officials. The small railroad can expand markets by exploring and pursuing leads that frequently are not of interest to a large trunk line carrier.

The benefits of stronger ties between trunk line carriers and the short lines and regionals should be obvious. Short lines throughout the country are developing innovative carrier programs and creating rail traffic where none previously existed. This new traffic is generally handled on at least one trunk line, sometimes even more and, thus, is contributing to the overall rail network.

Again, the airline comparison is made. It takes 400 or more people to fill up a 747, but at Portland, Maine, Manchester, New Hampshire, or Worcester, Massachusetts, there may be only 20 or 30 passengers. The feeder airline brings these passengers to the hub, where they merge with passengers from the hub and the other spokes. Thus, the plane becomes filled and the flight may even get oversold.

Labor Relations

Labor relations are as important as customer relations for the success of small regional lines. Short lines and regionals for the most part have constructive relationships with their workforce. Since they are small companies, each worker has the ability to see how his or her performance affects the company's performance; thus, the workers can understand how their future is related to the future of the company. Employees who share the goals and objectives of the company create opportunities for creative service; indeed, employees often suggest new business ideas or ways to improve service. A well-managed company will listen and respond; communication is a two-way street.

With regard to the labor market issue, large and small railroads should look to consolidate certain efforts. It is harder than ever to hire and train qualified mechanics and electricians. There is no reason for carriers to compete with each other in securing qualified workers in these areas. Instead, the carriers should seek to cooperate in job training and human resources development.

Technological Advancements

The railroad industry also has undergone technological changes as a result of the Staggers Act that have enhanced each carrier's business relationships with each other and with customers. Indeed, many operational, maintenance and even construction technologies were shelved prior to deregulation because the financial incentives were not in place to justify the front-end investment. However, with long term contracts, volume incentive contracts and improved ability to recapture traffic, railroads are investing in technological advances that have long-term payoffs in improved service, productivity and new business.

One example of this type of investment (and this again has its parallel in the airline industry) is electronic data interchange (EDI). The Providence and Worcester Railroad, starting in 1988, handled nearly 90 percent of its interchange with Conrail via EDI. Using such a system benefits the carriers and customers and improves the railroad's ability to expedite rail delivery schedules. EDI has further potential to enhance the customer's ability to interface directly with terminating roads via electronic transmissions, to allow the customers to enter their own waybills and release cars through the system. EDI will encourage shipper use of rail service by allowing the shipper more immediate access to decisions and planning.

Beyond technology, the advantages of the interdependence of the small regional carriers can help to improve service. It is not always enough for a feeder line to run more frequent trains. In many situations what is needed is more coordination with the trunk line schedules, cooperation on equipment availability, or the need for through service and pre-blocking. Customer demands for "just-in-time" transit options, for interchange schedules that ensure delivery to off-line destinations must be met. Smaller carriers should be able to talk among themselves and work together effectively to provide pre-blocking and car management that will really yield results — results first for the customers and then for the bottom line. The feeder lines and trunk lines must work together to see this type of cooperation through, to keep that traffic on the rails.

The Role of Politics

Another relationship has increased in significance since the Staggers Act. The role that politics plays in the daily operations of a regional carrier is not small. Be it labor relations, community affairs, or industrial development, no issue is faced without its political impacts. Companies have matured in their response, and the political community has also learned more about the railroads' needs and concerns in the past decade. Regional carriers must not fail to realize that they have an obligation as an industry to constantly educate and communicate their concerns to elected and appointed officials at every level of government.

For example, public attention should be focused on the fact that other transport modes continue to enjoy the largesse of a public policy that favors motor carriers with tax-supported rights of way, and the air and maritime systems with extraordinary support services at taxpayer expense. As railroad companies seek that level playing field that deregulation promises, they must continue to pursue equity in the tax and subsidy arena.

As an industry, and in concert with rail users, carriers must take the initiative to reinforce at town hall, city hall, the state house and theCongress the need for economic growth —

for the expansion of the economy. There is not one community in New England that would not benefit from economic growth — growth that is carefully charted and planned and that takes into account the invaluable benefit the existing rail system provides. New England's railroads should cooperate with public authorities in land use planning and development. There would be nothing wrong, for example, with a trunkline carrier land-banking and developing industrial property not only along its own right of way but also along the rights of way of connecting regional or short line carriers? Implementing such a policy would greatly increase the land available for rail-oriented industrial complexes — land that is rapidly escalating in value and that is being rezoned to commercial, or residential use. To preserve the health of the railroad business requires that carriers become active at the local level with town and regional planners, with communities and chambers of commerce. The railroad industry cannot afford to stand by and wait for things to happen. It must be a party to efforts to make things happen.

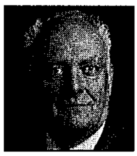
Conclusion

The post-Staggers era has most assuredly had its impact in New England, especially by the strengthening of the ability to provide a national and international freight system of service to customers. New England, however, does present special challenges to railroads. It is a small region; so truck diversion is an ever-present threat. It is a highly populated region, with strong and legitimate environmental concerns so that industrial developments take longer. It is a consuming rather than producing region, so that railroads need to adapt to ever changing flows of goods and technologies. The freedom created by the Staggers Act and the strength of the interrelationships among the smaller carriers in the region will help them to be a competitive force in the New England transportation marketplace.

However, the Staggers Act is not the end of the process. Rather, it is the beginning of a dynamic process that may well leave some companies behind. This process will leave behind those that fail to recognize that service means adapting to customer needs. It means developing unique and innovative ways to compete for new traffic or to serve existing customers. It means recognizing that railroads run to move freight and people, not to meet the needs of the railroads.

In order to prosper and grow, regional carriers need to cooperate, to be innovative and to remember that their product is service. The airlines have certainly learned that lesson. Their cooperative marketing and service arrangements suggest that the railroads have barely scratched the surface. And finally, it must be noted that the foundation of railroad service — of innovation and growth — must come from within the railroad industry itself. There are many opportunities for the growth of the railroad industry, and the industry must work together to maximize that potential.

NOTE — *This article was based on a presentation to the New England Railroad Club on November 17, 1988.*



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