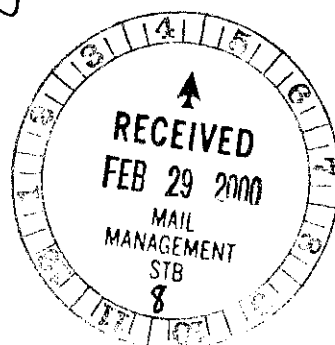


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BEFORE THE
SURFACE TRANSPORTATION BOARD

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PUBLIC VIEWS ON
MAJOR RAIL CONSOLIDATIONS



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**STATEMENT OF GEORGE D. WARRINGTON,
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF
THE NATIONAL RAILROAD PASSENGER CORPORATION
(AMTRAK)**

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About a year and a half ago, the Chief Executive Officer of one of North America's largest freight railroads was asked how he felt about the intercity passenger trains that operated over his railroad. He didn't pull any punches in his answer. Passenger trains, he said, are "a nuisance on our tracks. . . . I wish we could get rid of [them]."

Some might think that we at Amtrak would be insulted by those remarks. We weren't. As I'm sure you all realize, he was talking about VIA Rail Canada. Certainly, no freight railroad in this country would ever say anything like that about Amtrak.

The truth is, however, that some have. In return, Amtrak has said similar things about those annoying freight trains that keep getting in the way of our important passenger trains.

One of the very first things I did when I became President of Amtrak a year ago was to put a stop to this kind of talk. At Amtrak, we simply do not have time for it. Congress has directed us to eliminate our reliance on federal operating subsidies by 2003. To meet this requirement, we need to focus our attention on growing our business, improving our service, and seeking out new opportunities to make money. To do this, we must have the cooperation and support of the freight railroads over which our trains operate.

The freight railroad industry is more important to Amtrak than it is to any other company in the United States. Approximately 95% of the rail lines on Amtrak's 22,000 mile system are owned by freight railroads. We rely upon those railroads to maintain the tracks on which we operate, to safely dispatch our

trains, and to ensure that those trains arrive at their destinations on time. Last year, we paid freight railroads nearly \$100 million for our operations over their lines.

The relationship between Amtrak and the freight railroads flows in the other direction as well. Three of the six largest freight railroads have significant operations over rail lines that Amtrak maintains and either owns or leases, and five of the six operate over track that Amtrak's employees dispatch.

For Amtrak to succeed, however, being an important customer and supplier of the freight railroads will not be enough. Rather, Amtrak and the freight railroads must be partners: we must develop mutually beneficial relationships that create value for both parties, and to which both of us attach importance. That is why I have elevated responsibility for Amtrak's freight railroad relationships to the newly created position of Vice President-Freight Railroad Affairs, which reports directly to me. I have appointed Lee Bullock to serve in that key position. Lee previously was President of Amtrak Intercity, the business unit that is responsible for the majority of Amtrak's operations over freight railroads. In the 27 years he has been with Amtrak, Lee has developed a keen knowledge of our operations, and of what it takes to safely and reasonably integrate them with freight operations.

Because the freight railroad industry is so important to Amtrak, we have a very significant stake in rail mergers. I'd like to share with you our views about them.

First, let me say that I am not here to rattle off statistics about the delays experienced by Amtrak's trains following the UP-SP merger and the NS/CSX acquisition of Conrail. I know that I do not have to tell you that those delays have hurt Amtrak financially; damaged the morale of our employees; and, most important of all, have greatly harmed our guests, which is what we call our passengers.

I am also not here to point fingers or to tell you "we told you so." The fact is, we didn't. Amtrak supported the Conrail acquisition, and we were not at all unhappy with UP's acquisition of SP. We still hope that, ultimately, both of these mergers will prove beneficial to Amtrak and to all rail users.

To that end, we have done, and will continue to do, everything we can to help make these mergers work. We leased 60 locomotives to UP at the height of its service crisis. We have agreed to numerous requests by NS to operate freight trains over the Amtrak-owned Northeast Corridor outside of normal freight operating windows. We also are in discussions with both NS and CSX about possibly accommodating some additional freight traffic at night over portions of the Northeast Corridor to help relieve congestion on parallel lines. These actions create the types of partnerships I am committed to nurturing with the freight railroads.

Amtrak is not opposed to all future rail mergers. Rather, we believe that all of those involved – including Amtrak – need to scrutinize future merger proposals more closely than we have in the past. In particular, we need to focus

more attention on how they will impact railroad service, in the short term as well as in the long term.

Amtrak does not presently have a position on the proposed merger of BNSF and CN-IC. We do not yet know how it will affect us, and we know nothing at all about how we will be affected by other potential mergers that may follow. However, based upon Amtrak's experience with recent rail mergers, we do have some very strong views about what issues the Board should consider in future merger proceedings. I would like to share with you the five key questions that Amtrak believes the Board should ask. I would also like to tell you a little bit about what we believe the answers to those questions should be, and how those answers will impact Amtrak.

First, will the merger have any adverse impact on safety?

It goes without saying that safety is a paramount consideration for all railroads and all rail users. But it is of particular importance to Amtrak. Each time an Amtrak train pulls out of the station, we assume responsibility for the safety of an average of more than 150 guests and employees. Getting all of them safely to the train's destination is our highest priority.

Amtrak strongly supports the actions that the Board and the FRA have taken to bring safety issues to the forefront of recent rail merger proceedings. We feel that those steps have paid significant dividends. While many have criticized the implementation of the Conrail acquisition, few would question that it has been carried out in the safest possible manner. That is something for which the Board and the FRA, as well as NS and CSX, deserve a great deal of credit.

You can be sure that senior Amtrak operating and safety personnel will closely examine the Safety Integration Plans that are filed with the Board in any future merger proceedings. We welcome the opportunity to contribute our perspective, as another railroad that operates trains over the same tracks, as to what steps can be taken to ensure that future mergers are implemented safely. You can also be sure that if we see something that we feel can be done better – and safer – we will let the applicants know it, and we will let you know it.

Second, how will the merger affect rail service?

The second most important issue for Amtrak in railroad mergers is service. In our case, service is measured by the on-time performance of our trains.

Late trains cost us money, lots of it. More importantly, they cost us passengers. When our trains are many hours late, our guests have no interest in hearing that someone or something other than Amtrak is responsible. They hold Amtrak responsible; they tell all their friends; and they are reluctant to ride with us again.

The Board should not approve future rail mergers unless the applicants clearly demonstrate that the merger they are proposing will improve rail service for both passenger railroads and shippers, and are prepared to back their promises with appropriate guarantees. Generalized promises that rail service will get no worse are not enough. Improvement is essential because our customers – the people who ride passenger trains, and the people who consume the goods that railroads transport – are constantly raising the bar that defines what is

acceptable performance. What is good enough today may not be good enough tomorrow.

Amtrak is a case in point. Later this year, we will be rolling out the first unconditional service guarantee program in the passenger transportation industry. We will promise to satisfy our guests, period. If we fail to do so, we will give them a voucher, good for future travel, equal to the amount that they paid for the portion of their trip on which we failed to meet their expectations.

Last year, Amtrak's on-time performance on individual Class I railroads ranged from 64% to 91%. Before we will support any future mergers, we must be convinced that they will improve the on-time performance of the railroads involved, particularly if they are at the back of the pack. Otherwise, we are going to be handing out a lot of vouchers.

Those who want better service must, of course, be prepared to pay for it. Amtrak is. Under our freight railroad agreements, railroads that operate Amtrak trains on time can earn very significant "incentive" payments in addition to the direct costs that they incur as a result of Amtrak's operations. For example, BNSF earned \$12.2 million in incentives last year. Including incentives, Amtrak's total payments to BNSF equaled more than 175% of the direct costs that BNSF incurred as a result of Amtrak's operations.

Like Regis Philbin, I am delighted to sign those million dollar incentive checks. They cost a lot less than late trains; they mean that our guests will keep coming back and will recommend our service to their friends; and they put money in the pockets of our freight railroad partners. However, for a few railroads,

current incentive agreements clearly are not doing the job in terms of getting us good on-time performance. We at Amtrak are very receptive to new approaches to address this problem, and we have some ideas of our own that we would like to try.

We like to work with freight railroads that aren't satisfied with walking away with a small pot of money, but are willing to partner with us for a bigger payoff. We also think that those are the types of railroads whose mergers are likely to succeed, which will benefit all of us.

Third, what impact will the merger have on the rail industry's financial health?

It may sound odd for a passenger railroad to be concerned about freight railroad finances. But let me suggest to you that all of us – passenger railroads, shippers, government officials, and railroad employees – have a very important stake in this issue.

Thankfully, the days when more than a quarter of the freight railroad industry was in bankruptcy, and freight and Amtrak trains crawled along dilapidated tracks at speeds as slow as 10 miles an hour, are behind us. But we cannot allow that history to repeat itself. It is therefore very disturbing to Amtrak, and should be to all of us, that the stocks of most Class I railroads are trading near their 52-week lows, and that freight railroads are not generating sufficient earnings to fund necessary capital improvements.

In order to reverse this trend, freight railroads are going to have to grow their business and attract more high-revenue shipments. To do this, they are

going to have to offer better service. Given that the portion of the transportation market that demands faster service and "just-in-time" delivery is increasing by leaps and bounds, they have no other choice.

During the course of this hearing, you will undoubtedly hear from naysayers who will tell you that railroads are simply incapable of recapturing any of the business they have lost to trucks, and that claims to the contrary in future mergers should be given no weight. Amtrak disagrees. If we believed that railroads could not compete with trucks, we would not have embarked on our express initiative three years ago. The success of that initiative shows that high end shippers will use rail service if it is both very fast and very reliable.

A few weeks ago, the Wall Street Journal ran an article about an Amtrak Express joint venture that could provide apple growers in Washington's Yakima Valley with two and a half day, coast-to-coast, rail service for their perishable shipments. The article said that trucks have captured 95% of the business but often provide poor service, and that the trucking companies were "rattled" by the interest their customers had shown in Amtrak's express service.

This is the kind of "man bites dog" story that we need to hear more often in the rail industry. Amtrak already has partnerships with two Class I railroads for the handling of express: generally, the railroads provide terminal access and services, and we move the shipments on our trains. We are in discussions with other railroads regarding similar arrangements. We think such partnerships are an excellent way for the freight railroads to earn more money from Amtrak's

trains, and for both of us to serve shippers whose needs neither of us could satisfy by ourselves.

In evaluating proposed rail mergers, the Board should give considerable weight to how they will affect railroads' ability to recapture time sensitive shipments, because this is absolutely essential to the rail industry's future financial success. Bringing such shipments back to rail will require more partnerships, not only between Amtrak and the freight railroads, but also among freight railroads and between railroads and trucks. The rail industry must aggressively pursue such opportunities.

Fourth, how will capacity issues raised by the merger be addressed?

As the Board suggested in its notice initiating this proceeding, it has become very clear in the last few years that we need to pay a lot more attention to rail system capacity than we have in the past. Many key rail lines and yards in the United States cannot accommodate significant increases in train traffic without investment in added capacity. All of us – including Amtrak – clearly have underestimated the degree to which recent rail mergers would exacerbate existing capacity problems.

Part of the solution in mergers is, of course, for the merging railroads to add more track and yard capacity. We recognize that Amtrak and its state partners need to do their share as well when Amtrak service is initiated or expanded on lines that are capacity-constrained or require upgrading for passenger service. Over the past seven years, Amtrak and the states of California and Washington have invested more than \$350 million to upgrade and

increase the capacity of BNSF lines on which Amtrak has initiated or expanded service; BNSF has invested an additional \$34 million. When the last of the snow melts in a few more weeks, work will resume on the state of Maine's \$43 million upgrade of Guilford's lines that will permit the resumption of passenger service between Boston and Portland, Maine after an absence of more than 35 years.

Since freight railroads are the principal financial beneficiaries of railroad mergers, they should, of course, bear the cost of whatever capacity improvements are needed to accommodate merger-related traffic increases. However, projects to increase rail capacity can also provide significant public benefits by eliminating the need to build and expand highways. When that is the case, it is reasonable for freight railroads to expect that the state and federal governments will contribute to the cost of such improvements, just as they do for other modes of transportation. Where Amtrak is one of the beneficiaries of proposed capacity improvements, we stand willing to join with the freight railroads in efforts to secure necessary government funding to help make the improvements possible.

I should hasten to add that building new track is not always the only or the best solution to merger-related capacity problems. Sometimes there are other alternatives. A good example can be found in the merger proceeding that is before you.

The key link in the proposed merger between BNSF and CN-IC is the CN line between Chicago and Port Huron, which is known as the Grand Trunk line after its former owner. If the merger is approved, virtually all of the traffic moving

in new single-line service between BNSF's system and Eastern Canada, Detroit, and Buffalo will be routed over the Grand Trunk line. There are no alternatives.

Unfortunately, the Grand Trunk line is already capacity constrained. Amtrak's "International", which operates over the eastern portion of the line between Battle Creek and Port Huron, is consistently one of the worst performers on our system in terms of on-time performance and delays due to freight train interference. To make matters worse, most of the second track on the Grand Trunk line has been removed over the past few years, some of it as recently as last fall.

However, there may be good news for the Grand Trunk line in Amtrak's recently completed Network Growth Strategy, or NGS for short. The NGS is the first comprehensive, objective analysis of Amtrak's route system in our 29-year history. One thing the NGS has shown us is that the financial performance of the "International", and of Amtrak's other services in Michigan, would improve if Amtrak rerouted the "International", and two other pairs of trains that operate over CN between Pontiac, Michigan and Detroit, onto other lines. These proposed changes would also greatly improve Amtrak's service to the Detroit Area by restoring service to two important "links" in our system – Detroit to Toledo, and Detroit to Buffalo/Niagara Falls – on which Amtrak discontinued service some years ago.

We believe that the proposed rerouting of these trains is a win-win situation for all concerned, particularly if the merger of BNSF and CN/IC is approved. We have already had discussions with CN about how we can work

together to bring it about, and I am optimistic that we will be able to do so. The Board should continue to encourage joint initiatives like this one to address capacity issues.

Fifth, will the merger encourage collaboration and innovation in the rail industry?

Amtrak is not the only railroad that faces major challenges over the next few years. As I have suggested in my testimony, and as I am sure many of the other speakers have told you, the rail industry as a whole faces significant obstacles that must be addressed if it is to prosper. Many of our most critical problems can only be resolved through collaborative efforts that involve more than one railroad.

The Board should therefore consider carefully the impact that any proposed merger will have on such joint initiatives. As an industry, we must ensure that battles over railroad mergers do not distract us from other important issues, or prevent us from working together to address them.

A good example is the need for more joint dispatching centers in terminals and other areas where railroads share trackage. This is an approach that Amtrak strongly supports based on its experience with the joint dispatching centers in Spring, Texas and San Bernadino, California, which were created with the Board's encouragement.

Paul Tellier has suggested that it makes as much sense for each railroad to have its own dispatchers in Chicago as it would for each airline at O'Hare Airport to have its own air traffic controllers. I agree. As you may have seen in

Traffic World recently, Amtrak's "Cardinal", which operates between Washington and Chicago by way of West Virginia, has been delayed repeatedly in recent months – sometimes for hours – while operating over a 30-mile section of track between Chicago Union Station and the Indiana border. Much of the problem stems from the fact that there are seven different railroads that either dispatch or control interlockings over portions of this route.

Bottlenecks like this one are not just a problem for Amtrak. They are a problem for every railroad, every rail passenger, and every rail shipper. As an industry, we need to do something about them. It is for that reason that Amtrak, as a member of the Association of American Railroads, is participating in a project to find solutions for the congestion, inefficiency, and inadequate physical plant that exists on the rail network in Chicago today.

Will more mergers help solve problems like these by reducing the number of railroads and the number of interchanges between them? Or will more mergers make such problems worse, by creating new bottlenecks and by diverting attention and resources from potential solutions?

It is the last point that particularly concerns me. Railroads are a network industry. That means that, even though we often have conflicting objectives, all of us -- freight railroads, commuter railroads and Amtrak – must work together cooperatively to create and improve our "product", which is the transportation of passengers and goods.

Of course, we will not always agree. There are going to be times when we need a neutral party like the Board to resolve our disputes. However, we must

make sure that those disputes do not prevent us from working together to address the critical issues that face our industry today. It is for this reason that I hope the differences between the major freight railroads that underlie this hearing are resolved – and resolved soon.

I thank you for the opportunity to present Amtrak's views, and I will be happy to answer any questions you may have.