Written Testimony of Katie Farmer

Group Vice President, Consumer Products

BNSF Railway Company

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For a Hearing on "Keeping Goods Moving"

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Introduction

Good Morning Senator Fischer and members of the Subcommittee. My name is Katie Farmer and I am Group Vice President for the Consumer Products business unit of BNSF Railway Company (BNSF). I want to thank you for inviting me to be here with you today to discuss BNSF's perspective on the importance of our nation's ports to the U.S. supply chain.

BNSF is a wholly-owned subsidiary of Berkshire Hathaway, Inc. BNSF serves 28 states in the western two-thirds of the United States and employs approximately 48,000 people. In 2014, BNSF handled more than 10 million units, each representing one carload. BNSF moves more freight, and carries more rail shipments in international trade, than any other railroad.

BNSF's role in the international supply chain spans all our business sectors–coal, agricultural products, industrial products and consumer products, encompassing both imports and exports. My remarks on port operations will be from the company's perspective on intermodal. And since the largest share of the nation's and BNSF's trade-related intermodal business comes from the West Coast ports, my focus today is there and on the challenges they face. I would like to explain rail's role in the international intermodal supply chain and emphasize the nationwide economic impact of port operations and infrastructure. Finally, I will offer some suggestions on ways that policy makers can support the port growth that will be necessary to handle future volumes and keep freight moving.

Overview of the International Intermodal Freight Supply Chain

In my role at BNSF, I have responsibility for leading all of BNSF's sales and marketing efforts for consumer products—the domestic and international intermodal segments as well as our automotive business. Consumer Products is the largest market segment within BNSF. In 2014, it accounted for about half of BNSF's 10.3 million total annual units.

What is commonly referred to as "intermodal" is the movement of shipping containers and truck trailers by rail, often combined with a shorter truck movement at one or both ends (a "dray"). Intermodal movements capture the inherent efficiency of freight rail and are ideal for containerized freight moving several hundred miles or more between markets with large concentrated volumes and delivers service equivalent to or better than single-driver all truck transportation. Intermodal has been growing rapidly for more than 25 years, and demonstrates a strong partnership with the trucking industry. The U.S. rail industry originated a record 12.3 million intermodal units in 2006 but volumes fell sharply during the recession, rebounding to 13.5 million units in 2014. Intermodal is the railroad industry's largest business segment. Its growth is attributable to a number of factors, including fuel efficiency, highway congestion and truck driver shortages.

There are two kinds of intermodal movements on a freight railroad. The first market segment is "domestic intermodal," which is the movement of 53 foot long containers or trailers within the U.S. It may surprise you to know that domestic intermodal, which is BNSF's largest volume growth area since 2006. The second is "international intermodal," in which goods manufactured overseas are shipped in 20 and

40 foot long containers and move from ports to inland destinations. It is international intermodal which we are discussing here today.

Inbound international container shipments arrive on a container ship at a port and those that are not distributed locally are loaded onto a train headed for the interior of the country. Containers may be loaded onto trains "on dock" or trucked a short distance to an "off-dock" or "near-dock" intermodal yard where they are sorted and loaded onto trains. The containers are owned by the steamship lines and every effort is made to balance the flows of east and west bound traffic to "match back" the empties with full loads of U.S. goods headed back to a ship destined for Asia or another international market. U.S. industries from agriculture to manufacturing take advantage of the full cycle of intermodal containers in the intermodal supply chain.

The Critical Economic Impact of Ports in the Supply Chain

In 2014, nearly a third of the U.S. economy was tied to international trade. The consumer economy, which is about 70 percent of Gross Domestic Product (GDP), is heavily dependent on the international trade-based intermodal supply chain. So while many of the products U.S. consumers rely upon depend on the international intermodal supply chain, the biggest impact of this trade-based activity is on the overall health of the nation's economy. The international supply chain is also an important element of U.S. competitiveness. The U.S. has historically had the lowest relative supply chain costs versus our global competitors. Along with low energy prices, our supply chain provides U.S. manufacturers, agricultural producers and miners with a competitive advantage in world markets.

We at BNSF know first-hand the importance of efficiently meeting growing freight demand. Although last year we carried record levels of freight since the recession, our service was challenged and we did not deliver the level of service that our customers have come to expect from BNSF. We have moved quickly to add capacity and efficiency, and implemented a record $4 billion capital budget in 2013, followed by $5.5 billion in 2014, and an announced $6 billion capital budget this year. With this investment, we have permanently expanded the capacity of our network, which we believe will contribute to maintaining the U.S.'s supply chain advantage.

Ensuring that U.S. ports also are able to meet growing freight demand is a national economic imperative. BNSF serves 40 U.S. ports—which includes every major port along both the West Coast and Gulf of Mexico—however, the West Coast ports are our largest port partners. From the West Coast, BNSF has key transcontinental routes between Southern California (PSW) and Chicago, the PNW and Chicago and beyond. More than 15 million loaded Twenty foot Equivalent Units or TEUs move through West Coast ports each year. West Coast ports support more than 9 million U.S. jobs, with a domestic business impact of $2.1 trillion. Almost 13 percent of U.S. GDP is tied to goods moving through West Coast ports. The success of these ports is critical to the nation's economy; they need to be able to meet demand and remain competitive.

The Pacific Southwest (PSW) and Pacific Northwest (PNW) ports each serve different market segments and geographies and have different challenges, but fundamentally each port region is subject to competition from their NAFTA neighbors to the north and south. They are also subject to competition from East and Gulf coast ports through the Panama and Suez canals as shippers and retailers continually seek less expensive and more efficient access to key markets in the U.S. To the extent that West Coast freight is displaced to NAFTA ports, the regional and national economic value that goes with that traffic is permanently lost. And to the extent that West Coast port traffic is diverted from these ports to ports in other domestic geographies that require expansion or mitigation, public and private sector costs increase.

The San Pedro Bay port complex–comprised of the ports of Los Angeles and Long Beach–is the busiest container port complex in the western hemisphere and the top gateway for U.S. trade with Asia. BNSF is a key part of the logistics network in the San Pedro Bay ports—we transport more than half the international shipments that go by rail out of these San Pedro ports. At the San Pedro Bay ports, about 75 percent of the units carried by BNSF are loaded on-dock. The remaining are handled off-dock at BNSF's Hobart Yard in East Los Angeles. Hobart Yard is the largest inland intermodal facility in the world capable of handling over 1 million units in 2014. The facility is 24 miles by highway from the ports.

BNSF has been working for well over a decade to build a "near-dock" facility only four miles from the ports, called the Southern California International Gateway, or SCIG, which would be the greenest intermodal rail facility ever constructed and eliminate millions of truck miles annually on the freeway between the ports and downtown Los Angeles, the I-710. Our efforts to permit and build this facility have been challenged for years by local opposition groups and the permit is currently tied up in Court.

Our PNW port service is divided among a number of ports in Washington and Oregon, including Seattle, Tacoma, Vancouver, Portland and a number of smaller ports, and facilitates bulk imports and exports, automotive imports and container traffic.

Collectively, PNW ports face strong competition from Canada which is exacerbated by some policy challenges. For PNW container ports competing with Canada, the U.S. Harbor Maintenance Tax creates a competitive disadvantage. Not only are PNW ports disadvantaged because of the added cost of the tax, they receive little or no benefit from the authorized use of the tax. In addition, Canada has a long-standing successful national port infrastructure and corridor program that not only assists with port development but funds projects in the corridors connecting to the ports. At BNSF, we stand ready to work with Federal, State and local public policy makers to similarly support our PNW port partners.

Nationwide Impact of Port Challenges

I would like to now turn to the challenges faced by our ports and the impact of those challenges on our supply chain.

In many ways, BNSF believes that in 2015, the biggest challenge facing ports in general, and West Coast ports in particular, is congestion. Growing freight volumes are an obvious source of congestion at ports but volume alone is not the whole story since overall freight levels through the West Coast ports have not returned to levels seen before the recession. There are several factors that are contributing to growing congestion at these ports, including the effect of inadequate port infrastructure needed to handle larger ships, growing commercial and residential development around the ports, limited infrastructure adjacent to the ports, port operating restrictions from local communities and operating inefficiencies. All of these factors, if they continue into the future, will cause congestion as West Coast ports grow faster than actual volumes.

As you and other policy makers appropriately consider how to facilitate and pay for port growth and for ways to mitigate the impact of port operations, consideration must also be given to how ports can become more efficient as well.

West Coast Port Situation and Port Productivity

Modern port activity remains fundamentally dependent on skilled workers. And as you are aware, in recent months there has been an unprecedented decline in productivity at West Coast ports resulting from the negotiations between the Pacific Maritime Association (PMA) and the International Longshore and Warehouse Union (ILWU). Port productivity has declined by as much as 50 percent. And as you are also aware, this situation–which BNSF and its customers hopes is resolved soon–is having a significant economic impact across the country.

Intermodal shippers are highly dependent on efficient movement of their cargo through the supply chain. Many of our customers in this market segment use "just-in-time" inventory methods that require timely and dependable delivery of retail products and manufacturing parts to stock their stores and keep their manufacturing operations running efficiently. The congestion has resulted in a major disruption of goods movement from the West Coast causing significant delays and increased costs.

As the largest intermodal carrier from the West Coast ports, BNSF's operations have been negatively impacted by the port congestion. BNSF has taken numerous actions to serve its customers and ensure the fluidity of our network in the face of these challenges including establishing controls at our intermodal facilities and equipment management. We have had to restrict the flow of westbound containers to the ports. In some places, empty container availability for westbound shipments, once in oversupply, have become difficult to find and match back. As you can understand, this congestion is impacting many of BNSF's intermodal customers.

BNSF stands with the thousands of customers we serve through these ports in voicing our concern about the severe impact of the current situation. Shippers and rail carriers are directly impacted by the lack of productivity but it has the potential for longer-term negative economic consequences to the U.S. West Coast and the broader economy, and to the competitiveness of the ports themselves. More fundamentally, this strife related to collective bargaining at the ports is a recurring problem; history tells us that the current PMA-ILWU structure of negotiating labor contracts is disruptive and negatively impacts the U.S. economy. The 11-day shutdown of port operations in 2002 had a cumulative effect on the entire supply chain of the U.S. with an estimated cost of $15.6 billion. Freight permanently migrated away from the West Coast after this incident, a potential ongoing consequence from this vulnerability.

We are hopeful that the labor issues at the West Coast ports will be resolved in the short term, however in the long run, the issue of U.S. port efficiency remains to be addressed. Improving efficiency will be as important as infrastructure expansion, and certainly less costly, in achieving the throughput that the nation requires from its ports. U.S. port efficiency is among the lowest of world trading powers. While the efficiency issues at each port are slightly different, in general the most significant operational factors contributing to inefficiency include chassis shortages, limited gate hours, and truck capacity. New alliances between ocean carriers have added complexity to port operations. For example, at the San Pedro Bay ports, these new partnerships are spreading out vessel calls over multiple terminals, adding complexity for truckers, marine terminals and the railroad's operations.

Surface Transportation Policy Discussion and Recommendations

Infrastructure Policy

Expected freight growth and congestion at the ports must be met with facility expansion, just as on the railroads. At BNSF, freight volumes continue to recover and by some measures, BNSF is already back to pre-recession levels of freight. If there is one thing that we are sure of at BNSF, it is that the demand for freight movements is only going to increase. At the ports, capacity expansion will be necessary to handle increased volume, bigger ships, and the trucks and trains that are essential to expedite that freight. The largest of these port projects have a national impact and in BNSF's view will have to be permitted, financed and funded with the help of federal, state and port resources. Over the past few years, BNSF has supported its port partners in a variety of federal TIGER Grant applications; however, as we look to the future, a more robust and sustainable program with port eligibility should be considered.

Congress is currently considering how to assure the long-term solvency of the Highway Trust Fund. If Congress takes the Highway Trust Fund farther afield from the "user pays" paradigm and continues to fund it with revenues not generated by users, the call on Highway Trust Fund budget authority for a broader range of projects is unavoidable. BNSF supports strengthening the user pays concept because of its fairness; it allows users to pay more of their costs on the highway network.

Whatever transportation funding framework Congress establishes in the next transportation bill, a federal share of funding for nationally or regionally significant high-cost infrastructure projects, like port projects which facilitate international trade and relieve congestion, must be considered.

We have developed strong public-private partnerships across our network—as have other railroads. The Alameda Corridor in Southern California, FAST Corridor in Washington State, Connect Oregon, Tower 55 in Texas and the CREATE program in Chicago have freight mobility benefits to which the railroad contributed its share, and publically funded mitigation to address the impacts of freight movements, such as grade separations. We regularly work with communities across our network on grade separations. However, resources within U.S. DOT, State DOTs, local governments and railroad capital budgets are scarce for projects like these. We coordinate with states and local governments to ensure that road crossings at rail lines are safe.

Permitting Reform

Federal permitting reform is an important priority not just for BNSF, but the nation as a whole. While we understand a permitting process is necessary, we have encountered increased costs associated with extended permitting timeframes for facility and track projects across our network. Our experience with the $500 million Southern California International Gateway project, in addition to roadblocks encountered with bulk export facilities elsewhere, tells us that federal permitting challenges are only part of the problem. Organized local opposition, whether to increased freight traffic or to the content of the shipments, has had veto power on projects that serve important national objectives. We believe at BNSF that, through good faith discussion and mitigation negotiation, the reasonable concerns of citizens who are impacted by increasing freight volumes usually can be addressed. However, as the permitting process operates today, there is significant delay and cost which, multiplied throughout freight rail networks, quickly become noneconomic. We support efforts to improve the project permitting process.

Railroad Investment

This Subcommittee is very familiar with the important role of private capital investment in the freight rail network. I want to re-emphasize that the private capital being reinvested into the nation's freight rail network should not be taken for granted. Today's rational regulatory model has allowed us not only to reinvest, but also to expand our network so we can move the products our economy needs, while reducing the environmental impact of freight transportation. Our capital investment strategy depends upon reasonable earnings and a constructive regulatory environment that acknowledges the costs and capital intensity of our business and the on-going need to maintain and expand our infrastructure.

Conclusion

In the short term, we believe that if the West Coast port situation can be resolved quickly, we can help the ports clear the backlogs and reset their operations. We urge Congress to adopt policies that support the growth and efficiency of U.S. ports, which are a critical part of the supply chain, the economy and our nation's long-term competitiveness.