

**PA Rail Freight Seminar**  
**Thursday... May 23... 2013**  
**Department of Community & Economic Development**  
**C. Alan Walker... Secretary**

Throughout my entire life ... I've had a keen interest in the railroads and railroading particularly as it relates to Pennsylvania's industrialization and economic development. There are probably several reasons for my fascination with the railroads.

First of all... many people can claim they grew up on the wrong side of the tracks; my claim is that I grew up between the tracks. Both the Pennsylvania and New York Central Railroads traversed my parent's 10 acre property where our home was and each railroad passed less than 100 feet from the house.

Secondly... like most western Pennsylvanians... we're decedents of lumber-men... coal miners or railroaders.

In my case it's all three.

My maternal great grandfather was the yard master for the Pennsylvania Railroad at Osceola Mills... PA. But my father claims the real reason for my partiality to railroads is because I owe my existence to the Pennsylvania Railroad.

I was born in 1944 during the height of World War II. At that time... there were dozens of coal mines in Clearfield County. Most had 10 car rail sidings as everything back then was single car shipments.

There was a large coal mine near my parent's home. Every night at 3:00 AM the local would pick up the loaded cars and drop the empties for the next day's loading. The rail line at this point operated on a 1.6 percent grade so the coal cars required both a pusher and puller engine. In that era the steam engines signaled each other by whistle.

The pulling engine would stop right outside my parent's bedroom window and start the whistles blowing. Of course... it always woke up my parents. So instead of learning about the birds and the bees... I learned about the train whistles when my father said "when you're startled by a train whistle outside your bedroom window at 3:00AM... it's hard to get back to sleep. So nature takes over.

My Dad confessed... "Alan... you owe your conception to the Pennsylvania Railroad." I guess that's as valid an explanation as any... but I'm grateful my parents didn't name me Pennsylvania Alan.

As Secretary of the Department of Community and Economic Development... I like to remind people of several things. First... no other state parallels the development of the United States more closely than Pennsylvania.

The United States was born in Philadelphia... saved at Gettysburg and ushered in the industrial age in cities like Pittsburgh ... Johnstown ... Scranton ... Bethlehem ... Allentown and Reading.

This parallel can also be drawn between the history of railroads in this state and the development of our economy. At the time of the Revolutionary War... Philadelphia was the largest English speaking city outside of the British Isles... in the world. Philadelphia was also the busiest and largest sea port in North America at the time.

However... this all changed by the 1820's with the completion of the Erie Canal in New York State and the Baltimore and Ohio Canal across Maryland.

This resulted in both New York City and Baltimore passing Philadelphia in importance as port cities. As a result... the citizens of Philadelphia wanted to build a canal across Pennsylvania to link Pittsburgh to Philadelphia.

In 1828... the Pennsylvania General Assembly passed the legislation that created the "Main Line Canal." It was a State Works Project... and in 1834 the project was completed and Pittsburgh and Philadelphia were linked by a combination canal rail system.

We think we have big battles in our legislature today... but from the early 1800's until the 1850's... the battle was between the canals and the railroads as to which was the best method to move goods from east to west and west to east.

For the first half of the 19<sup>th</sup> Century... the canals dominated inland transportation... but I want to read you a quote from a letter written by Martin Van Buren to President Andrew Jackson. This is a great illustration of what happens when our leaders fail to have a vision or miss the broad picture.

Back in 1829 ... Martin Van Buren ... who would eventually become President of the United States... was Governor of New York.

Van Buren was deeply upset by the tremendous loss he saw on the horizon... so he wrote to President Andrew Jackson in regard to the existing canal system... which the Erie Canal was a part of.

In the letter to Jackson ... Van Buren writes “the canal system of this country is threatened by the spread of a new form of transportation known as the railroads. The Federal Government must support the Erie Canal for the following reasons:

- If canal boats are supplanted by railroads; serious unemployment will result.
- Boat builders will suffer; and towline and harness operators will be left destitute.
- Canal boats are absolutely essential to the defense of the United States.

Van Buren added “as you may know... Mr. President... railroad carriages are pulled at the enormous speed of 15 miles per hour... by engines that roar and snort their way through the country side. The Almighty certainly never intended for us to travel at such breakneck speeds.”

Panic in New York... panic in the Governor’s mansion... as the old way was falling. Martin Van Buren lost sight of the big picture.

This reaction reminds me of a quote from Charles Darwin who said: “It is not the strongest of the species nor the most intelligent that survives; it is the one most adaptable to change.”

This applies to states and nations as well as to the species. Very few states and nations are able to sustain long-term growth because they failed to create mechanisms to accommodate for change.

Those who fail to plan and think strategically... plan to fail and over the long run will fail.

Thus... in the second half of the 19<sup>th</sup> Century... the railroads replaced the canals as the primary way to move both freight and passengers from region to region.

As a side... the Pennsylvania Canal was built at a cost of \$18 million and was a huge financial failure. Most of the canal's Susquehanna and Juniata Divisions were wiped out by a great flood and never rebuilt. By the 1850's the railroads took over and the Pennsylvania Railroad was constructed parallel to the right of way of the original Pennsylvania Canal.

The Pennsylvania Railroad was formally organized in 1847 ... By 1855 ... the line had been completed to Pittsburgh ... Fortunately in time for the Civil War.

The building of the railroads across Pennsylvania led to a huge economic boom.

From 1840 to 1950 Pennsylvania was the second largest economy in the country in terms of population and economic growth behind only New York State.

The steel... coal... cement... timber and rail industries were all centered here... and in a little town known as Titusville... Pennsylvania... Colonel Drake drilled the first oil well... ushering in a new era in energy production.

For a time... world oil prices were set at the oil exchange in Titusville and most of the major U.S. oil companies we know today had their start in Venango and Crawford counties.

As the railroads were built out across Pennsylvania... the steel industry really took off.

By 1910... the Pittsburgh region was producing 35 per cent of the steel in the world. This included rails. The Baldwin Locomotives were built in Philadelphia; rails were produced in Bethlehem... Steelton... Johnstown and Pittsburgh. Rail cars were built in Berwick... Milton... Scranton... Johnstown and Hollidaysburg and railroad ties were produced from the great hardwood forests across Pennsylvania. Also, passenger cars were built for the Pullman Company in Butler, PA.

By the time the rail system was completed in Pennsylvania in 1920... 11,500 miles of Class I railroad existed in the state and every county in the state... except Fulton had rail service.

The last major piece of railroad in the country was completed in 1912 when the Western Maryland linked Baltimore to Pittsburgh with a new line to compete against the B & O.

Fast forward to the 1920's ... If Pennsylvania had been a stand alone economy in the 1920's... it would have been the fourth largest in the world.

The largest corporation in the world was the Pennsylvania Railroad which employed 240...000 people and moved 10 percent of all freight and 20 percent of all passengers in the U.S. It was the first corporation in the world to have more than a billion dollars in assets and a billion dollars in revenues.

However ... as early as the 1930's troubles were brewing for the railroads.

Automobile travel had begun to cut into the rail passenger market... somewhat reducing economies of scale... but it was the development of the Interstate Highway System and commercial aviation in the 1950's and 1960's as well as increasingly restrictive regulation that dealt the most damaging blows to rail transportation... both passenger and freight.

Ironically... it was the construction of the Pennsylvania Turnpike that really hurt the revenues of the Pennsylvania Railroad. The turnpike follows the right-of-way as the old Pennsylvania Southern Railroad and used the six tunnels that had been built by the railroad for the turnpike to get through the most rugged mountains of the Allegheny's. The Pennsylvania Southern was a project of the New York Central to compete against the Pennsylvania. However... it was never built.

Throughout the 1960's... and the 1970's freight transportation continued to labor under new over-regulation which created stagnation and decline.

I also want to share a real world example of where regulations with good intentions led to the law of unintended consequences and had a major negative impact on our economy.

The initial Clean Air Act of the 1960's ... allowed coal burning utilities to fuel switch to higher cost fuels such as oil while passing the higher cost on to their customers without having to go through the Public Utility Commission for a rate increase.

The result is that many power plants in the northeast switched from coal to oil.

Millions of tons of coal demand were lost to the market. As a result the rail system in the middle Atlantic and New England states lost over 100 million tons of coal traffic in a very short period of time. The entire rail system collapsed because of a drop in revenue.

This is where most of you entered the picture.

In the late 1950's railroad executives began to look for ways to offset their losses by savings that could be realized through mergers. The Pennsylvania Railroad and the New York Central merged into the Penn Central Railroad in 1968. It was the largest railroad merger in the nation's history and as most of you in this room know... it was probably the most ill-conceived.

Although the railroads merged... they never functioned as a single corporate entity and continued to use separate signal and computer systems.

In June 1970 the nation's largest railroad... the Penn Central... went broke.

No one wanted to buy the bankrupt Penn Central... so in 1976... Congress stepped in to create the Consolidated Rail Corporation or Conrail. Conrail was conceived as a private... for profit freight railroad consisting of the remains of six railroads... most of which had played a part in Pennsylvania's railroad history.

Besides the Penn Central... Conrail included the Central Railroad of New Jersey... the Lehigh Valley Railroad... the Reading Company... the Erie Lackawanna Railroad and the Lehigh and Hudson River Railroad.

The creation of Conrail is a government success story. Although it lost money the first few years as rails were upgraded and new locomotives were purchased... Congress also saw the need to deregulate the railroads to a degree and passed the Staggers Rail Act. Within two years... Conrail was making a profit.

Many of you know... before I took this position with the state... I was President and C.E.O. of Bradford Energy Company. Bradford Energy's main business was coal mining and marketing. During my years of running the company ... I dealt with most of the railroads of the northeast.

Our company... Bradford Energy was the first coal company to load a unit train in motion on the Pennsylvania Railroad. The train traveled from our plant in Clearfield County to Solvay ... New York ... near Syracuse to a plant owned by Allied Chemical.

Until that time all rates were set by the Interstate Commerce Commission... and coal movement was priced by very broad geographical regions. There was the Clearfield Rate... the Fairmont Rate... etc. and there was no advantage in rates for faster loading. The unit train concept helped change all this because it allowed the railroads to better utilize their equipment.

I also lived through the "Wreck of the Penn Central" which almost led to the wreck of my company. The tracks serving our main plant were in such bad condition... they had a 6 Miles Per Hour limit.

I had an opportunity to load an 18,000 ton vessel called the Energy Independence. The vessel was owned by Boston Edison and would take coal from the southern ports to Boston. To get Boston Edison to try the Port of Philadelphia... we had to agree to pay any vessel demurrage from coal shipper delays.

We loaded two unit trains for the vessel.

The first train wrecked three miles from our plant as the train crossed a highway intersection. Eight loaded coal cars rolled into a house and spilled coal everywhere.

I refer to that as Bradford Energy's last house coal delivery.

Before both trains reached Philadelphia they wrecked a total of eight times... and yes there was a demurrage.

One of my worst days at Bradford Energy was in 1995 when Dan Mazer of Conrail came to my office and informed me the rail line I shipped on would either be sold or scrapped. This was after I had recently made a major investment in a coal cleaning plant and a flood loading facility that was capable of loading a 10,000 ton unit train in motion in less than three hours.

Conrail was permitted to cease serving routes that were inefficient to its own operations... but often critically important to local businesses... thus creating opportunities for short lines to become established and flourish.

Today Pennsylvania has more short-line railroads than any other state. Fortunately... the Clearfield Cluster... the railroad I shipped on was purchased by the R.J. Corman Company who continued to operate the 250 mile system and has been a great partner to the shippers.

Today Pennsylvania still has four Class I Railroads... Amtrak... Norfolk Southern... CSX Transport... and a small run of Canadian Pacific in the state's northern tier. We also have four Class II Railroads... and seven Class III Railroads.

The rail system in the state has been reduced from 11,000 miles to 5,600 miles. This ranks Pennsylvania fifth in the nation for the largest rail network... but we also have more miles of rails to trails than any other state.

So where are we today in terms of future opportunities?

I've gone over this history of the railroads in Pennsylvania because I don't want us to make the same mistakes we've made in the past. Remember... we must think strategically as a state.

I am very concerned about the lack of a National Energy Policy for the United States.

Since the first O.P.E.C. Oil Embargo of 1973... we seem to be drifting from energy crisis to energy crisis. This challenge could all be avoided if we were able to develop a comprehensive strategy on how best to use our indigenous energy sources.

Currently... there are 211 major electric generation stations in Pennsylvania; many of these burn coal. By April... 2015... 20 of the coal fired units in Pennsylvania will be shut down because of provisions of the Clean Air Act.

We still don't know what impact this will have on the railroads... as for now... much of the drop in demand for coal here is being picked up by India and China. Coal exports



continue to be strong. The good news is that Pennsylvania is very close to rolling out a State Energy Plan that should help with strategic planning.

I am also concerned about finding a fair way to set rates where short lines must feed into a Class I railroad.

There are still 66 short line railroads operating in Pennsylvania... most of them need to share rates with either the N.S. or the Chessie System.

Unfortunately... often the big goliaths use their muscle to dictate rates that stifle new business opportunities. For the overall good of Pennsylvania's economy this needs to be addressed.

However... on the positive side... the opening of the new Panama Canal in 2015 and the dredging of the Delaware River Channel to a depth of 45 feet will give the Port of Philadelphia a new opportunity... but it will take cooperation from the railroads serving the ports to make this happen.

We must be ready to handle the new container ships... and we must be able to get the cargo away from the port as quickly as possible.

That's why the new intermodal facilities being built by Norfolk Southern and the Chessie System in Pennsylvania are key.

Sometimes opportunities crop up suddenly... like the technology that made it possible to efficiently extract natural gas from the Marcellus Shale geological formation... which lies under roughly 60 percent of Pennsylvania.

Both Class I Railroads and short lines quickly positioned themselves to transport the supplies and equipment necessary to the energy corporations developing this natural resource.

Had the railroads been torn out... development of the Marcellus Shale would have been much slower... and it was slowed in some regions because key sections of track had been torn out.

There's also the startup of the three oil refineries on the Delaware River in Pennsylvania.

These refineries will be supplied with crude oil from the Bakkan Deposit in North Dakota and will be shipped by rail to Philadelphia. 2,500 new tank cars are being built to handle the shipment of unit trains. The American Tank Car Company in Milton has rehired 300 employees and is now manufacturing tank cars.

Saving the refineries is a great example of what happens when a company thinks outside the box. No one even thought of bringing crude oil to the refineries by rail to replace the expensive light sweet crude brought in by tanker from North Africa.

However... in the end... it was the shipment from the Bakkan Deposit that helped the refineries to reopen.

The examples of the need for a good rail system go on and on... but keep this in mind as you plan your future ... Freight railroads play an important role in the United States economy.

The American freight rail system is considered the best in the world. In terms of ton-miles... railroads annually move more than 25 percent of the United States freight. They also are often the key to reaching export markets. Railroads are also energy efficient in terms of energy used to move products.

In 2009 ... 166.96 million tons of freight originated... passed through or terminated in Pennsylvania. And remember to get from the Mid-West to New England or the Middle Atlantic States you must pass through Pennsylvania. That's why we're known as the "Keystone State".

I'd like to close my remarks by reminding Pennsylvanians that Pennsylvania's economy is over a \$600 billion a year economy. It's the sixth largest economy in the country and were Pennsylvanian a stand-alone economy... it would be the 20<sup>th</sup> largest economy in the world. We would be a member of the G-20 nations.

There are still lots of opportunity for the railroads and I personally believe as we move toward the middle of the 21<sup>st</sup> Century... the best is yet to come. However, don't be like Martin Van Buren and resist change. If you want to survive you must be an innovator.

So from someone who owes his existence to the Pennsylvania Railroad ... I thank you for listening.