

STATEMENT OF
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PACER INTERNATIONAL, INC.

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

HEARING ON FREIGHT MOVEMENT FROM ORIGIN TO
DESTINATION

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I want to thank you for the opportunity today to address the movement of freight from origin to destination by use of the intermodal transportation system.

Pacer International is a major customer of the Class I railroads purchasing more than \$1 billion in intermodal rail transportation annually. We currently manage one of the largest double stack intermodal networks for containerized freight in North America. The roots of Pacer go back to the first double stack train that left Los Angeles in 1984.

Pacer also maintains one of the largest domestic container fleets in North America, which consists of more than 28,000 containers, mostly 53' in length, as well as nearly 28,000 chassis to support these containers. We in turn provide access for direct shippers, ocean carriers, and intermodal intermediaries called "Intermodal Marketing Companies", or IMC's, to the rail intermodal network.

Today, the U.S. intermodal network is served primarily by six Class I railroads:

- Union Pacific (UP)
- Burlington Northern-Santa Fe (BNSF)
- CSX
- Norfolk Southern (NS)
- Kansas City Southern (KCS)
- Canadian National (CN)

Pacer has access to all networks, but our service currently runs primarily over the UP, BNSF, CSX, and KCS (in Mexico) networks through long-term agreements.

Pacer, as a transportation intermediary, provides basically two intermodal products to our customers today. The first is what we refer to as international Ocean Container Services product which provides double stack service to six major ocean carriers. We plan and manage the movement of their international import and export freight, to and from the port and to and from the inland destinations. International freight primarily moves in 20' and 40' containers (which are referred to as International type containers).

Our second product is what we call our domestic intermodal service which moves freight between origins and destinations within North America, including Mexico and Canada. Domestic freight typically moves in 53' domestic containers (which are referred to as Domestic type containers). Domestic type containers are not used for international shipments because the ocean vessels are normally built to carry mostly 20' or 40' containers. The entire domestic intermodal container fleet today numbers more than 130,000 containers. Most of this equipment is operated by domestic companies similar to ours. While some of the Class I railroads provide domestic intermodal equipment for Customers, the numbers have declined in recent years, and private fleet operators like Pacer have increased their investment in domestic equipment allowing the overall domestic fleet to grow 3%-5% annually.

As a domestic intermodal transportation company, we work with our customers to provide door-to-door service, which includes purchasing space on intermodal trains as well as arranging for short-haul trucking (also referred to as either cartage or drayage) between the rail ramps and the shipper's origin and the receiver's destination. In this regard, we operate our own cartage company, and contract with other cartage companies, to provide this service for our Customers. We assist our customers in optimizing their modal choice by balancing our access to both train and equipment capacity with a competitive price, a consistent transit reliability, and competitive service levels which translate into an overall competitive intermodal product from origin to destination for our Customers.

Intermodal transportation relies on the foundation of a dependable highway and rail network that has developed in the U.S. in the last 50 years. Intermodal, in our opinion, is vital to providing the shippers of today and tomorrow with a cost effective, efficient, and reliable transportation service that is an alternative to long-haul highway transportation. Intermodal's

efficiency results from 280-300 containers being loaded onto a single train. These containers would otherwise have moved on the highway by 280-300 trucks. As an efficient and important result, intermodal transportation removes trucks from highways, helping to reduce congestion and pollution, while providing a more environmentally friendly and efficient mode of transportation when compared to an all truck/highway movement.

International freight shippers depend on the seamless movement of their goods from the vessel, through the port and onto trains - and in the reverse for export shipments. With the development of the Asian Basin as a major producing area for products consumed in the U.S. over the past decade, the U.S. West Coast ports and the inland transportation system serving these ports have become a focal point for the movement of inland destined intermodal containers. We have seen our import volumes grow exponentially and this has created pressure on the Los Angeles and Chicago transfer points. We have seen the Alameda Corridor project help reduce some of the congestion problems that slowed intermodal trains operating to and from the ports of Los Angeles and Long Beach. I need not speak at length on this subject as it has been well documented in reports such as the National Surface Transportation Policy and Revenue Study Commission and the National Rail Freight Infrastructure Capacity and Investment Study prepared for the Association of American Railroads as well as recent news coverage.

We have found that our shippers choose intermodal transportation because it provides a cost effective alternative to long-haul truck service and provides multiple service levels and products that balance price and transit times. For example, there are excellent expedited intermodal service offerings that compete with long-haul truck/highway transit in high volume freight corridors between Los Angeles, Chicago, Dallas, Memphis, and Atlanta.

However, there are events and issues that affect intermodal service today. Both international and domestic shippers are affected by disruptions in service on the intermodal rail network. While not as prevalent today as in prior decades, disruptions such as unanticipated derailments, transit delays due to insufficient rail network capacity, and weather related disruptions still occur more frequently than the industry would like.

Congestion at some port and inland rail terminals, such as in the Chicago area, a major intermodal transfer point between rail carriers, continues to occur at unacceptable levels even today, causing the late delivery of product to intended markets. These rail disruptions and congestion issues have led many customers to believe that intermodal transportation is less reliable than truck transportation – a negative perception we work every day to overcome.

Moreover, current studies, to which I have already referred, also indicate that 12% of the intermodal rail corridors are currently operating near or at their theoretical capacity. By the year 2035, it is anticipated that 45% of the rail system will be at or over its theoretical capacity. As a primary provider of intermodal services we are concerned that our ability to deliver goods to manufacturers, distributors, and ultimate consumers will be adversely affected by a rail transportation system that will no longer support the ever increasing future volumes that current models predict.

Our intermodal transportation infrastructure continues to be challenged, is aging and needs to be updated and improved to prepare for the expected future growth. There are major investments and improvements underway that must continue, such as:

- Double and triple tracking of key freight corridors, such as the UPRR Sunset Route between Los Angeles and El Paso
- Improvement of signaling and other train control processes on major corridors
- Expansion of key port and rail terminal facilities,
- Investment in “Green” Locomotives and additional intermodal double stack rail cars

- Double Stack capable corridors in the Northeast and Mid-Atlantic

The investments necessary to make these improvements in the rail network and terminal facilities should remain primarily in the hands of the railroads and companies that operate these facilities. Help can be provided to the private sector through tax incentives and Public-Private Partnerships that can provide the kind of cooperation for developing timely and effective solutions to the issues we are facing in our transportation infrastructure. The Chicago Region Environmental and Transportation Program (CREATE) is an excellent example of such a program whereby the railroads and the State of Illinois are working together to solve the issues in the Chicago area I have already spoken about.

In closing, we think it is vitally essential to ensure there is continued investment in the nation's intermodal transportation system, which includes both the rails and highways that will provide for an uninterrupted flow of goods from shipper origins to receiver destinations. Access to an efficient intermodal transportation system will give shippers a cost competitive alternative to long-haul truck transportation, helping reduce the number of trucks and resultant congestion on the highways, reducing greenhouse gas emissions and pollution, while promoting overall fuel efficiency and less dependency upon oil in the future.

Again, I thank you for the opportunity to speak to you today.