U.S. House of Representatives
Transportation and Infrastructure Committee

Central Florida Field Hearing:
Improving And Reforming Our Nation's Surface Transportation Programs

Statement of:

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Chairman Mica, Congressman Rahall, Members of the Committee:

Thank you for the opportunity to testify today on the topic of improving and reforming our nation's surface transportation programs. My testimony will focus on the high-speed passenger rail sector. Specifically, I would like to discuss the evolution of high-speed rail in Japan, offer some observations on current high-speed rail policies and programs in the United States, and provide my recommendations on the best way forward.

For the past two years, my company has been working with Central Japan Railway Company (JRC) to evaluate potential markets for high-speed rail in the United States. As you may know, JRC owns and operates the *Tokaido Shinkansen*, the world's first and busiest high-speed rail line, which connects Japan's primary urban and commercial centers from Tokyo to Osaka. Since its commissioning in 1964, the *Tokaido Shinkansen* has evolved into the world's most successful high-speed rail corridor. It is my considered opinion that high-speed rail can absolutely succeed in the United States as well. However, in order for that to happen it is imperative that we adopt the correct policies from the outset. Please, allow me to share with you some background on the history of rail operations in Japan in general and JRC specifically that will help illustrate my point.

For about the first two decades of its existence, Japan's high-speed rail was wholly owned and operated by a government owned corporation, Japan National Railway. By the mid-1980s, it became increasingly evident that the Japan National Railway model was dysfunctional. Bureaucratic mismanagement and political meddling conspired to drive the industry into an unsustainable financial position. Against powerful objections, the government finally concluded that privatization offered the only avenue to reverse high-speed rail's decline. Therefore, the Government of Japan divided its national rail network into privately-owned regional networks, and in 1987, JRC was established to assume the operation of the *Tokaido Shinkansen* line. In assuming this role, JRC accepted the majority of the former Japan National Railway's high-speed rail related

liabilities, some $60B[1]. This amount of liability represented an amount nearly double the then-current repurchase value of the *Tokaido Shinkansen* line itself. Yet, JRC has successfully been reducing this inherited debt ever since.

Indeed, through a series of corporate reforms and adoption of sound business practices, JRC restored the economic standing of the *Tokaido Shinkansen*, and diversified its portfolio to include real estate, merchandising, and other services related to its rail enterprise. After 10 years, JRC was publicly traded on the Tokyo, Nagoya, Osaka, and Kyoto stock exchanges. In 2006, the Government of Japan sold all of its common stock in JRC, formally signaling the end of any public involvement in the company.

Today, JRC is an entirely private entity with an enviable balance sheet by any measure. In Japan fiscal year (JFY) 2009, JRC generated nearly $16B in annual operating revenue, with over $11B of this coming from transportation revenue and with a net income of nearly $1B. For JRC's investors, this translated into a return on equity of 8.7% in JFY 2009, an outstanding performance for any transportation company.

Not only is JRC able to cover its operating expenses without any public subsidies, it is sufficiently profitable to pay dividends to its investors, pay down its long-term debt, and invest funds back into the company for future growth. Indeed, JRC recently announced plans to invest roughly $60B to build a new high-speed line to reduce congestion on the *Tokaido Shinkansen*. This line will take advantage of cutting-edge, super-conducting magnetic levitation technology (SCMAGLEV), which operates at a top speed of 361 miles per hour. JRC will bear the entire cost of this $60B investment without recourse to any government funding.

The core of JRC's success is of course due to the exceptional level of service of the *Tokaido Shinkansen*. Allow me to share a few examples:

- In JFY 2009, nearly 138 million passengers rode the *Tokaido Shinkansen*. That equates to an average 323 trains per day and 13 trains per hour.
- JRC's trains on the *Tokaido Shinkansen* have an amazing accuracy record. In fact, the average annual delay per train is only 30 seconds.
- Throughout its entire operating history, JRC has never experienced a single train accident-related passenger fatality on the *Tokaido Shinkansen*.
- In terms of technology, JRC operates three generations of high-speed rolling stock on the corridor, the newest of which is the N700 "Bullet Train." Through continuous research and development, JRC has optimized the performance of the N700 thoroughly– it is now one of the fastest, most comfortable, and most environmentally friendly train systems in the world.

[1] The amount of liability assumed by JRC was 5.0956 Trillion Yen, or approximately $60B at a conversion rate of 84 Yen/$.

A crucial aspect of the *Tokaido Shinkansen's* success was that it was planned and constructed as an entirely dedicated, grade-separated corridor, for the exclusive use of high-speed rail systems. That is to say: the *Tokaido Shinkansen* operates with absolutely no co-mingling with freight or conventional passenger rail systems. Unfortunately, this critical strategic issue seems to be overlooked in the high-speed rail debate in the U.S. Two concepts in particular have achieved considerable momentum here, both of which fundamentally undermine the principals and advantages of dedicated high-speed rail systems.

The first is the idea of a "National High-Speed Rail Network," which Secretary LaHood defines as a network of high-speed lines that will connect 80% of the American population. The second is the concept of "interoperability." These phrases sound quite positive. After all, extending the benefits of high-speed rail to the majority of the U.S. population seems to be very attractive. So is the idea of interoperability – ensuring that trains around the country can run on the same tracks and take passengers as far as they need or want to travel. However, the reality is both concepts are fundamentally flawed and illogical. If we want high-speed rail to succeed in America – and I certainly am one who does – then we need to have an honest debate on our basic policy approaches and ask ourselves some hard questions.

Can we realistically expect that a nationwide network as proposed by DoT and others would attract sufficient ridership to justify the cost? According to the Administration's own "Vision for High-Speed Rail in America," express high-speed rail is best suited for city pairs that are between 200 to 600 miles apart, with moderate to high population densities. Looking at population densities throughout the country, it is immediately clear that people are generally clustered in regions: for example, the Northeast Corridor, the Chicago-hub, and parts of Florida, Texas, and California. So while there is a reasonable case for high-speed rail as a regionalized transportation solution, there is scant economic basis for supposing that it can serve as a national transportation solution. Put another way, a traveler will very likely be incentivized to take a high-speed train from Miami to Orlando. He or she will not, however, be incentivized to ride a train from Miami to Washington, DC.

Who would operate this nationwide rail network? If there is an insufficient business case for a high-speed rail line from Miami to Washington DC, for example, then the private sector will be unwilling to assume the ridership risk on this and other similar routes. The only alternative would be for massive public subsidies for operations and maintenance, or outright government ownership. In our current fiscal condition, this is an economic luxury the nation can ill-afford. The private sector, though, can and will be willing to take risk on routes that make business sense.

What does a "National High-Speed Rail Network" really imply for the technology that we are contemplating? In some ways, this is the most important question of all. Can we really operate the world's most cutting-edge, proven technologies on a "National

High-Speed Rail Network"? My assessment is that we cannot. The only way to create such a network would be to require that high-speed trains be "interoperable." While most people assume that "interoperability" means that an N700-I could run on the same tracks as an AGV or a Zefiro or a Velaro, it does mean that, of course. However, in the Federal Railway Administration's conception, it implies that high-speed trains must be able to operate on the same tracks as freight and conventional passenger trains. This proposition raises a multitude of problems.

High-speed trains are finely tuned systems that have been optimized over decades, at a cost of millions of dollars in research and development. However, in order to run high-speed trains on conventional tracks, all high-speed rail car manufacturers, not just the Japanese, would have to drastically redesign their cars. These changes then begin to affect braking systems, suspension, and so forth. These changes add weight, which in turn impacts speed, acceleration, and energy efficiency – the hallmarks of true high-speed rail. Furthermore, when high-speed trains must operate on freight and conventional lines, operating schedules are quickly compromised, train reliability decreases, and maintenance costs increase dramatically. Anyone that has ridden the Northeast Corridor lately can attest to this.

Just last month the world's major high-speed rail car-builders came together to submit a joint industry declaration to the FRA in which they specifically stated that, "the benefits of true high-speed rail could be seriously compromised with the specification of interoperability." I would urge both FRA and this Committee to consider carefully the implications of this statement by the very companies that are being asked to risk their reputations, credibility and capital on these U.S. high-speed rail projects.

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I would like to conclude by providing some recommendations, drawn for the Japanese experience, that I believe would help ensure high-speed rail succeeds in this country.

First: High-speed rail should be a predominantly private sector undertaking. I acknowledge that there is an important role for public-private partnerships in which a portion of the capital cost, particularly that related to the right of way, may be borne by the public sector. However, it must be clearly shown that ridership will yield sufficient revenues to cover operations and maintenance. Furthermore the private sector partner have maximum latitude and full authority to determine the most appropriate operating schedules, fares, business practices, labor policies, etc.

Second: Policy-makers, other opinion leaders, and the general public must recognize that in a country as large as the United States high-speed rail is a regional – not a national – transportation solution. High-speed rail systems should be constructed to connect urban centers that are between 200 and 600 miles apart. It does not make sense

is to design a "network" that doesn't complement other forms of transportation, most importantly air travel.

Third: Instead of "interoperability," we should focus on "interconnections" between different modes of transportation. That means that we need to seamlessly integrate airplane, automobile, intra-city rail, local transit system, and high-speed rail travel.

Finally: We need to appreciate the fact that transportation challenges in different operating environments demand different technological and policy solutions. As the industry has already noted, there cannot be a "one-size-fits-all" high-speed rail standard in this country.

Thank you very much for your time and consideration. I look forward to your questions.

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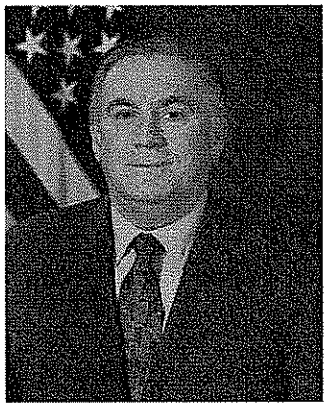

Richard P. Lawless
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Richard P. Lawless is President and CEO of U.S.-Japan High-Speed Rail, LLC. Mr. Lawless has served the United States Government for over 20 years, most recently as Deputy Under Secretary of Defense for Asian and Pacific Security Affairs. In this capacity Richard was responsible for formulating U.S. security and defense policy in the Asia-Pacific region, including East, South and Southeast Asia, Afghanistan, Pakistan and Central Asia. He retired from this position in July 2007, but maintains an advisory role to the Secretary of Defense on Alliance transformation issues. Prior to his appointment at the Department of Defense, Richard co-founded and served as the Chairman/CEO of U.S. Asia Commercial Development Cooperation from 1987-2002. U.S. Asia and its affiliated companies, headquartered in Washington, D.C. with offices in Seoul, Tokyo and Taipei, specialized in telecommunications and information technology investment and market entry strategies in East Asia. Mr. Lawless is also a co-founder and former Chairman of the internet technology development company, Online Environs, Inc. of Boston, Massachusetts. Mr. Lawless served as a career employee of the Central Intelligence Agency from 1972 through 1987, serving in Washington, D.C. and various postings in the Far East and Europe. He specialized in subjects related to high technology, nuclear proliferation and Far East security issues. Richard is a graduate of Bradley University's School of International Studies (B.S. International Relations, Magna Cum Laude) and the Defense Language Institute, Monterey, California (Korean language program).

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

Truth in Testimony Disclosure

Pursuant to clause 2(g)(5) of House Rule XI, in the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include: (1) a curriculum vitae; and (2) a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by an entity represented by the witness. Such statements, with appropriate redaction to protect the privacy of the witness, shall be made publicly available in electronic form not later than one day after the witness appears.

(1) Name:

RICHARD P. LAWLESS

(2) Other than yourself, name of entity you are representing:

US-JAPAN HIGH SPEED RAIL

(3) Are you testifying on behalf of an entity other than a Government (federal, state, local) entity?

✓ **YES** **If yes, please provide the information requested below and attach your curriculum vitae.**

NO

(4) Please list the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by you or by the entity you are representing:

NONE

X _____
Signature

11.3.2011
Date