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Chairman, President and CEO

**Testimony before the Senate Commerce, Science and Transportation
Subcommittee on Surface Transportation and Merchant Marine
Infrastructure, Safety and Security**

June 18, 2009



Overview: The U.S. supply chain is integrated and intermodal

- The importance of the supply chain
 - Competitiveness/U.S. economic growth
 - Energy use and environmental impact
- Outlook
- Optimizing the supply chain



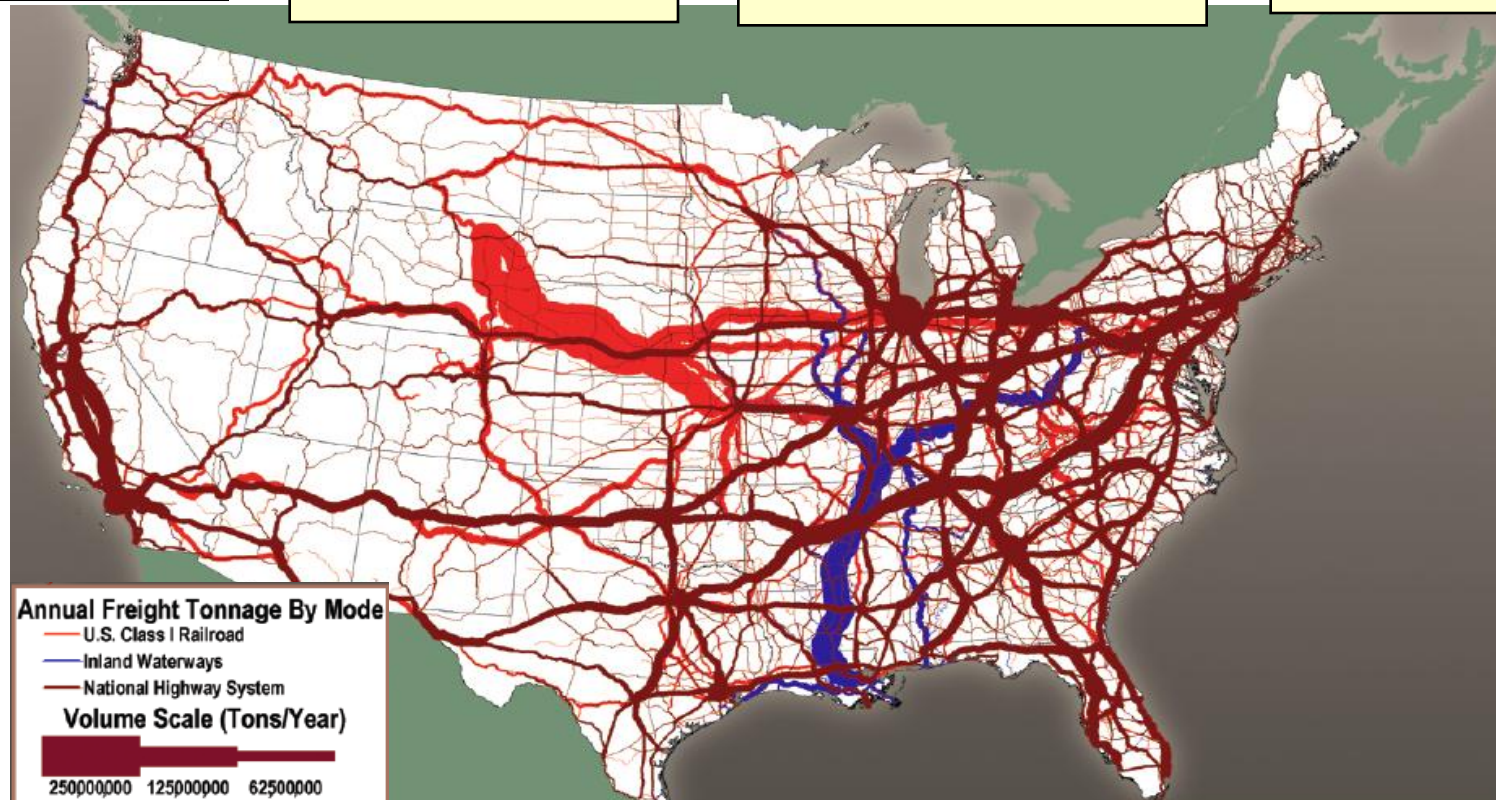
The U.S. supply chain is a competitive advantage and economic engine

Key to global competitiveness
10% of US GDP
(China – 22%)

8 million jobs involved in moving and handling freight

The supply chain represents \$1.4 trillion in goods and economic activity

A 1% change in supply chain costs = \$14 billion



Source: Map - FHWA, 2002

Supply chain costs are increasing

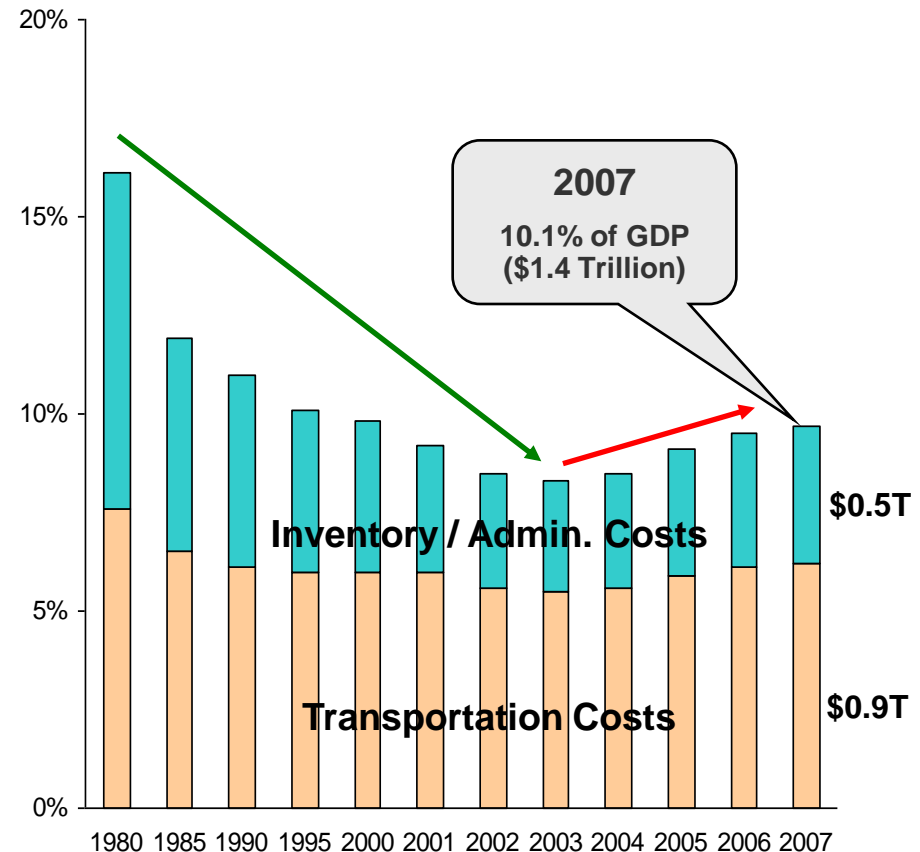
What Drove Logistics Costs Down from 1980 to 2004?

- ✓ Transportation deregulation
- ✓ Excess capacity
- ✓ Low fuel costs

What's Driving Recent Supply Chain Cost Trends?

- ✓ Higher fuel costs
- ✓ Congestion
- ✓ Aging infrastructure
- ✓ Public policy
- ✓ Increasing U.S. labor costs

U.S. Logistics Costs as a Percent of GDP



Source: Annual State of Logistics Report, Council of Supply Chain Management Professionals

Outlook: Growth and Challenges

2030 Growth Projections

- Population to grow to 364 million
- VMT to grow by 150 percent
- Freight rail to increase by 92 percent

Challenges

- No national freight policy
- No Capacity growth
- Congestion- all modes
- Increasing fuel costs
- Lengthening supply chains
- Increased environmental requirements

Source: Global Insight, AASHTO, FHWA



A look into the U.S. Supply Chain: How does the supply chain move?



Freight Railroads

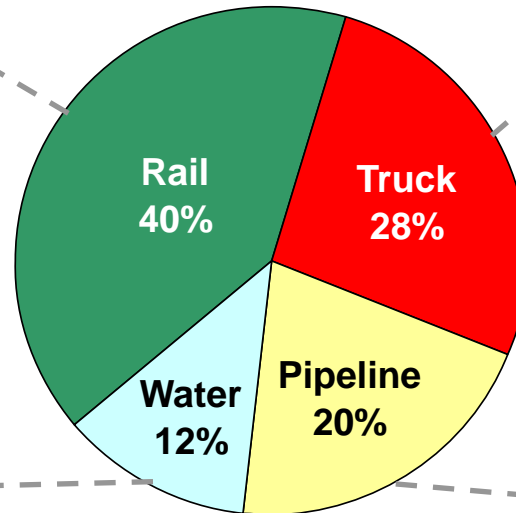
✓ 140K Miles



Inland/Coastal Waterways

✓ 25K Miles

Total US Freight Ton Miles 2006



4.6 Trillion Ton-Miles



Trucking

✓ 160K Miles (NHS)

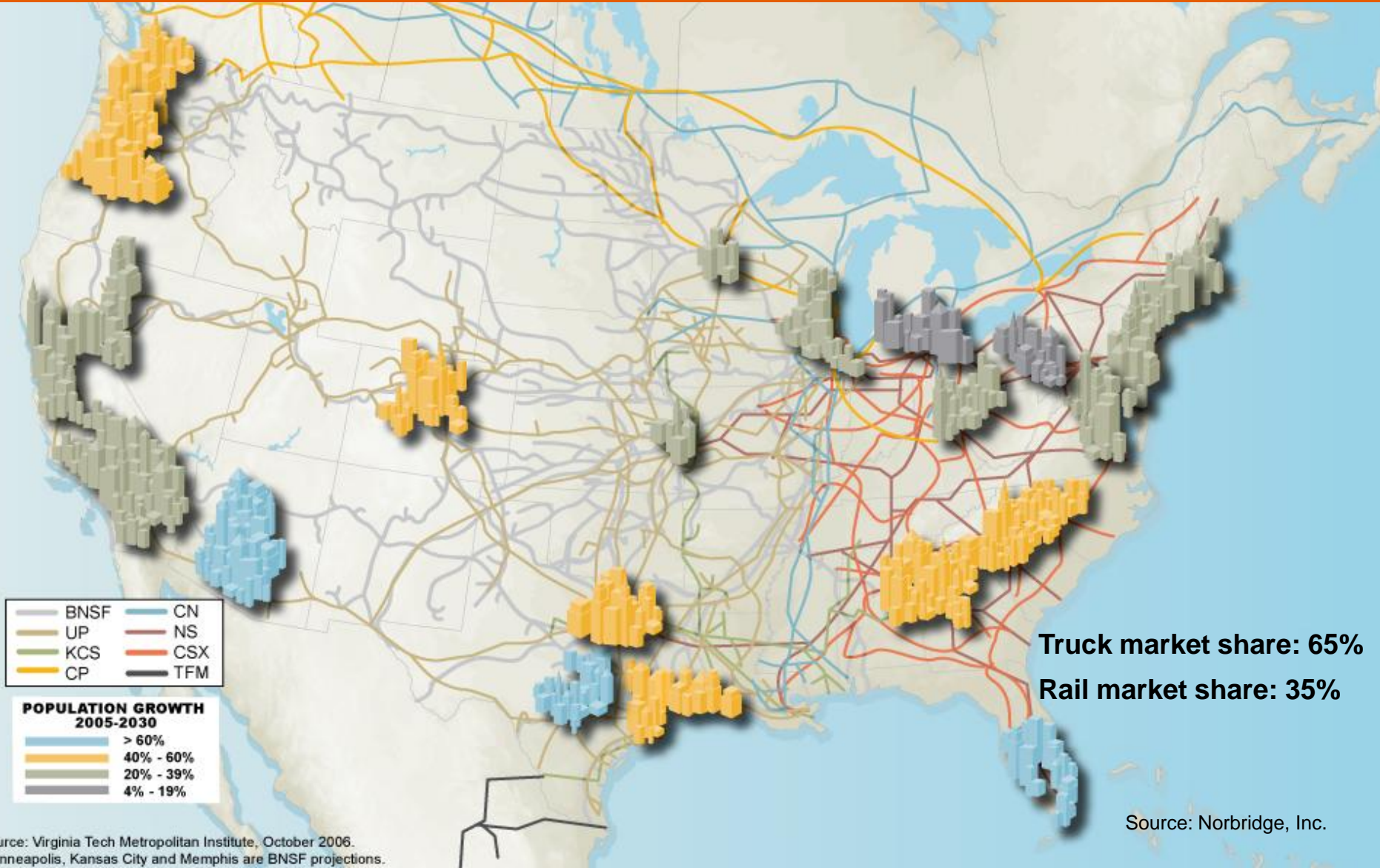


Pipelines

✓ 425K Miles

Connecting markets:

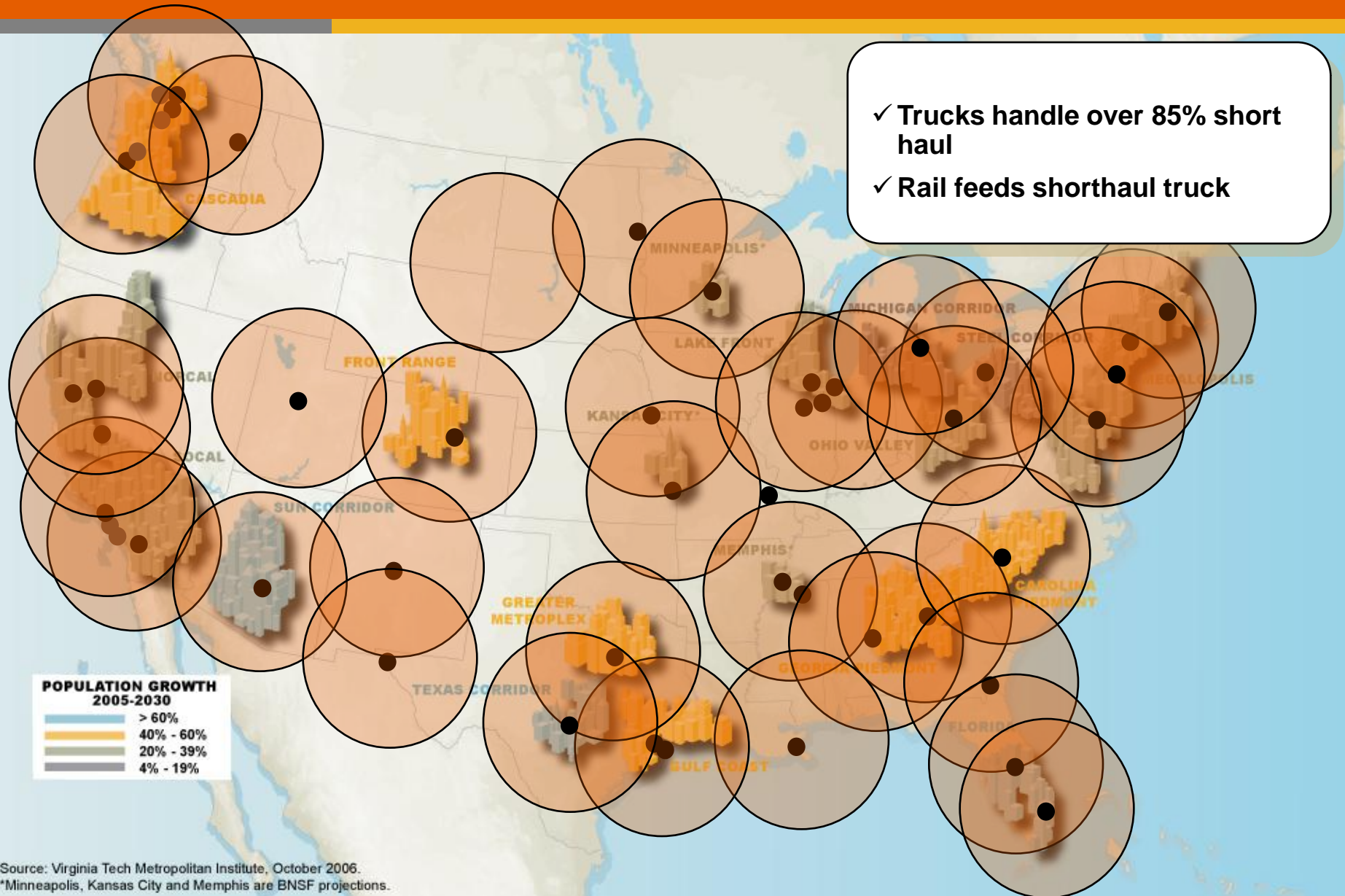
Appox. 2 trillion intercity ton miles (500-1000+) can be shipped on truck or train



Source: Norbridge, Inc.

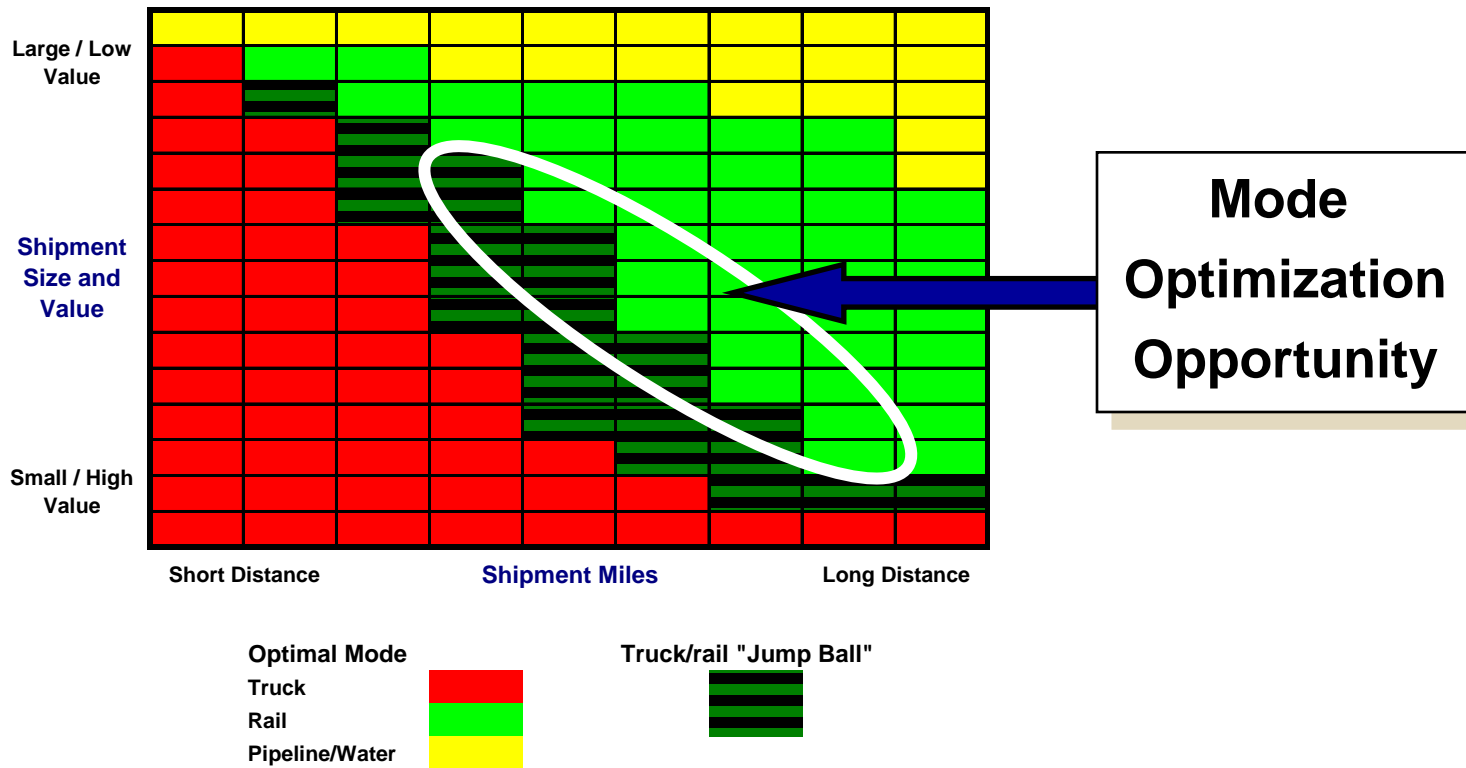
Source: Virginia Tech Metropolitan Institute, October 2006.
*Minneapolis, Kansas City and Memphis are BNSF projections.

Metropolitan distribution and short-haul markets less than 250 miles



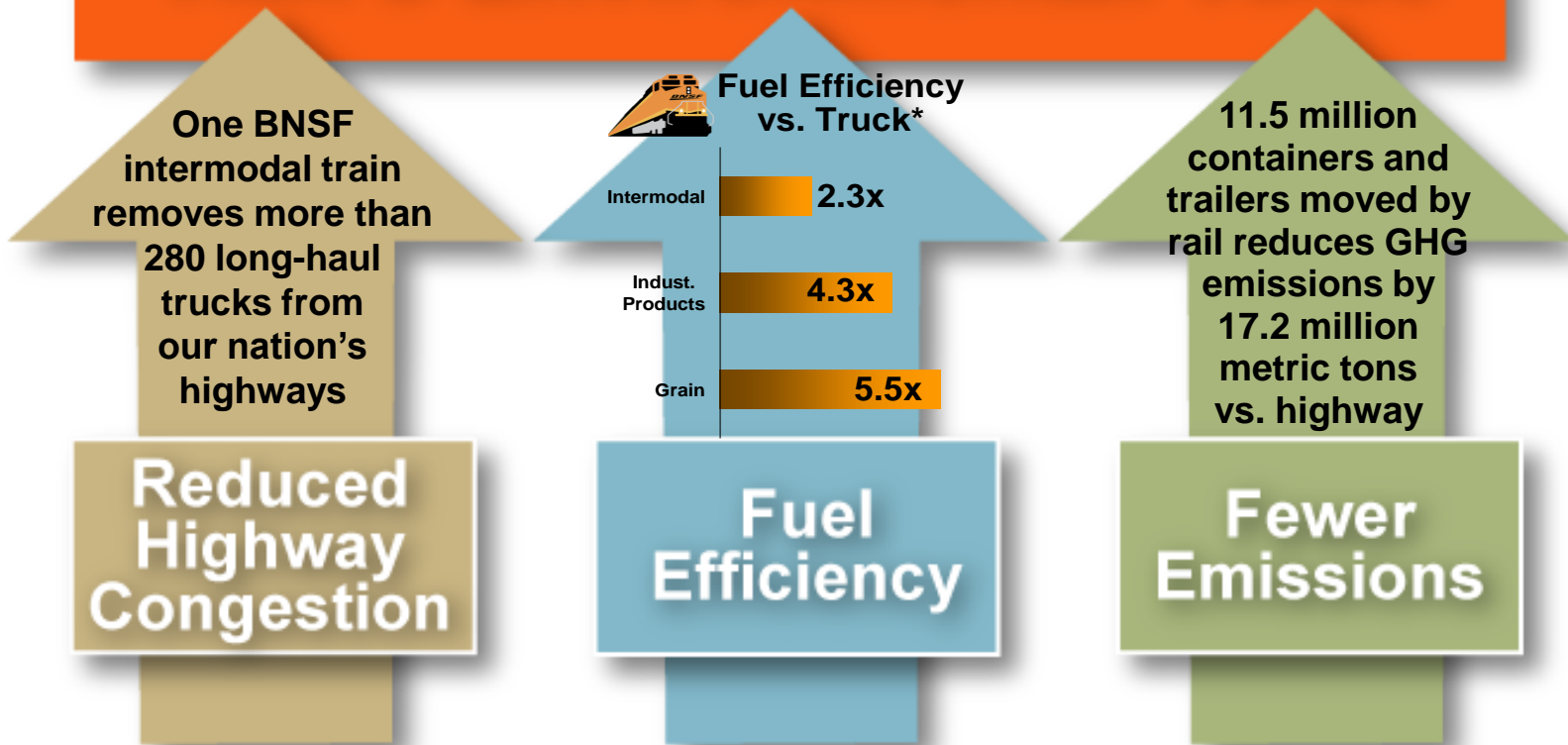
Mode optimization is market- and infrastructure-driven: Reduced fuel use and emissions

Freight Mode Share Matrix



Freight rail optimization provides environmental benefits

Rail's Environmental Value

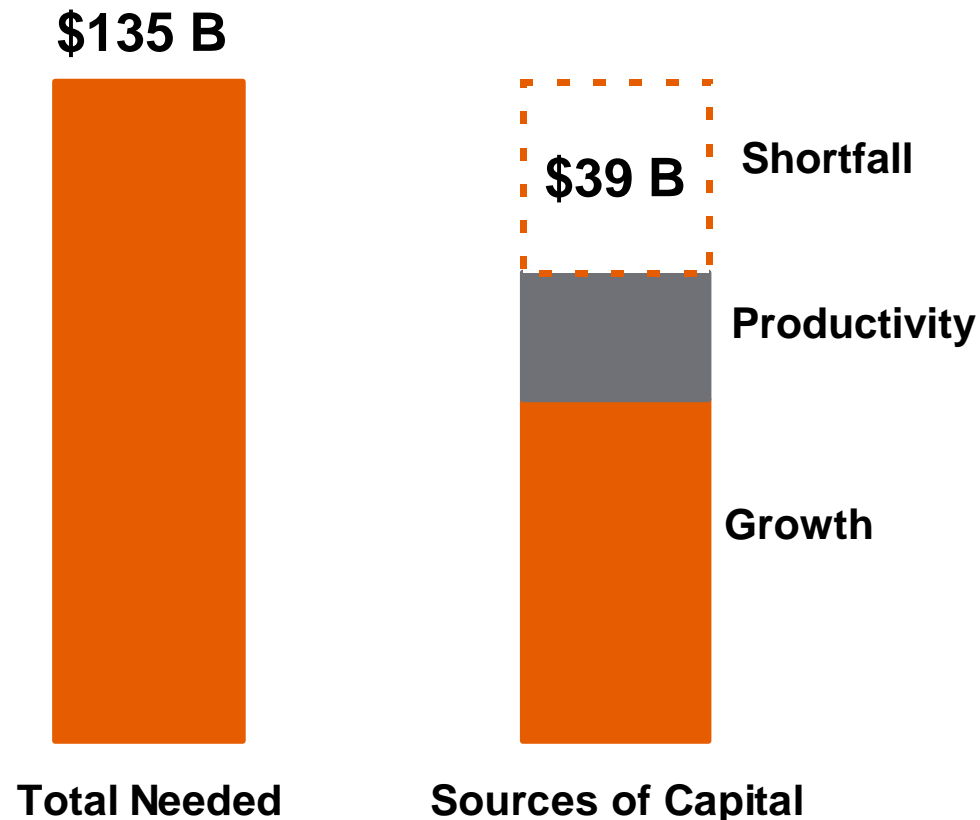


*Based on a 1,500 mile truck haul

Capacity investment: Supporting and Growing Freight Rail Market Share

- If railroads maintain their current expansion investment levels, then the Class I railroads will invest cumulatively about \$70 billion over the next 28 years.
- \$39 billion shortfall will occur without a stimulus to bring investments up sooner in their cycle
- If 10% mode optimization, additional investment is required.

Class 1 capital investments needed to meet 2035 volume demand



Source: National Rail Freight Infrastructure Capacity and Investment Study September 2007

Expanding freight rail market share

The challenge: Capacity

*National Surface Transportation Policy and Revenue Study Commission
Proposed Policy Changes to Improve Freight Mobility*

- **A national, multi-modal vision for freight mobility**
- **Rational regulation**
- **Investment Tax Credit for freight rail expansion**
- **Public Private Partnerships with freight rail industry**
- **Improve metro freight mobility**

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The challenge: Economics

- **Heavy truck cross-subsidies**
 - **Heavy trucks pay only 40% of their costs**
- **Economies of density apply to railroads**
- **Fuel prices are important**
- **Future carbon policy matters**

BNSF
RAILWAY