AUTO ALLIANCE

DRIVING INNOVATION®

**STATEMENT**

**OF**

***THE ALLIANCE OF AUTOMOBILE MANUFACTURERS***

**BEFORE THE:**

**COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION**

**SEPTEMBER 10, 2014**

**PRESENTED BY:**
Shane Karr
Vice President, Federal Government Affairs

Thank you, Chairman Rockefeller, Ranking Member Thune and members of the Committee. The Alliance of Automobile Manufacturers (Alliance) is a trade association of twelve car and light truck manufacturers comprised of BMW Group, Chrysler Group LLC, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche Cars, Toyota, Volkswagen Group and Volvo Cars. Together, Alliance members account for roughly three out of every four new vehicles sold in the U.S. each year. Auto manufacturing is a cornerstone of the U.S. economy, supporting eight million private-sector jobs, $500 billion in annual compensation, and $70 billion in personal income-tax revenues. On behalf of the Alliance, I appreciate the opportunity to comment on the significant freight delays that have been negatively impacting the auto industry.

Rail is an essential component of the automotive industry's national supply chain. Auto manufacturers ship tens of thousands of vehicles daily in North America, primarily on U.S. railroads. According to the Association of American Railroads, railroads transport about 70 percent of finished motor vehicles, and automotive traffic represents nearly $5 billion in annual railroad freight charges.

Automakers utilize a combination of rail and trucking to transport finished vehicles from assembly plants to dealer lots and ports. Generally, shipping vehicles by rail is the more economical means of transporting vehicles over long distances, and in some instances, rail is the only feasible option to haul significant volumes of vehicles over long distances.

Over the past several years, as the auto industry has rebounded from the economic downturn, auto manufacturers unfortunately have encountered persistent rail service issues. By far, the greatest logistics problem faced by auto manufacturers is the carriers' failure to provide a sufficient supply of empty railcars to transport finished vehicles. Automakers have also incurred significant delays in the movement of railcars loaded with finished vehicles. In this regard, it appears that the priority of auto shipping has become less than that of other shippers.

The most recent rail industry service problems have caused an unprecedented disruption in the ability of auto manufacturers to deliver vehicles to their customers. As a result of the rail service disruptions, auto manufacturers are spending tens of millions of dollars a month to find other means of moving stranded vehicles or to store them until rail service is available. For example, since January one automaker has spent an incremental $13 million, or approximately

$184 per vehicle, on vehicle transportation for one assembly plant alone due to the lack of available empty railcars.

These vehicles should have been transported much sooner via contracted rail services to dealerships for sale or delivery to consumers. For a significant portion of 2014, vehicle inventory worth billions of dollars sat in rented storage yards all around North America. In early April – at the height of this crisis – more than 200,000 vehicles were held in storage yards in and around automotive assembly plants. Where possible, automakers have had to look to alternate, more expensive means to move vehicles to dealers. Automakers had been optimistic that the excess vehicle backlog would be eliminated during the summer months when many assembly plants halt production for model changeover, giving the rail companies the opportunity to "play catch up." And while the backlog has been reduced, automakers continue to suffer regular railcar shortages and remain concerned that we are entering the fall and winter seasons still in a deficit position.

All automakers, regardless of which carrier they use to ship vehicles, have been adversely impacted by rail service disruptions. Additionally, this problem is not limited to the upper Midwest; rather, it is systemic throughout the country. While many auto manufacturing assembly plants are located in regions that experienced an especially severe winter (e.g., Illinois, Indiana, Michigan and Ohio), auto manufacturers with assembly plants in other parts of the country, particularly in the South and Southeast, also experienced shipping delays and vehicle storage problems.

While this winter may have been more disruptive than in prior years, service problems did not start with the winter of 2014. Auto manufacturers annually encounter service delays during the winter months, and we understand that the rail network is highly connected such that severe weather in Chicago can have ripple effects throughout North America. But, in this case, extreme weather merely exacerbated underlying problems stemming from a lack of capacity – in cars, as well as crews and locomotive power. Extreme weather was not the reason that thousands of multilevel railcars that were needed for loading at automotive assembly plants throughout North America were in storage in early February.

Some maintain that the fundamental problem is the structure of the rail industry and corresponding lack of competition among the Class I railroads. There is no question that freight

volume is booming. As the Committee well knows, rail shipments of crude oil have grown exponentially in the last several years and are forecasted to continue to increase. The agriculture harvest last year was particularly good, adding to the demand. And, happily, the auto sector is booming again as well. Last month's seasonally adjusted sales were the highest we have seen since 2006, and many automakers are taking steps to up their North American production capacity. These are all extremely positive indicators for a recovering economy, but their potential benefit is in significant danger of being blunted by the shipping delays and high costs of storing product, or relying on alternative, more expensive forms of transportation.

In a competitive market, an influx of demand would be met by an influx of increased supply (in this case new capacity), but as previously indicated, to many in the shipper community, it seems as though supply is very slow in coming in the rail sector. The Class I railroads tout large investments in capacity, but for many in the shipper community, it is difficult to sort out what is actually new capacity for existing shippers (such as automotive) versus maintenance of existing service or service for new shippers.

Many shippers, including many Alliance members, are becoming increasingly concerned that these service problems are not going away anytime soon, and they are adjusting their logistics planning accordingly. One large Alliance member notes that in response to delays this year, it had to rebalance shipping from one of its large plants from 85% rail-15% truck to 60% rail-40% truck. In light of what that company is seeing in the rail sector, it is taking steps to lock in truck contracts, expecting a similar ratio going forward several years.

While diverting vehicles from rail to truck may provide some logistical relief, this approach has its inherent limitations; in certain situations it is simply not feasible to haul significant volumes of vehicles for very long distances via truck. Shifting goods from rail to truck is also less efficient and more costly. The increased costs of "forcing" automakers to shift goods from rail to truck will eventually be passed down to consumers. It also makes the overall shipping community more vulnerable to fuel price spikes and supply vulnerabilities. To the extent that that rail service becomes less and less reliable, these concerns will be magnified and pressure for Congress or the STB to intervene will become more acute.

Automakers are encouraged by the attention this Committee as well as the STB is giving this critical issue. Additionally, we also appreciate the efforts of Senators Levin and Portman,

Co-Chairs of the Senate Auto Caucus, to draw attention to this important issue. In a July 8, 2014, letter to the STB (attached), the Senators highlighted the impact freight rail delays are having on the auto industry and urged the STB "to closely monitor this situation and work with the railroads to find a timely solution."[1]

While auto manufacturers and rail carriers communicate on a regular basis to discuss rail service issues, many of our members are growing increasingly dissatisfied with the responses (or lack thereof) that we are getting to our concerns. As Congress considers what, if any, steps it can or should take to address the concerns of other industries affected by recent rail service disruptions, automakers want to make sure our concerns are recognized and included in those considerations. We look forward to working with you on these issues.

[1] Levin, Carl and Portman, Rob. Letter to the Honorable Daniel R. Elliott, III, Chairman, Surface Transportation Board. July 8, 2014.

# United States Senate

WASHINGTON, DC 20510

July 8, 2014

The Honorable Daniel R. Elliott, III
Chairman
Surface Transportation Board
395 E Street SW, Suite 1220
Washington, DC 20423-0001

Dear Chairman Elliott:

As Co-Chairs of the Senate Auto Caucus, we are writing to bring to the Surface Transportation Board's attention serious freight rail delays negatively impacting the auto industry. These concerns were brought to the Surface Transportation Board's attention in a letter from the Auto Alliance dated April 17, 2014. We wish to reiterate the issues raised in the Auto Alliance letter and urge the STB to closely monitor this situation and work with the railroads to resolve the delays.

We understand that winter weather often results in seasonal rail service delays and that this winter was particularly severe. However, additional factors have exacerbated rail service disruptions nationwide. These include a shortage of railcars and an inadequate response to ameliorate this shortage, the annual month-over-month growth in auto production and auto exports as the industry rebounds from recession, and the boom in crude oil shipped by rail that is absorbing significant rail capacity.

While rail service delays are being felt across industry sectors and across the country and need to be addressed, it is a particularly urgent matter for the automotive industry. According to an April 23 Wall Street Journal article, the industry faces a backlog of nearly 160,000 finished automobiles on the ground awaiting rail transport. This backlog costs automakers tens of millions of dollars in storage fees and alternative means of transporting vehicles and has resulted in vehicle shortages at some dealerships across the country. This situation has significantly impacted the ability of automakers to deliver products to consumers.

We should be doing everything we can to support the resurgence of American manufacturing which is fed in large part by the comeback of the U.S. auto industry. This includes making sure the rail infrastructure on which America's manufacturers rely is operating efficiently and effectively. We urge the Surface Transportation Board to closely monitor this situation and work with the railroads to find a timely solution to the rail service deficiencies currently plaguing the U.S. transportation system.

Thank you for your consideration.

Sincerely,

Rob Portman
Co-Chair, Senate Auto Caucus

Carl Levin
Co-Chair, Senate Auto Caucus