STATEMENT OF

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Introduction

On behalf of the members of the Association of American Railroads (AAR), thank you for the opportunity to discuss the performance of America's freight rail system. AAR's freight railroad members account for the vast majority of freight railroad mileage, employees, and traffic in Canada, Mexico, and the United States. AAR's membership also includes Amtrak and commuter passenger railroads. This testimony is on behalf of the AAR's freight railroad members.

Comprehensive, reliable, and cost-effective freight rail service is critical to our nation. Our nation's freight railroads are proud that that is exactly what they generally provide. Indeed, America's freight rail system is second to none in the world.

That said, it is also clear that, for a not insignificant group of rail customers, rail service in recent months has not been of the quality they have come to expect, or that railroads themselves expect. Rest assured, railroads are working tirelessly to remedy these challenges. Substantial progress has been made, and while challenges remain, railroads are fully committed to maintaining progress toward restoring service levels that rail customers deserve.

And while I do not mean to minimize in any way the very real challenges that some rail customers are facing, it is important to note that U.S. railroads today are moving a tremendous amount of freight. In fact, average weekly U.S. rail volume, defined as carloads plus intermodal containers and trailers, was higher in August 2014 than in any month since October 2007. The intervening recession reduced freight traffic by about 20 percent. However, railroad spending on their networks remained comparatively high through these years, and increased over the last few years as volumes began to return.

The actions railroads are taking today will result in our nation's rail network being stronger and more resilient than ever, providing railroads the opportunity to improve their

operations and become better able to provide the efficient, reliable, and cost-effective freight transportation service that rail customers, and our nation, need in order to continue to prosper.

In the testimony below, I will discuss general issues related to the design and operation of rail networks, and discuss some of the specific factors that have contributed to recent rail service challenges. Foremost among these factors is a significant, rapid increase in demand for service — driven by commodity markets, expanding economic activity, and the related expansion of the domestic energy industry — that neither railroads nor their customers fully anticipated and that, in some cases, has proven challenging to handle with the resources available. Increasing demand included a different mix of traffic than previously, and some of this new mix has utilized areas of the rail network that had not previously seen such high traffic levels. In addition, this demand increase was accompanied by an unusually severe winter and subsequent thaw, as well as numerous spring flooding events, which continue to negatively impact rail operations in certain locations.

Network Planning and Management Complexity

Unlike other network industries that transmit fungible products (*e.g.*, electricity is the same, no matter who generates it) or products that can readily be routed to particular customers using automated equipment (*e.g.*, electronic signals for telecommunications), railroads must move specific rail cars carrying specific commodities from specific origins to specific locations and must do so outdoors, in all types of weather. To accomplish this, railroads devote enormous resources to planning and operations.

Even under the best of circumstances, day-to-day fluctuations have an impact on rail operations. Trains can be late or early for many different reasons, such as crew availability, customer facility fluidity, bad weather, grade crossing or other accidents, and even the

maintenance and construction of rail infrastructure itself. Flexibility is built into plans and operations, but this flexibility is reduced as demand on the network increases, and no plan can fully predict or accommodate all eventualities for all portions of a rail network.

As volumes increase, a number of factors make rail networks exceedingly complex to plan and manage and are worth noting here:

- Train types. Trains of a single type can often be operated at similar speeds and with relatively uniform spacing between them. This increases the total number of trains that can operate over a particular rail corridor. This situation, however, is relatively rare. Far more common is for trains of different types — with different lengths, speeds, and braking characteristics — to share a corridor. When this happens, greater spacing is required to ensure safe braking distances and to accommodate different acceleration rates and speeds. As a result, the average speed drops and the total number of trains that can travel over a rail corridor is reduced.[1]

- Service requirements. Different train types and customers have different service requirements. For example, premium intermodal trains demand timeliness and speed; for bulk trains (*e.g.*, coal or grain unit trains), consistency and coordinated pick-up and delivery is the priority; customers who own their own rail cars will want railroads to implement strategies which help them minimize fleet-related costs, for example by maximizing the number of "turns" (loaded to empty to loaded again) the rail cars make; passenger trains require high speed and reliability within very specific time windows; and so on.

- Maintenance. The need for safe operations is ever present, and proper line maintenance is essential for safe rail operations. In fact, because of higher rail volumes and a trend toward heavier loaded freight cars, the maintenance of the rail network has become even more important. Railroads have no desire to return to the days when maintenance "slow orders" (speed restrictions below the track's normal speed limit) were one of the most common causes of delay on the rail network. That's why maintenance is one of the most important parts of any railroad operating plan. It necessarily consumes track time that otherwise could be used to transport freight.

[1] It's no different on a highway, where efficiency is maximized when similar vehicles travel at similar speeds.

- Traffic volumes are not always foreseen. When planning their operations, railroads use past experiences, customer-provided forecasts, economic models, and other sources to produce their best estimate of what demand for their services will be well into the future. Railroads use those traffic forecasts to gauge how much equipment, labor, and other assets they need to have on hand. As with any prediction of future events, these traffic forecasts are imprecise predictors of markets. After a certain amount of traffic growth beyond what was anticipated, available resources will be fully deployed, and additional assets (some requiring long lead times — see below) will be needed.

- Traffic mix. The U.S. and global economies are constantly evolving. Firms — even entire industries — can and do change rapidly and unexpectedly. The collapse of the construction industry when the housing bubble burst in 2007 and the recent rapid growth in "new energy" production are just two examples. These broad, often unanticipated economic changes are reflected in changes not only in the volumes (see above paragraph) but also in the types and locations of the commodities railroads are asked to haul. If the commodities with rail traffic declines traveled on the same routes as commodities with traffic increases, the challenges these changes presented to railroads' operating plans have less impact. However, when traffic changes occur in different areas — as is usually the case and certainly has been the pattern in recent years — the challenges to railroads' operating plans are magnified.

- Resource limitations. Like firms in every industry, railroads have limited resources. Their ability to meet customer requirements is constrained by the extent and location of their infrastructure (both track and terminal facilities) and by the availability of appropriate equipment and employees where they are needed.

  Terminals — where trains are sorted, built, and broken down, similar in certain respects to airline hubs — are a case in point. If a train cannot enter a terminal due to congestion or some other reason, then it must remain out on a main line or in a siding where it could block or delay other traffic. The ability of a terminal to hold trains when necessary and to process them quickly is one of the key elements in preventing congestion and relieving it when it does occur. Thus, one of the most important factors in increasing capacity for the rail network is enhancing the fluidity of terminals. Unfortunately, terminals are often one of the more difficult areas in which to add capacity, in part because they are frequently in, or near, urban areas. Expansion generally means high land and, potentially, high mitigation costs. Even in less urban areas, a rail terminal is rarely considered positive by nearby residents, and its development or expansion to accommodate freight growth is usually the subject of intense debate.[2]

- Need for long lead times. It's an unfortunate reality that many of the constraints railroads face — particularly those involving their physical network — usually cannot be changed quickly. For example, it can take close to two years for locomotives and freight cars to be delivered following their order; six months or more to hire, train, and qualify new

[2] Transportation infrastructure projects across modes are often victims of interminable permitting delays. A project by CSX railroad to expand its Virginia Avenue tunnel just a few blocks from here is a case in point. We urge policymakers at all levels to implement permitting reform to improve our existing network of railroads, highways, and waterways to enhance our nation's competitiveness and reduce unnecessary costs and delays.

employees; and several years to plan, permit, and build new infrastructure. Rail managers must use their best judgment as to what resources and assets will be needed, and where, well in the future. Usually, this process works well, but when those judgments are off, serious problems can ensue. When these judgments must also deal with the uncertainties of rapid and historically unstable market changes, such as the recent emergence of energy products moving by rail, the probability of successful forecasting is even further reduced.

On a related point, firms in every industry walk a fine line when it comes to capacity. Generally speaking, if firms take too long to bring back idled capacity or to build new capacity, they risk shortages and lost sales. That's the case in terms of some rail operations right now. On the other hand, if firms build capacity on the hope that demand will increase, they risk that the demand will not materialize and they will be saddled with added, and wasted, costs. Like other firms, railroads must balance these risks, and different railroads may come to different decisions as to how much "surge capacity" is needed and where to locate such capacity on their networks. Nonetheless, significant investment has and will be made in railroad operating assets.

- Regulatory Requirements: Throughout all aspects of their operations, investments, and planning, railroads must navigate the ever-growing series of federal regulations which cumulatively can have a dragging impact and constrain railroad capacity. For example, while railroads are fully committed to implementing the requirement for positive train control (PTC) on approximately 60,000 miles of their networks, implementation of this technology comes with not only a financial, but also an operational cost. As PTC continues to be developed and implemented in the field, significant service disruptions will result, as each segment of track on which PTC will be installed must be taken out of service for periods as long as ten hours. Consider the fact that PTC is largely being installed along heavily-used main lines and it's easy to understand the dramatic reduction in capacity that will result.

  Beyond PTC, railroads continue to work through the vast number of new regulations mandated in the Rail Safety Improvement Act of 2008, including those related to hours of service and training standards which impact the availability of train crews. Further, operational restraints on certain commodities, such as speed restrictions on trains carrying crude oil, can have a reverberating effect on overall traffic movement. One only need imagine a slow truck on a two-lane highway and the traffic backups that can ensue. The fact is that, while most of these regulations in and of themselves do have some impact on operations, when taken together they can result in a substantial negative impact on capacity.

- Railroads are networks. Last, but not least, the significance of the network aspects of rail operations cannot be overemphasized. Disruptions in one portion of the system can quickly spread to distant points. Railroads are not unique among network industries in this regard — weather problems at one airport can quickly cause problems at many other airports, for example. But unlike airline networks, where the overnight hours can usually be used to recover from the previous day's problems, rail networks operate 24 hours a day, 7 days a week. Thus, incident recovery must be accomplished at the same time that

current operations are ongoing and while the other factors mentioned above continue to come into play. That's why, in extreme cases, recovery in rail networks can take months. The winter of 2013/2014 is one such extreme case that is discussed further below.

In light of the factors summarized above and many more, railroads try to design effective operating plans that resolve the thousands of competing customer interests that make daily use of railroad resources. They also do their best to make incremental changes to operating plans where possible — for example, by changing the routing of business through a particular railroad's network so that more traffic is routed to less congested areas. But because of the complexities involved, new operating plans often require components (for example, adding critical new infrastructure) that can take months to implement. And when capacity is constrained, as it is in certain geographic areas on the rail network today, disruptive incidents are more common and recovery takes longer than when the network is not fully utilized.

Railroads Are Working on a Variety of Fronts to Increase Capacity and Service Reliability

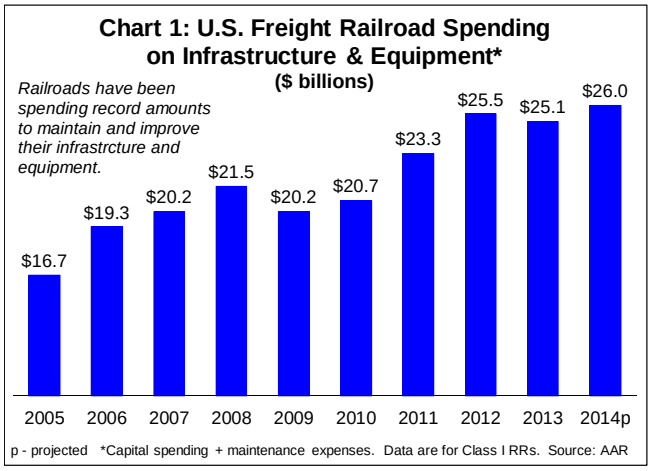
As noted at the outset, railroads know that, for many of their customers, rail service in recent months has not been at the level they expect. Railroads are working tirelessly to address this, including by making robust investments in equipment and employees, which are the rail assets that can be most readily adjusted to match capacity.

Massive Spending on Infrastructure and Equipment

Of the many different factors that affect how well a rail network functions, the basic amount and quality of infrastructure and equipment are among the most important. That's why freight railroads have been expending, and will continue to expend, enormous resources to improve their asset base.

Rail spending for these purposes has never been higher than it is right now. After spending more than $25 billion in both 2012 and 2013 on capital expenditures and maintenance

expenses related to their track, signals, bridges, tunnels, terminals, locomotive, freight cars, and other infrastructure and equipment — more than ever before — Class I railroads are projected to spend at least $26 billion for these purposes in 2014 (see Chart 1). Despite the "Great Recession" and slow recovery, railroads continued to plow record amounts of funds back into their networks.



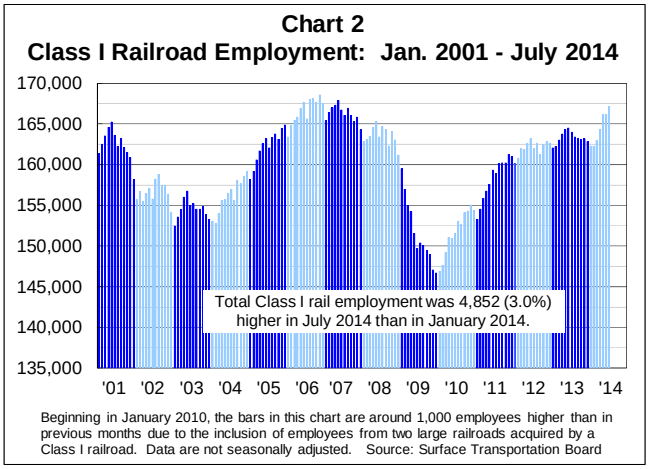
In fact, given their intense efforts to address service issues and recent announcements by several railroads that they are increasing the amounts they originally planned to spend this year, it would not be surprising if total spending in 2014 exceeded $26 billion. In aggregate, railroads have put hundreds of additional locomotives and thousands of additional freight cars in service in recent months, all with an eye toward resolving service issues and meeting customer needs.

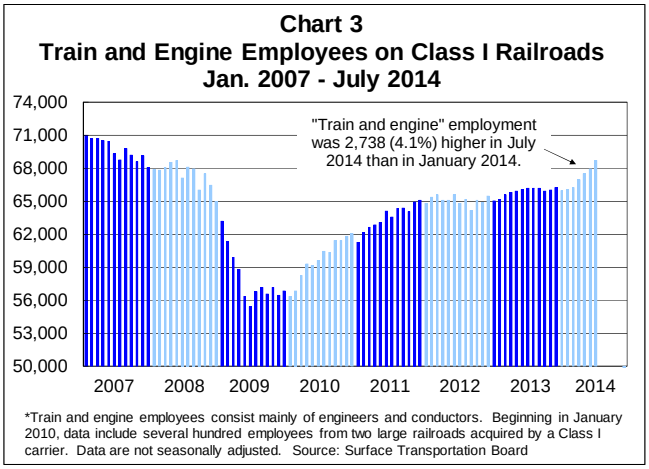
Hiring New Employees

In addition to equipment and infrastructure, personnel are a key determinant of rail capacity and service, and railroads have been aggressively hiring and training new employees. Like every other major U.S. industry, freight railroads saw a reduction in employees during the "Great Recession," but there has been a significant recovery in rail employment since then, including a sharp surge since the beginning of 2014 when existing service problems began in earnest. Class I railroads had 4,852 more employees in July 2014 than in January 2014, a 3.0 percent increase (see Chart 2).

Rail employment growth is even more impressive in the category most relevant to resolving the service issues: the number of "train and engine" employees, which consist mainly

of engineers and conductors who operate trains, was up 4.1 percent (2,738 employees) from January 2014 to July 2014 (see Chart 3).





To put the rail employment growth in perspective, employment across the U.S. economy rose just 1.1 percent from January 2014 to July 2014. To the best of our knowledge, no major industry has seen higher employment growth since the beginning of this year than the 4.1 percent increase in train and engine employment, and only a small handful have seen employment growth greater than the 3.0 percent seen by freight railroads overall. As we have seen, even this high level of employment growth has not been sufficient to meet demand in some locations and railroads continue to hire and train additional people to ensure that the resources will be available in the future to properly meet customer requirements.

A Surge in Demand for Rail Service

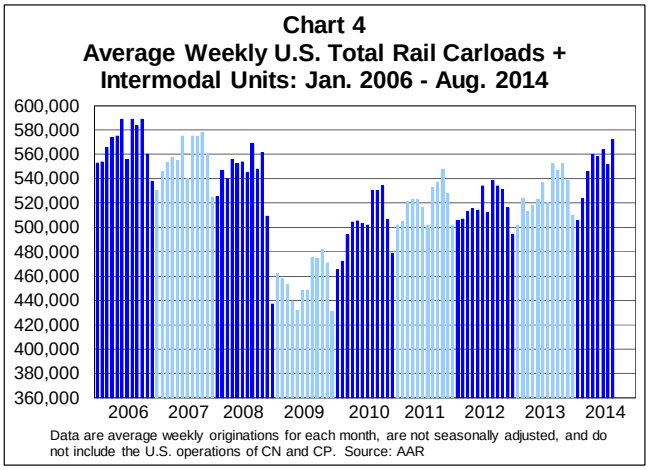
In recent periods, substantial growth in demand for rail service across industrial sectors has been a key factor behind the service issues facing certain segments of the rail industry. This growth has not only occurred rapidly, it has been in markets and locations that are, in many cases, different from where the rail industry has experienced past growth. This market shift phenomenon happens in many industries, but it is particularly difficult for railroads to deal with

since railroads cannot simply pick up track and move it from one location to another. Railroads must build new infrastructure from scratch to deal with these market changes.

From January 2012 through February 2014, monthly year-over-year growth in U.S. rail carload traffic averaged -1.7%. However, from March 2014 through August 2014, year-over-year monthly rail carload growth averaged a much more robust 4.8 percent, thanks to a variety of factors such as (among other things) the record grain crop last year, recovery in demand for coal to generate electricity (discussed further below), and better general economic conditions.

Likewise, rail intermodal traffic has surged in 2014 as well, with average monthly year-over-year growth of 7.3 percent from March 2014 through August 2014, up from an average of roughly half that from January 2012 through February 2014.

Chart 4 shows average weekly U.S. rail carloads plus intermodal units from January 2006 through August 2014. Note the dramatic increase since early 2014. Growth has been so strong, in fact, that, as noted earlier, average weekly U.S. rail volume (carloads plus intermodal containers and trailers) was higher in August 2014 than in any month since October 2007.



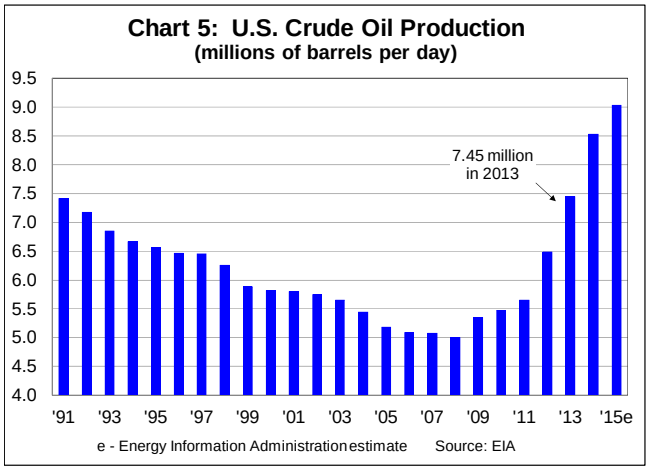
The surge in rail traffic was challenging because it was ubiquitous and largely outside the scope of forecasted demand estimates, by railroads and their customers alike, and frequently did not occur in traditional markets or geographic areas. As discussed above, railroads are like other firms in that they plan to have assets on hand sufficient to handle expected business, but in this case customer demand was underestimated. Service performance and network velocity are

adversely affected when a crew base and locomotive supply are planned for lower traffic volumes than actually occur. That's why railroads have been taking steps such as hiring significant numbers of additional train crews, providing incentives to existing employees to delay vacations and retirements, taking locomotives and freight cars out of storage, accelerating repair activity to increase the supply of locomotives and freight cars, reallocating capital budgets to support higher locomotive purchases, and much more.

Crude Oil

There has been a great deal of discussion in recent months about the growth in the movement of crude oil by rail, and how rail crude oil shipments are allegedly "crowding out" grain and other rail commodities.

As I discussed in detail in testimony to this committee on March 5, 2014, thanks to the "shale boom," U.S. crude oil output has risen sharply in recent years and is expected to continue to grow (see Chart 5). Much of the recent increase in crude oil production has occurred in North Dakota, where crude oil production rose from an average of 81,000 barrels per day in 2003 to close to a million barrels per day today. Most of North Dakota's crude oil output is transported out of the state by rail.

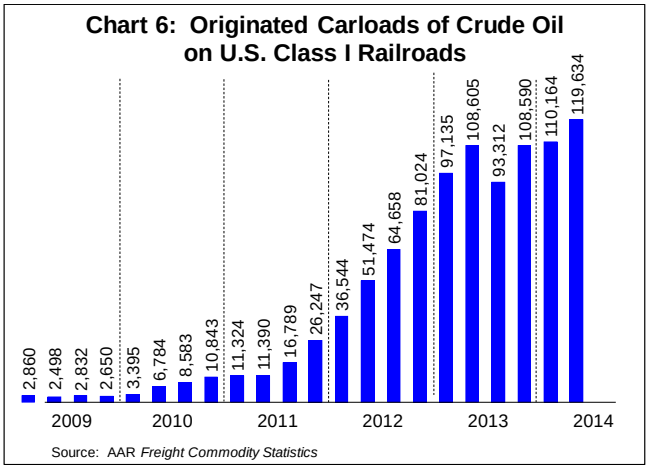


The development of shale oil represents a tremendous opportunity for our nation to move closer to energy independence. The widespread benefits this would entail include reduced reliance on oil imports from unstable countries whose interests do not necessarily match up well with our own; increased economic development all over the country; thousands of new well-

paying jobs; tens of billions in savings in our nation's trade deficit every year; and substantial amounts of new tax revenue for governments at all levels.

Rail has a critical role in delivering these crucial benefits to our country. As recently as 2008, U.S. Class I railroads originated only 9,500 carloads of crude oil. By 2013, that had grown to 407,761, equal to around 11 percent of U.S. crude oil production.

That said, one must be careful when looking to ascribe blame to crude oil for the service problems railroads are currently facing, which, as discussed below, became especially acute during and after this past winter. As Chart 6 shows, Class I railroads originated 229,798 carloads of crude oil in the first half of 2014, up 11.7% (24,058 carloads) over the 205,740 carloads originated in the first half of 2013. That's a considerably slower rate of growth compared with 2011 and 2012 trends. Crude oil accounted for just 1.6% of total Class I carload originations in the first half of 2014.[3]

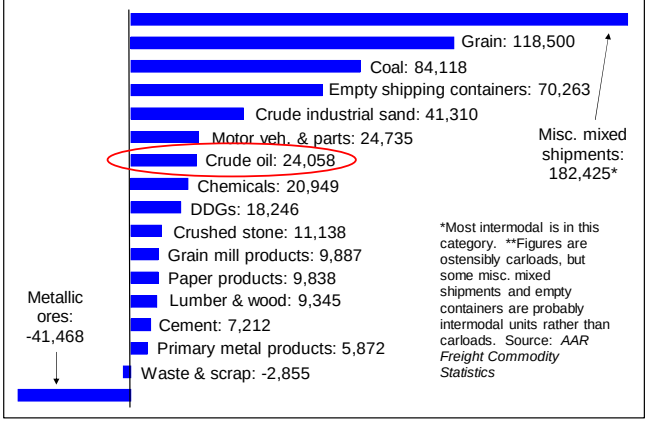


Moreover, the 24,058 more originated carloads of crude oil in the first half of 2014 works out to less than 1.5 new train starts per day, on average. Surface Transportation Board data indicates that there are approximately 5,000 train starts per day. Thus, recent new crude oil train starts are a small fraction of total train starts nationwide.

[3] Data in this section come from a different source of rail traffic data than the source used to produce Chart 4 above. This alternative data source is not as timely as the source used for Chart 4, but it includes much more commodity detail, allowing the break out of crude oil and other commodities that is not possible using the other data source. In addition, unlike the first data source, the alternative data source used in this section includes the U.S. operations of Canadian railroads, which for grain and crude oil specifically are significant.

Crude oil is also a small portion of total recent traffic increases. Class I railroads originated a total of 645,704 more units in the first half of 2014 than in the first half of 2013.[4] The 24,058 additional carloads of crude oil are just 3.7 percent of the total net first-half increase. By comparison, as Chart 7 shows, in the first half of 2014 compared with the first half of 2013, Class I railroads originated 182,425 more carloads of "miscellaneous mixed shipments" (most intermodal is in this category), 118,500 more carloads of grain, 84,118 more carloads of coal, 41,310 carloads of crude industrial sand (this includes frac sand), 24,735 carloads of motor vehicles and parts, 20,949 more carloads of chemicals, and 18,246 more carloads of dried distillers grain (DDGs, a byproduct of ethanol production used as animal feed). Again, crude oil is not a significant source of overall rail traffic growth so far in 2014 over 2013.

Chart 7: U.S. Rail Traffic First Half 2013 vs. 2014**



This is not to say that crude oil transport is not having an effect on the transport of other commodities, especially in certain geographic areas where crude oil volumes are much more concentrated than elsewhere. But rather than saying that crude oil is crowding out other traffic, it is more accurate to say that, right now, on some railroads, on some lines, rail capacity is a scarce resource. Railroads are doing everything they can to increase the supply of this resource. But as noted earlier, infrastructure creation takes time, even for urgent programs. For the time being, on congested rail lines, all commodities railroads are hauling are competing with each other for available capacity. Railroads do their best to address the needs and desires of all of their customers on an individual basis, but they must keep foremost in mind the need to maximize

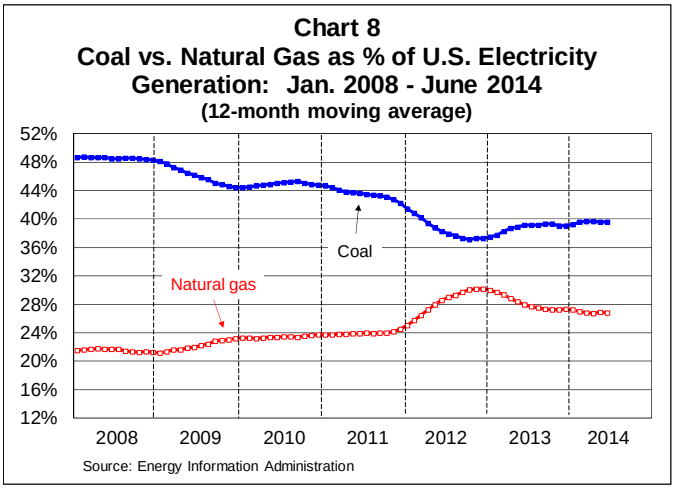
[4] Units consist of carloads and intermodal containers and trailers, though the exact breakdown is not clear.

velocity across their networks, as a whole, to the benefit of all customers. Conflicting demands for the use of rail capacity are inevitable and railroads are doing what they can to minimize them, but when they occur, some rail customers are bound to prefer a different outcome. Any time there is a scarce resource and demand exceeds supply, someone is bound to be left unhappy.

Coal Traffic Has Been Higher Than Anticipated

In addition to leading to sharply higher crude oil production, the "shale boom" has also led to sharply higher natural gas production and, consequently, lower natural gas prices from what they once were. That has made electricity generated from natural gas much more competitive vis-à-vis electricity generated from coal.

However, as Chart 8 shows, over the past 18 months or so, not only has the coal share of U.S. electricity generation stopped falling, it's actually risen, as utilities that had been generating electricity from natural gas switched back to lower-priced coal. According to the U.S. Energy Information Administration, in the first half of 2013, coal accounted for 764 million megawatthours of U.S. electricity generation, equal to 39.1 percent of the total. In the first half of 2014, coal accounted for 806 million megawatthours, or 40.1 percent of U.S. electricity generation. This past winter in particular, the price of natural gas spiked, leading to greater than expected demand for coal and the sharply higher rail coal volume shown in Chart 7.



Extreme Weather Wreaked Havoc on Railroads, Especially in Chicago

The railroad "factory floor" is outdoors and nearly 140,000 miles long. As such, railroading is arguably more susceptible to weather-related problems than any other major industry. Thanks to their experience and the skill and professionalism of their employees, railroads are usually adept at handling weather events of all types. That said, extreme weather events, particularly sustained extreme weather events, can wreak havoc on rail operations. For example, extremely cold weather can force railroads to dramatically shorten the length of their trains, while snow accumulation can make it difficult to keep rail yards functioning. In much of North America, this past winter was one very long, very severe extreme weather event, with both record cold temperatures and record precipitation.

While this past winter was unusually harsh in much of the country, it was especially so in the Chicago area. Chicago has been a crucial nexus in the North American rail network for over a century. Today, nearly 1,300 trains (500 freight and 760 passenger) pass through the region each day. In fact, around one-fourth of the nation's freight rail traffic passes through or near Chicago. As such, when railroading becomes difficult in Chicago, it quickly becomes difficult throughout the rail network.

According to the National Weather Service, Chicago experienced its coldest four-month period on record between December 2013 and March 2014, with an average temperature of 22 degrees and a record number of days (26) at zero degrees or below. Chicago's 82 inches of snow this past winter was the third-highest in history and well over double the annual average of the previous 20 years.

Moreover, during ordinary winters, there is usually time between storms to do some clean-up. Railroads typically ensure that their winter staffing levels are adequate to deal with

these problems. However, that was often not the case this year due to short intervals between storms. In Chicago, for example, once the bad weather started, there was never a real opportunity for railroads to get their operations back to normal before the next severe cold spell or winter storm hit. The problems in Chicago and elsewhere in the Midwest were compounded by the fact that the severe weather occurred unusually far south this year so that the geography needing relief was much larger. Usually, the southern regions have served as relief valves during northern disruptions, and early last winter diversion of trains into this region was being planned, where possible. However, that outlet was not generally available much of the past winter. For example, a series of ice storms in a band between Atlanta and Memphis made it unsafe, sometimes impossible, for train crews to get to work in this region or for maintenance crews to properly tend to the many day-to-day problems requiring resolution in a properly operating railroad. The result was rail congestion in an area which has typically been available to relieve problems created by winter weather further north.

Now, it's true that, as some rail critics have charged, "winter comes every year," but to claim that this past winter was typical is to be disingenuous. I respectfully submit to you that, if we had a "normal" winter this year, the capacity challenges we have seen would likely be at a significantly lower level. We should also remember that the challenges which have faced rail operations in many key areas were further exacerbated by widespread, regional spring flooding that was largely the result of the severe winter.

As noted above, when capacity is constrained, disruptive incidents are more common and recovery takes longer than when the network is not fully utilized. In a nutshell, that explains why the events of this past winter continue to affect rail operations today.

Improving Rail Operations in Chicago

Rail capacity has long been constrained in Chicago. Indeed, improving capacity utilization and the efficiency of rail operations in the Chicago region is the reason for the Chicago Region Environmental and Transportation Efficiency Program (CREATE), which has been underway for several years. CREATE is a multi-billion dollar program of capital improvements aimed at increasing the efficiency of the region's rail infrastructure. A partnership among various railroads, the city of Chicago, the state of Illinois, and the federal government, CREATE includes 70 projects, including 25 new roadway overpasses or underpasses; six new rail overpasses or underpasses to separate passenger and freight train tracks; 36 freight rail projects including extensive upgrades of tracks, switches and signal systems; viaduct improvement projects; grade crossing safety enhancements; and the integration of information from dispatch systems of all major railroads in the region into a single display. To date, 20 projects have been completed, nine are under construction and 19 are in the design phase.

Railroads are confident that, as CREATE proceeds, rail operations in Chicago will become more fluid and better able to withstand shocks such as those presented by extreme weather. Railroads are also taking additional steps outside of the CREATE framework to add resiliency and efficiency to Chicago area rail operations.

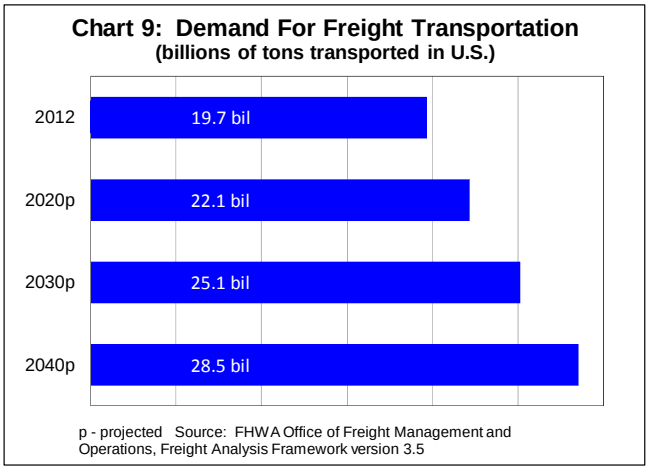
For example, right now railroads are investigating processes that will allow them to automate and centralize the reporting of various operating metrics regarding the status of rail operations in Chicago, such as dwell time, rail car inventory, the number of trains “holding” at a particular location, the number of cars delivered per day, the number of cars en route to Chicago, and corridor velocity. The goal is to provide railroads with a common understanding of actual

problems and, hopefully, provide warning of potential problems so that railroads can take steps ahead of time to minimize them.

Current Service Issues Are Not a Good Reason to Increase Government Control of Rail Operations

It is unfortunate that some groups are seeking to take advantage of the current rail service problems to advocate for far-reaching changes to the regulatory regime under which railroads operate that would result in a much greater government role in freight rail operations.

That would be a profound mistake. As described above, railroads are already working very hard to remedy the service issues they face and are confident they will succeed. Looking ahead, railroads know that they will have to continue to expand their capacity to meet growing transportation demand. Recent forecasts from the Federal Highway Administration found that total U.S. freight shipments will rise from an estimated 19.7 billion tons in 2012 to 28.5 billion tons in 2040 — a 45 percent increase (see Chart 9).



Railroads are the best way to meet this demand, and they're getting ready today to meet the challenge. They will continue to reinvest huge amounts back into their systems, as long as a return to excessive regulation does not prevent them from doing so.

It is beyond the scope of this testimony to discuss in detail the many ways in which railroad reregulation is misguided. In short, it would force railroads — through what amounts, in one way or another, to price controls — to lower their rates to favored shippers at the expense of other shippers, rail employees, and the public at large. Billions of dollars in rail revenue could

be lost each year. Artificially cutting rail earnings in this way would severely harm railroads' ability to reinvest in their networks. The industry's physical plant would deteriorate; essential new capacity would not be added; and rail service would become slower, less responsive, and less reliable at the very same time that rail customers are demanding *more* rail capacity and *more* reliable rail service. It makes no sense whatsoever to enact public policies that would discourage private investments in rail infrastructure when our nation needs more of it.

Conclusion

America today has the best freight rail network in the world. That said, it is clear that, for a variety of reasons, rail service to some rail customers is not at the high level they expect. Railroads are fully aware of this, and they are taking the necessary steps to meet current capacity demands and invest for future growth. Railroads have no greater goal than to provide safe, efficient, and cost effective service to their customers.