America Needs More Rail Capacity

Association of American Railroads
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Summary

As the economy continues to recover, America's demand for safe, affordable, and environmentally responsible transportation will grow. **Railroads are the best way to meet this demand**. America has the best freight railroads in the world, and since they are four times more fuel efficient than trucks, they **save fuel** and **reduce greenhouse gas emissions**. Policymakers can help ensure America has the rail capacity it needs in the years ahead by instituting **tax incentives** for expanding rail capacity; by entering into more **public-private partnerships** with railroads, and by keeping **reasonable regulations** that protect shippers and consumers while giving railroads the freedom to operate in the competitive marketplace.

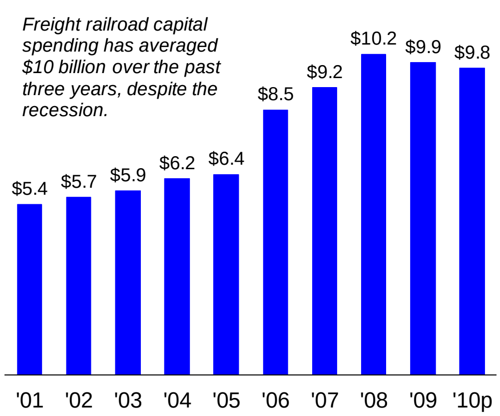
Expanding Rail Capacity To Meet Tomorrow's Transportation Needs

Unlike trucks, barges, and airlines, America's privately-owned freight railroads operate almost exclusively on infrastructure that they own, build, maintain, and pay for themselves.

In fact, from 1980 to 2010, **freight railroads reinvested $480 billion** of their own funds — not government funds — on locomotives, freight cars, tracks, bridges, tunnels and other infrastructure and equipment. That's more than **40 cents out of every revenue dollar**, invested right back into a rail network that keeps our economy moving.

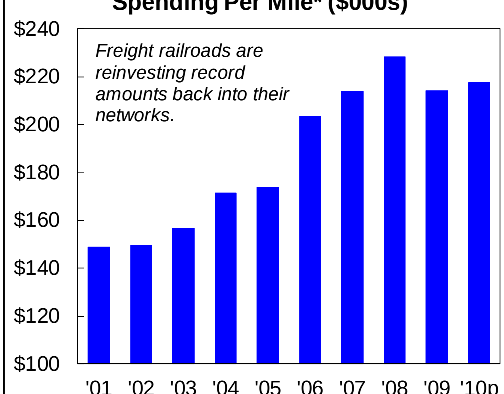
And despite the tough economic times over the past few years, railroads have been reinvesting more than ever before — including capital spending that is double the levels of just a few years ago. Why are railroads investing so much? Because they know that if future U.S. freight transportation demand is to be met, rail capacity must be expanded.

Freight Railroad Capital Expenditures ($ billions)



Data are for Class I railroads. 2010 is preliminary. Source: AAR

Freight Railroad Infrastructure & Equipment Spending Per Mile* ($000s)



*Capital spending + maintenance expenses - depreciation per mile of railroad. Data are for Class I railroads. 2010 is preliminary Source: AAR

The massive investments railroads must make in their systems reflect their extreme capital intensity. From 2000 to 2009, the average U.S. manufacturer spent 3 percent of revenue on capital expenditures. The comparable figure for U.S. freight railroads was nearly 17 percent, or more than five times higher.

In fact, the four largest U.S. freight railroads each spend far more on their respective rail networks than the vast majority of state highway agencies spend on their respective highway networks. Only the highway agencies of Texas, Florida, and California spend more on highways than Union Pacific and BNSF each spend on their networks. CSX and Norfolk Southern are also in the top 10 compared with all states.

Capital Expenditures as a % of Revenue for Various U.S. Industries: Avg. 2000-2009

Average all manufacturing	**3%**
Food mfg.	2%
Petroleum & coal products mfg.	3%
Machinery mfg.	3%
Motor vehicles & parts mfg.	3%
Wood product mfg.	3%
Fabricated metal products	3%
Chemical mfg.	3%
Plastics & rubber products mfg.	4%
Paper mfg.	4%
Computer & electr. product mfg.	5%
Nonmetallic mineral product mfg.	5%
Electric utilities	15%
Class I Railroads	**17%**

Source: U.S. Bureau of the Census, AAR, EEI

RR Spending on Way & Structures vs. State Highway Agency Spending - 2008 ($ billions)

		Total
1.	Texas	$8.40
2.	Florida	$6.24
3.	California	$5.65
	Union Pacific	**$4.91**
	BNSF	**$4.02**
4.	New York	$3.82
5.	Pennsylvania	$3.77
6.	Illinois	$3.50
7.	Georgia	$2.84
8.	North Carolina	$2.71
	CSX	**$2.70**
9.	Michigan	$2.52
	Norfolk Southern	**$2.48**
10.	Virginia	$2.39

Data include capital outlays and maintenance expenses. Sources: FHWA, AAR

Experts agree that **over the long term, freight transportation demand will grow**, further supporting the need for more rail capacity. The Federal Highway Administration, for example, recently reported that total freight movements across all modes are projected to rise from an estimated 16.9 billion tons in 2010 to 27.1 billion tons in 2040 — a 61 percent increase.

Railroads will continue to reinvest huge amounts back into their systems, but if the United States is to have the socially optimal amount of rail capacity, policymakers must help. Three key steps they can take include:

1. **Tax Incentives for Expanding Capacity**. Tax incentives to build new tracks, bridges, tunnels, and other rail infrastructure make good economic sense. **Every $1 invested would result in more than $3 in total economic output**. Each $1 billion of new rail investment induced by tax incentives would create **20,000 jobs**.

2. **Public-Private Partnerships**. Public-private partnerships allow governments to expand the use of rail, paying only for the public benefits of a project. Freight railroads pay for the benefits they receive. It's a win-win for all involved.

3. **Reasonable Regulation**. In 1980, Congress passed the Staggers Rail Act, creating a balanced regulatory system that protects shippers against unreasonable rail pricing while allowing railroads to decide for themselves how to manage their operations. Policy-makers should reject calls to return to a time when Washington ran America's railroads.