



PROPOSED NEW REGULATION WOULD UNDERMINE PRIVATE INVESTMENT IN FREIGHT RAIL NETWORK

The U.S. Surface Transportation Board (STB) has announced a plan to impose a series of new regulations on freight railroads. STB is a government agency with broad economic regulatory authority over railroads.

These burdensome new rules would undermine the balanced regulatory framework established by the Staggers Rail Act of 1980, which brought freight railroads back to financial health and stability after years of federal over-regulation had nearly driven them to extinction. The proposals would expand government intrusion in daily business decisions at railroads and have far-reaching impacts if enacted, affecting consumers, manufacturers, farmers, passenger rail lines, ports and others from coast to coast. By undercutting railroads' ability to earn revenue and operate efficiently, the new regulations would stifle private investment in the nation's rail network, which is critical to meeting the needs of a growing economy.

What the Regulations Would Do

In its Notice of Proposed Rulemaking (NPRM), STB proposed to:

- Require railroads to open up their lines to competitors, introducing a radical approach that would force railroads to turn over traffic to other railroads, potentially at below-market rates and without proof that they are being uncompetitive. This "forced access" rule also would significantly compromise the efficiency of the nation's rail network;
- Re-regulate certain commodities (crushed and broken stone, coke produced from coal, primary iron and steel products, hydraulic cement, and iron and steel scrap, wastes and tailings) that the STB has previously determined are subject to pervasive competition. This action by STB is being proposed without any evidence that market conditions have changed and despite the fact that none of these commodity groups petitioned for re-regulation.

In addition, other proposals currently pending before the STB would:

- Cap rates that railroads charge shippers, a step that would amount to government price controls. This would be a dramatic change from the regulatory system set up by the Staggers Act, where the STB is supposed to assist railroads in achieving long-term financial health and stability and let railroads operate in the free market like other companies (including rail shippers).
- Establish special, more lenient rules for evaluating grain rates, essentially using favoritism to give preferential treatment to shippers based on what they ship.

How This Would Impact Freight Railroads

When considered as a whole, these proposals represent a sweeping change to the market-based approach favored by regulators since 1980.

Railroads are capital intensive and must spend huge sums on rail infrastructure to keep their lines safe and efficient. Existing smart, balanced regulations have supported a freight rail renaissance that has seen railroads invest \$26 billion of their own money into their infrastructure each year for the last five years alone.

Past analysis by the Association of American Railroads found that a proposal similar to STB's forced access proposal could affect an estimated 7.5 million carloads of traffic, placing nearly \$8 billion in revenues at risk. By reducing revenue, these new regulations would have a chilling effect on the ability of railroads to make the investments in track, equipment and maintenance that created today's system of strong service, record efficiency and competitive customer rates. Over time, this would shrink the size of the rail network and impede the flow of goods to and from factories, farms and ports. Transportation costs would increase, impacting jobs and raising prices for consumers.

The recently enacted STB Authorization Act of 2015 did not call for the adoption of any of these measures and, in fact, similar proposals were rejected every time they came before Congress.

Why This Matters

If the STB makes good on this threat, railroads will be less efficient and less able to invest in their infrastructure, which supports companies and communities across the country. A recent study by Towson University's Regional Economic Studies Institute found that in 2014 alone, freight railroads supported approximately 1.5 million jobs and \$274 billion in annual economic activity, nearly \$90 billion in wages and \$33 billion in tax revenues.

Undermining efficiency and investment would compromise the public benefits of private railroad investment:

- Aiding a still-recovering national economy;
- Increasing U.S. exports, one-third of which are shipped by rail;
- Achieving U.S. energy independence through rail transport of domestic energy products;
- Reducing the taxpayer burden for already underfunded and crumbling highways and bridges;
- Improving air quality by moving freight long-haul by rail, which emits 75 percent fewer greenhouse gases than trucks;
- Ensuring reliable service for Amtrak passengers and commuters because many passenger trains run on freight rail infrastructure.

The current regulatory system works. It allows America's freight rail network to achieve efficiencies that make it the envy of the world, while still protecting shippers. Stepping backward would harm not only railroads, but also companies and communities nationwide.

Congress should call on the Surface Transportation Board to withdraw these shortsighted and heavy-handed regulations.

The STB should continue the smart, balanced regulations that sparked a freight rail renaissance and avoid harming the rail network and the nation.