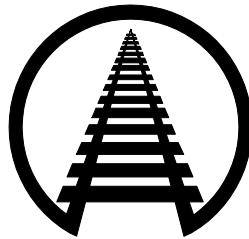


**TESTIMONY OF**  
**IAN JEFFERIES**  
**PRESIDENT & CHIEF EXECUTIVE OFFICER**  
**ASSOCIATION OF AMERICAN RAILROADS**



**BEFORE THE**  
**U.S. HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE**  
**SUBCOMMITTEE ON RAILROADS, PIPELINES**  
**AND HAZARDOUS MATERIALS**  
**HEARING ON THE STATE OF THE RAIL WORKFORCE**

**JUNE 20, 2019**

**Association of American Railroads**  
**425 Third Street SW**  
**Washington, DC 20024**  
**202-639-2100**

## Introduction

On behalf of the members of the Association of American Railroads (AAR), thank you for the opportunity to be here today.

From one end of the country to the other, America is connected by the best freight rail system in the world. The seven large “Class I” railroads, working with more than 600 smaller railroads, approximately 165,000 railroad employees, and tens of thousands of rail customers, deliver economic growth, support job creation, and provide crucial environmental benefits such as reduced highway gridlock and cleaner air.

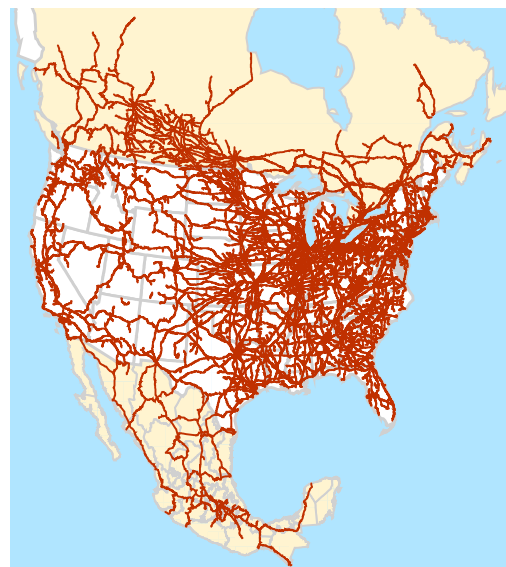
Type of Railroad	Number	Miles Operated*	Employees	Revenue (\$ billions)
Class I	7	93,058	147,537	\$70.0
Non-Class I	607	44,030	19,710	\$4.0
Total	614	137,088	167,247	\$74.0

\*Excludes trackage rights. Source: AAR

America’s freight railroads are overwhelmingly privately owned and operate almost exclusively on infrastructure that they own, build, maintain, and pay for themselves. Since 1980, freight railroads have plowed more than \$685 billion —

of their own funds, not taxpayer funds — on capital expenditures, technology, and maintenance expenses related to locomotives, freight cars, tracks, bridges, tunnels and other infrastructure and equipment. That’s more than 40 cents out of every revenue dollar, invested back into a rail network that keeps our economy moving safely. For context, the average U.S. manufacturer historically spends about three percent of revenue on

**The North American Freight Rail Network**



capital expenditures. The comparable figure for U.S. freight railroads in recent years has been about 19 percent, or six times higher. And importantly, these investments have improved rail

safety, since a railroad that is in good physical condition is a railroad that is safer. In fact, for many of these investments, improving safety is the primary reason the investments were made.

Railroads are also the environmentally responsible way to move freight. In 2018, railroads moved a ton of freight an average of 473 miles per gallon of diesel fuel. That’s roughly equivalent to moving a ton from Chicago, IL to Omaha, NE, or from Little Rock, AR to Austin, TX on a single gallon. On average, railroads are approximately four times more fuel efficient than trucks. That means moving freight by rail helps our environment by reducing energy consumption and greenhouse gases. Moreover, because a single train can carry the freight of several hundred trucks, railroads cut highway gridlock and reduce the high costs of highway construction and maintenance.

### Transporting What Our Nation Needs

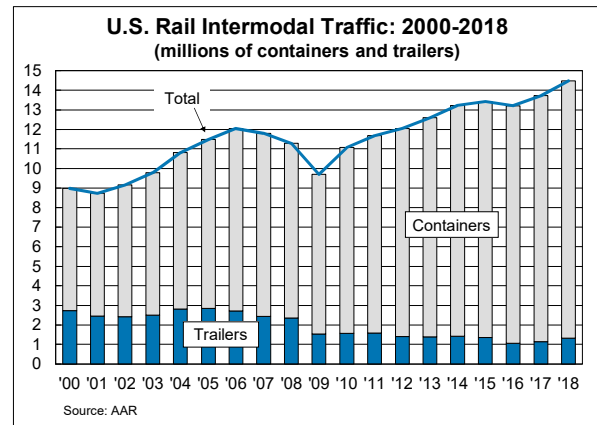
From the food on our tables to the cars we drive to the shoes on our children’s feet, freight railroads carry the things America needs.



Railroads carry enormous amounts of corn, wheat, soybeans, and other grains; fertilizers, plastic resins, and a vast array of other chemicals; cement, sand, and crushed stone to build our

highways; lumber and drywall to build our homes; autos and auto parts; animal feed, canned goods, corn syrup, flour, frozen chickens, beer, and countless other food products; steel and other metal products; coal, crude oil and other petroleum products; paper products; iron ore and scrap metal for steelmaking; and much more.

Rail intermodal is the movement of shipping containers and truck trailers by rail. It's been the fastest growing major rail traffic segment over the past 25 years and set a new annual volume record in 2018. Just about everything you find on a retailer's shelves may have traveled on an intermodal train. Around half of rail intermodal consists of imports or exports.



### The Right Track for the Economy

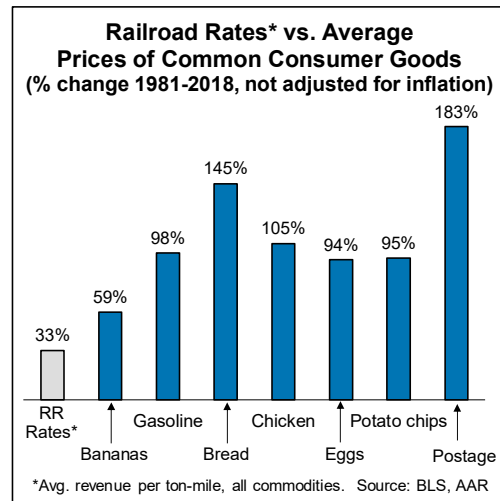
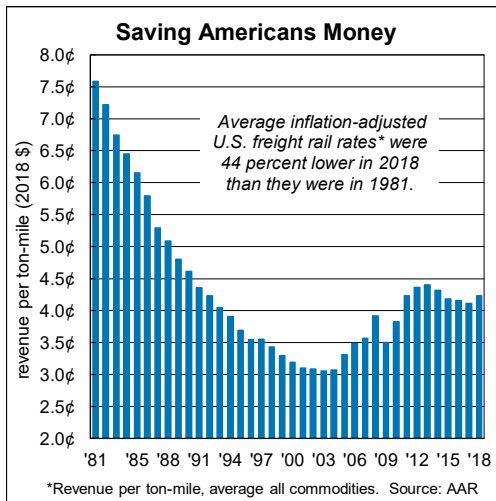
America's freight railroads connect producers and consumers across the country and the world, expanding existing markets and opening new ones.

An October 2018 study from Towson University's Regional Economic Studies Institute found that, in 2017 alone, the operations and capital investment of America's major freight railroads supported approximately 1.1 million jobs (nearly eight jobs for every railroad job), \$219 billion in economic output, and \$71 billion in wages. Railroads also generated nearly \$26 billion in tax revenues. In addition, millions of Americans work in industries that are more competitive in the tough global economy thanks to the affordability and productivity of America's freight railroads.

Without railroads, American firms and consumers would be unable to participate in the global economy anywhere near as fully as they do today. The AAR estimates that international

trade accounts for approximately 35 percent of U.S. rail revenue, 27 percent of U.S. rail tonnage, and 42 percent of the carloads and intermodal units that U.S. railroads carry.

The affordability of freight rail saves rail customers (and, ultimately, American consumers) billions of dollars each year and enhances the global competitiveness of U.S. products. Average rail rates (measured by inflation-adjusted revenue per ton-mile) were 44 percent lower in 2018 than in 1981. This means the average rail shipper can move close to twice as much freight for about the same price it paid more than 35 years ago.



**Railroad Employees: Safe, Professional, Productive, and Highly Compensated**

Railroads appreciate the skill and professionalism of their employees, and railroads are committed to working with them to help ensure that the future of railroads remains bright. Rail management and rail employees are united in their conviction that a safe and healthy working environment creates a safe and efficient railroad, which is indispensable to America’s economic well-being.

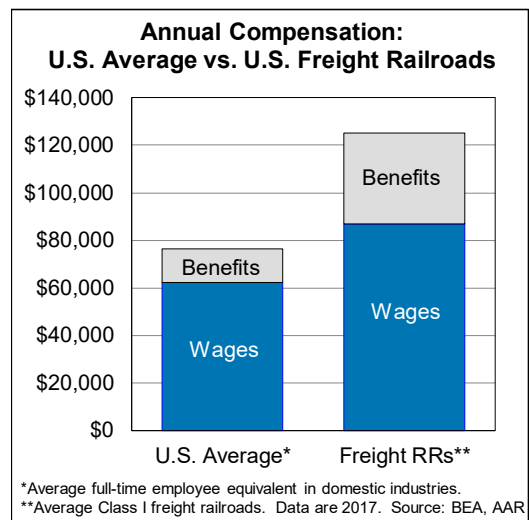
As one of the country’s oldest industries, nearly every facet of the rail industry management-employee interface is governed by unique legal and regulatory schemes that have

been developed over the last 130 years. More than a dozen labor unions have rail industry employees as members. Approximately 85 percent of the employees of Class I railroads and around 60 percent of employees of non-Class I railroads belong to a labor union and therefore are subject to collective bargaining.

Collective bargaining between freight railroads and their employees is governed by the Railway Labor Act (RLA), which was first passed in 1926 and amended occasionally since then. Under the RLA, collective bargaining agreements are amendable rather than expire. Without contract expiration dates, the negotiators don't work against a fixed deadline. Rather, they proceed through a structured and regulated process, which may include compulsory mediation and other third-party resources, designed to bring the parties to agreement without service disruptions.

Under the RLA, national freight rail bargaining has been remarkably successful in reaching contract settlements without crippling strikes or lockouts. Over the past 45 years, there have been only ten days of service disruptions arising from national rail bargaining; the last such day was in 1992.

As a whole, the approximately 145,000 represented freight railroad employees are among America's most highly compensated workers. Railroad employees' healthcare, retirement, and compensation packages rank in the top five percent of American industries. In 2017 (the most recent year for which comparable data are available), the average



U.S. Class I freight railroad employee earned wages of \$87,100 and fringe benefits of \$38,300,

for total average compensation of \$125,400. By contrast, the average wage per full-time equivalent U.S. employee in domestic industries in 2017 was \$62,100, just 71 percent of the rail average, while average total compensation was \$76,500, or just 61 percent of the rail average. Rail healthcare benefits far surpass coverage provided by other U.S. industries, with freight rail employees paying only modest monthly contributions for a plan that, on average, covers over 90 percent of a member's healthcare costs. The richness of these healthcare benefits is evident in the plan's Platinum level status, the highest-ranked tier under the Affordable Care Act.

In addition, Class I railroads can be statutorily required to provide their workers who are displaced by mergers, consolidations, or certain other operational changes with up to six years of labor protection, including continued wages and benefits at pre-transaction levels. No other major U.S. industry is subject to this kind of government mandate.

Employees of freight railroads — as well as employees of Amtrak, commuter railroads, and rail-related organizations such as rail labor unions and the AAR — are the only sizable group of private sector workers in the United States not covered by Social Security. Rather, they are covered by the Railroad Retirement System, which is administered by the Railroad Retirement Board (an independent federal agency) and provides retirement, disability, sickness, and survivor benefits to railroad workers and their families.

A detailed discussion of the ways that Railroad Retirement differs from Social Security is beyond the scope of this testimony, but one of the key differences is that Railroad Retirement's assets are invested in a diversified portfolio of equities and debt, in addition to government securities, in the same manner as those of private sector retirement plans. Should the investments lose money or the trust funds fail to keep pace with benefit distributions, railroad companies and employees — not taxpayers — are responsible for ensuring the solvency of the

railroad retirement system. And beyond this investment risk, railroads currently pay – over and above the equivalent social security payroll tax – an additional 13.1 percent in payroll tax on each employee’s first \$98,700 in annual earnings.

Railroads do not have insurance-based Workman’s Compensation because their system was developed long before modern workman’s compensation was established; instead, railroads operate under a nearly 110-year old statute called the Federal Employee Liability Act (FELA). FELA is a tort-based system that requires employees to litigate injury claims against railroads under a comparative fault system.

Finally, railroads know well that having a diverse workforce promotes greater innovation and productivity by leveraging the strengths of different talents, skills, and perceptions. As the railroads continue to invest, innovate, and evolve, they will also continue to expand their efforts to make working in the industry appealing to men and women of every background and range of personal characteristics. The industry attracts employees from a wide range of backgrounds, including those who are high school graduates and those holding graduate degrees. Railroads provide the opportunity to build lifelong careers in traditional railroading fields such as engineering and dispatching, but also new and innovative fields like information technology and cybersecurity. And many of the nation’s freight railroads have special military recruiting programs to assist veterans in their railroad job search. Railroads provide career opportunities that allow veterans to smoothly transition from military service to private employment.

Because of high wages and benefits, technical training, and professional growth opportunities, freight rail employees often stay in the industry for most or all of their professional careers. Many rail employees have family railroad legacies that stretch back generations.



Like firms in every other industry, railroads must manage their resources — including their most important resources, their employees — based on business needs. The number of rail employees tends to ebb and flow based on current and expected future rail traffic levels, technological developments, and other factors.

### **Safety is the Priority**

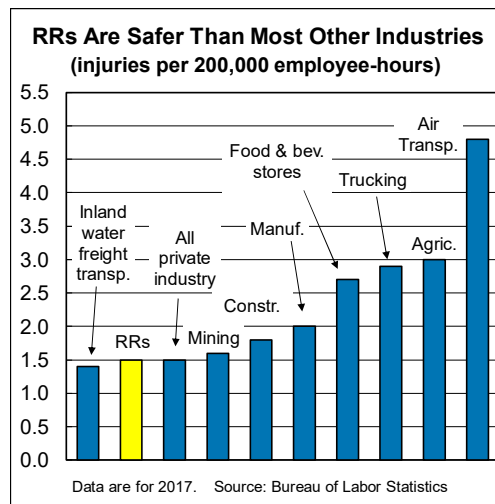
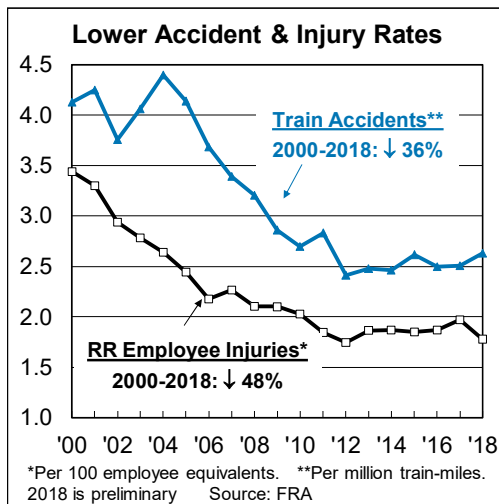
Freight railroad employees have a safety culture that is second to none and their commitment to continuous safety improvement will not waiver. That's why railroads, in cooperation with policymakers, their employees, suppliers, and customers, are constantly looking for new technologies, operational enhancements, improved training, and other ways to further improve their safety record.

This strong culture of safety that defines the industry is so ingrained across the workforce that it's part of the regular routine. Daily safety briefings, peer-to-peer safety programs and training programs at state-of-the-art technical training centers, featuring simulators and virtual reality, are just some of the ways that railroads practice putting safety — of employees and operations — first.

The evidence of this dedication is clear and is working. The train accident rate in 2018 was down 36 percent from 2000; the grade crossing collision rate in 2018 was down 36 percent from 2000; and the employee injury rate in 2018 was down 48 percent from 2000 and was the second lowest in history. Indeed, by all these measures, recent years have been the safest in history. Railroads today have lower employee injury rates than most other major industries, including trucking, airlines, agriculture, mining, manufacturing, and construction.

Virtually every aspect of rail operations is subject to safety oversight by the Federal Railroad Administration (FRA). For example, stringent FRA regulations cover track and

equipment inspections, employee certification, operating speeds, and signals. FRA safety inspectors (and in some states, state inspectors) evaluate rail facilities and operations. Railroads are also subject to oversight by the Occupational Safety and Health Administration, the Pipeline and Hazardous Materials Safety Administration, and the Department of Homeland Security.



While railroads are safer today than ever before, they want to be even safer. That’s why they are constantly researching, developing, and implementing new safety-enhancing technologies. Just a few of the many examples of new safety-enhancing technologies developed in recent years or now being developed include:

- Sophisticated detectors along tracks that identify defects on passing rail cars, including overheated bearings and damaged wheels, dragging hoses, deteriorating bearings, cracked wheels, and excessively high and wide loads, before failure or other damage occurs.
- Ground-penetrating radar and terrain conductivity sensors are being developed that will help identify problems below the ground (such as excessive water penetration and deteriorated ballast) that hinder track stability.
- Remote monitoring capabilities that ascertain the structural health of bridges.
- Advanced track geometry cars that use sophisticated electronic and optical instruments to inspect track alignment, gauge, curvature, and other track conditions.

Members of this committee are well acquainted with railroad efforts to implement positive train control (PTC) so that further safety gains can be achieved.<sup>1</sup> The seven Class I freight railroads all met statutory requirements by having 100 percent of their required PTC-related hardware installed, 100 percent of their PTC-related spectrum in place, and 100 percent of their required employee training completed by the end of 2018. In aggregate, Class I railroads had 89 percent of required PTC route-miles in operation as of April 2019. Each Class I railroad expects to be operating trains in PTC mode on all their PTC routes no later than 2020, as required by statute. In the meantime, railroads are continuing to test and validate their PTC systems thoroughly to ensure they are interoperable and work as they should.

PTC is the latest in a long line of new technologies that railroads have adopted to improve the safety, efficiency, and reliability of their operations. Just as the industry transitioned from steam to diesel locomotives or from cabooses to end of train devices, technological innovation often brings with it the need to evolve operating procedures and models. Railroads must have the incentives and flexibility to invest and innovate in new technologies that improve safety, increase efficiencies and allow the rail industry to remain competitive.

## **Conclusion**

America's railroads move vast amounts of just about everything, connecting businesses with each other across the country and with markets overseas over a nationwide network of close to 140,000 miles. As America's economy grows, the need to move more freight will grow too. In fact, recent forecasts found that total U.S. freight shipments will rise from an estimated 17.8 billion tons in 2017 to 24.1 billion tons in 2040 – a 35 percent increase. Railroads are the best

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<sup>1</sup> For a detailed discussion of PTC, see the testimony of my predecessor, Edward Hamberger, to this committee on September 13, 2018.

way to meet this demand as they save their customers billions of dollars each year in shipping costs while providing high-paying jobs; reducing energy consumption and greenhouse gas emissions; and relieving highway congestion.

For America's railroads, pursuing safe operations is not an option, it's a business imperative. Most importantly, it's the right thing to do. Railroads are not just faceless corporations from somewhere far away — rather, your neighbors are our neighbors. No matter where you live, chances are good that current or former rail industry employees live close by. Railroads know they have an obligation to operate safely for their benefit and for the benefit of all members of the communities they serve.

As I pointed out earlier in my testimony, railroads are different than most industries by dint of history, and their essential role in the U.S. economy. But they are not immune to economic forces – such as market shifts away from coal, the competitiveness of trucks and volatility in international trade and the economy. Now more than in previous history, the success of railroads' role in the supply chain will depend on the industry's ability to remain competitive and grow. As railroads strive to meet the transportation needs of our nation in the years ahead, they will continue to invest, innovate, and evolve. They will also continue to rely on the skills and professionalism of the rail workforce. Railroads will work cooperatively with their employees to ensure that America's freight rail industry retains its world-best status.