



Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

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May 5, 2023

SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Railroads, Pipelines, and Hazardous Materials
FROM: Staff, Subcommittee on Railroads, Pipelines, and Hazardous Materials
RE: Subcommittee Hearing on “*Getting Back on Track: Exploring Rail Supply Chain Resilience and Challenges*”

I. PURPOSE

The Subcommittee on Railroads, Pipelines, and Hazardous Materials will meet on Thursday, May 11, 2023, at 2:00 p.m. ET in 2167 of the Rayburn House Office Building to receive testimony on “*Getting Back on Track: Exploring Rail Supply Chain Resilience and Challenges*.” The Subcommittee will examine the freight railroad industry’s role in supporting the supply chain. The Subcommittee will also discuss current challenges to the industry in meeting supply chain goals and future steps to address these issues. At the hearing, Members will receive testimony from Ian Jefferies, President and CEO of the Association of American Railroads (AAR); Chuck Baker, President and Chief Executive Officer (CEO) of the American Short Line and Regional Railroad Association (ASLRRRA); Chris Jahn, President and CEO of the American Chemistry Council (ACC); Marc Scribner, Senior Transportation Policy Analyst of the Reason Foundation; and Greg Regan, President of the Transportation Trades Department, AFL-CIO (TTD).

II. BACKGROUND

The Committee on Transportation and Infrastructure previously examined the impacts of COVID-19 on supply chains, including at a February 1, 2023, hearing entitled “*The State of Transportation Infrastructure and Supply Chain Challenges*,” and at a November 17, 2021, hearing entitled, “*Industry and Labor Perspectives: A Further Look at North American Supply Chain Challenges*.”¹ A supply chain is defined as a network of making and selling commercial

¹ *The State of Transportation Infrastructure and Supply Chain Challenges, Hearing Before the H. Comm. on Transp. and Infrastructure*, 118th Congress (Feb. 1, 2023); see also *Industry and Labor Perspectives: A Further Look at North American Supply Chain Challenges, Hearing Before the H. Comm. on Transp. and Infrastructure*, 117th Congress (Nov. 17, 2021).

goods, from the supply of materials and manufacture of goods through their transportation, distribution and sale.² A well-managed supply chain results in the efficient use of resources, reduced costs, and a faster production cycle.³ In contrast, supply chain disruptions cause inefficiencies that may contribute to economic inflation as producers experience challenges sourcing and obtaining necessary materials.⁴

Due to the COVID-19 pandemic, businesses across the world scaled back or shut down operations in anticipation of reduced demand for goods.⁵ It was also anticipated that many producers would switch their manufacturing to COVID-19-related products, such as personal protective equipment.⁶ Congress and the Executive Branch took extraordinary measures to provide financial relief in response to the pandemic.⁷ At the same time, demand for goods during the pandemic was stronger than anticipated, as consumers altered their spending from paying for services to consumer goods.⁸ Despite the substantial progress made to return to pre-COVID-19 life, supply chain management and resiliency will be an ongoing challenge for shippers.⁹

Over the past year, supply chain pressures have eased due to a reduction in overall transportation demand. For example, warehousing metrics are on a downward trend due to increased costs of wages and materials, warehouse development moratoriums, and customer cancellations.¹⁰ The Logistics Management Index (LMI) is a tool used to measure the performance of logistics and transportation supply chains. It is calculated based on various factors such as inventory levels, transportation costs, order cycle time, customer service, and other metrics that impact the overall efficiency and effectiveness of a supply chain.¹¹ As of March 2023, the LMI was 51.1, which is the lowest level since its development in 2016, and far below a peak of 76.2 in March 2022.¹² Several LMI sub-indexes support this decrease.¹³ For

² Jason Fernando, *Supply Chain Management (SCM): How It Works and Why It Is Important*, INVESTOPEDIA, (July 7, 2022), available at <https://www.investopedia.com/terms/s/scm.asp>.

³ Jack Grimshaw, *What is Supply Chain? A Definitive Guide*, SUPPLY CHAIN DIGITAL, (May 17, 2020), available at <https://supplychaindigital.com/supply-chain-2/what-supply-chain-definitive-guide>.

⁴ Anna Maria Santacreu and Jess LaBelle, *Global Supply Chain Disruptions and Inflation During the COVID-19 Pandemic*, FED. RESERVE BANK OF ST. LOUIS (Apr. 21, 2022), available at <https://research.stlouisfed.org/publications/review/2022/02/07/global-supply-chain-disruptions-and-inflation-during-the-covid-19-pandemic>.

⁵ Lazaro Gamio and Peter S. Goodman, *How the Supply Chain Crisis Unfolded*, N.Y. TIMES, (Dec. 5, 2021), available at <https://www.nytimes.com/interactive/2021/12/05/business/economy/supply-chain.html> [hereinafter *How the Supply Chain Crisis Unfolded*].

⁶ *Id.*

⁷ Gabe Alber, *A breakdown of the fiscal and monetary responses to the pandemic*, INVESTOPEDIA, (Feb. 28, 2023), available at <https://www.investopedia.com/government-stimulus-efforts-to-fight-the-covid-19-crisis-4799723>.

⁸ *How the Supply Chain Crisis Unfolded*, *supra* note 5.

⁹ Jennifer Williams-Alvarez, *CFOs Focus on Building Resilient Supply Chains, Even as Pandemic Disruptions Fade*, WALL ST. J., (Apr. 26, 2023), available at <https://www.wsj.com/articles/cfos-focus-on-building-resilient-supply-chains-even-as-pandemic-disruptions-fade-8192831f?page=1>.

¹⁰ Press Release, LOGISTICS MANAGERS' INDEX, *March 2023 Logistics Manager's Index Report*, (Apr. 4, 2023), available at <https://www.the-lmi.com/march-2023-logistics-managers-index.html>.

¹¹ *Id.*

¹² See TRADING ECONOMICS, *United States LMI Logistics Managers Index Current* (last visited May 4, 2023), available at <https://tradingeconomics.com/united-states/lmi-logistics-managers-index-current#:~:text=Lmi%20Logistics%20Managers%20Index%20Current%20in%20the%20United%20States%20averaged,points%20in%20March%20of%202023>.

¹³ *Id.*

example, the warehouse cost subindex has been declining for most of last year, while the March 2023 warehouse capacity subindex was at its highest level since February 2020.¹⁴ Inventory levels are close to being at their lowest point since the onset of the pandemic.¹⁵

III. FREIGHT RAIL INDUSTRY OVERVIEW AND CURRENT CHALLENGES

Freight railroads carry nearly one-third of the Nation's freight.¹⁶ The rail share of the Nation's freight movements decreased from 2012 to 2018 according to the most recent data available from the Bureau of Transportation Statistics.¹⁷ While rail freight carloads have declined over the last twenty years, intermodal rail freight traffic has increased.¹⁸ Rail intermodal is the long-haul movement of shipping containers and truck trailers by rail, combined with truck or water movement.¹⁹

Class I rail carriers have reduced their workforce. In 2015, the Class I workforce averaged 169,478 workers.²⁰ By 2019 and pre-COVID, roughly 29,000 jobs had been eliminated – a 17 percent decrease.²¹ By the end of 2021, the workforce had decreased by nearly one-third of the total workforce in 2015, and additional cuts continued through the COVID-19 pandemic.²²

More than 40 percent of freight rail carloads and intermodal units involve international trade.²³ This market accounts for approximately 35 percent of United States rail revenue and more than a quarter of United States rail tonnage.²⁴ In late 2020 and the first half of 2021, United States freight railroads were handling more than 300,000 containers and trailers per week.²⁵ This was an increase from the first half of 2019.²⁶ During this same six-month period in 2021, the Class I railroad workforce averaged 114,909 workers compared to 144,346 workers during the same six-month period in 2019.²⁷ To correct the imbalance of volumes and staffing levels,

¹⁴ See TRADING ECONOMICS, *United States LMI Warehouse Prices Current* (last visited May 4, 2023), available at <https://tradingeconomics.com/united-states/lmi-warehouse-prices->.

¹⁵ *Id.*

¹⁶ DOT, POCKET GUIDE TO TRANSP. 2022 at 19 (2022), available at <https://rosap.ntl.bts.gov/view/dot/59823>.

¹⁷ *Id.*

¹⁸ *Id.* at 3.

¹⁹ FED. HIGHWAY ADMIN., BACKGROUND AND DEFINITIONS - THE ROLE OF THE NATIONAL HIGHWAY SYSTEM CONNECTORS - FHWA FREIGHT MANAGEMENT AND OPERATIONS (2023), available at https://ops.fhwa.dot.gov/freight/freight_analysis/nhs_connectors/role_nhs_conn/role_sys_conn_2.htm.

²⁰ STB, *Employment Data*, available at <https://www.stb.gov/reports-data/economic-data/employment-data/> [hereinafter STB, *Employment Data*].

²¹ *Id.*

²² See STB, *Employment Data*, *supra* note 20; see also UNION PACIFIC CORP., FORM 10-K ANNUAL REPORT PURSUANT TO SEC. 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 at 55, (Feb. 7, 2020), available at https://www.up.com/cs/groups/public/@uprr/@investor/documents/investordocuments/pdf_up_10k_02072020.pdf; see also NORFOLK SOUTHERN, 2019 ANNUAL REPORT at 3, available at <http://www.nscorp.com/content/dam/nscorp/get-to-know-us/investor-relations/annual-reports/annual-report-2019.pdf>.

²³ Docket N. DOT-OST-2021-0106, Comment letter from AAR to DOT (Oct. 18, 2021), available at <https://www.regulations.gov/comment/DOT-OST-2021-0106-0370> (commenting on DOT's Notice of Request for Information related to the Executive Order, "America's Supply Chains," and the transportation industrial base).

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ STB *Employment Data*, *supra* note 20.

railroads have attempted to re-hire some furloughed workers and began hiring and training new employees.²⁸ According to the Surface Transportation Board's (STB) employment data, Class I freight carriers have been increasing their employees monthly, from a low of 112,207 total workers in January 2022, to 120,668 persons in March 2023, though this growth has not been consistent across all crafts.²⁹

Rail Intermodal Volumes

According to the Association of American Railroads (AAR), in the last year United States rail intermodal volume has significantly decreased. In the week ending April 22, 2023, freight rail traffic was down 3.5 percent compared to the same time one year earlier.³⁰ The United States weekly intermodal volume was also down 10.8 percent from a year ago.³¹ Moreover, for the first 16 weeks for 2023, freight carriers reported a drop in intermodal units of 10.9 percent (3,723,234) from one year earlier.³² Total combined United States traffic between that period decreased by 5.6 percent.³³ Per AAR, several factors contributed to intermodal downturn this year, including less robust consumer spending, decreased port activity, retailers maintaining higher inventory levels, and lower truck rates making all-truck moves more cost-competitive.³⁴

IV. BIDEN ADMINISTRATION ACTIONS TO ADDRESS THE SUPPLY CHAIN CRISIS

President Biden issued Executive Order (EO) 14017, "America's Supply Chain."³⁵ The EO directed Federal agencies to conduct a 100-day review of and report on the supply chain vulnerabilities associated with key imports.³⁶ The Department of Transportation's (DOT) report, *Supply Chain Assessment of the Transportation Industrial Base: Freight and Logistics*, was released on February 22, 2022.³⁷ On the same day, the Biden Administration announced additional plans to build long-term resilience in supply chains based on findings from the reviews and reports.³⁸

²⁸ *Id.*

²⁹ *Id.*

³⁰ Press Release, AAR, *Weekly Rail Traffic for the Week Ending Apr. 22, 2023*, (Apr. 26, 2023), available at <https://www.aar.org/news/weekly-rail-traffic-for-the-week-ending-april-22-2023/>.

³¹ *Id.*

³² *Id.*

³³ *Id.*

³⁴ AAR: *March Rail Carloads and Intermodal Decreased Year-over-year*, CALCULATED RISK, (Apr. 7, 2023), available at <https://www.calculatedriskblog.com/search?updated-max=2023-04-07T17:51:00-07:00&max-results=10>.

³⁵ Exec. Order 14017, 86 Fed. Reg. 11849, (Feb. 24, 2021), available at <https://www.govinfo.gov/content/pkg/FR-2021-03-01/pdf/2021-04280.pdf> [*hereinafter* EO 14017].

³⁶ *Id.*

³⁷ DOT, *SUPPLY CHAIN ASSESSMENT OF THE TRANSP. INDUSTRIAL BASE: FREIGHT AND LOGISTICS* (Feb. 2022), available at https://www.transportation.gov/sites/dot.gov/files/2022-03/EO%2014017%20-%20DOT%20Sectoral%20Supply%20Chain%20Assessment%20-%20Freight%20and%20Logistics_FINAL_508.pdf.

³⁸ EO 14017, *supra* note 35.

Additionally, on June 8, 2021 the White House announced the establishment of a Supply Chain Disruption Task Force (Task Force) led by the Secretaries of Commerce, Transportation, and Agriculture.³⁹ The Task Force is directed to focus on a whole-of-government response to address short-term supply chain bottlenecks, with an emphasis on “homebuilding and construction, semiconductors, transportation, and agriculture and food.”⁴⁰ Managed by the National Economic Council, the Task Force coordinated inter-agency and stakeholder meetings.⁴¹ The data collection function was transferred to the DOT in March 2022.⁴²

In April 2022, the STB held a two-day public hearing to discuss pressing issues in rail service.⁴³ The STB heard testimony from several freight rail shippers, government officials, rail labor, and various experts on ways Class I rail carriers could better meet shipping needs.⁴⁴ Following the hearing, the STB announced that it would require the four largest Class I rail carriers to submit performance data to the STB in an effort to promote improvements in rail service over six months, which was then extended another six months, and again for another eight months.⁴⁵ According to the STB, data from recent weeks show that the Class I rail carriers are uneven in meeting their one-year targets for service improvement.⁴⁶ Overall the data for key performance indicators such as velocity, terminal dwell, first-mile/last-mile service, operating inventory and trip plan compliance show that railroad operations remain challenged generally.⁴⁷

V. FREIGHT RAILROADS SERVICE IMPROVEMENT EFFORTS

According to the AAR, freight railroads have taken steps to improve supply chain movements, including by:

- increasing coordination between railroads and with the trucking industry;
- offering incentives to customers for weekend or off-hour loading/unloading of containers;
- re-routing traffic away from busier terminals to less crowded ones;
- reopening closed terminals to add storage capacity;
- increasing available storage capacity and staging space in and outside of terminals;
- creating additional railroad-to-railroad interchanges to limit demand on trucks; and

³⁹ THE WHITE HOUSE, *Fact Sheet: Biden-Harris Admin. Announces Supply Chain Disruptions Task Force to Address Short-Term Supply Chain Discontinuities*, (June 8, 2021), available at <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/08/fact-sheet-biden-harris-administration-announces-supply-chain-disruptions-task-force-to-address-short-term-supply-chain-discontinuities/>.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.*

⁴³ Press Release, STB, *STB Requires Additional Service Reporting From Railroads*, (May 6, 2022), available at <https://www.stb.gov/news-communications/latest-news/pr-22-28/>.

⁴⁴ *Id.*

⁴⁵ STB, DECISION – URGENT ISSUES IN FREIGHT RAIL SERVICE – RAILROAD REPORTING, (51681), (May 2, 2023), available at <https://www.stb.gov/proceedings-actions/decisions/>.

⁴⁶ *Id.*

⁴⁷ *Id.*

- loading containers onto any chassis brought in to help reduce containerless/deadheading trips for truckers.⁴⁸

Moreover, while some carriers limited shipments through congestion embargoes in 2022, freight carriers invest approximately \$25 billion per year in private capital, including for safety and network improvements.⁴⁹

VI. WITNESSES

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⁴⁸ *Industry and Labor Perspectives: A Further Look at North American Supply Chain Challenges; Hearing Before the H. Comm. on Transp. and Infrastructure*, 117th Congress (Nov. 17, 2021) (statement of Ian Jefferies, President and CEO, AAR), available at <https://docs.house.gov/meetings/PW/PW00/20211117/114233/HHRG-117-PW00-Wstate-JefferiesI-20211117.pdf>.

⁴⁹ *Id.*