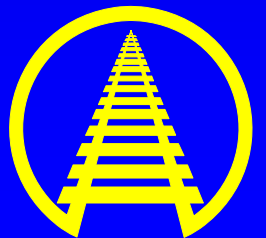
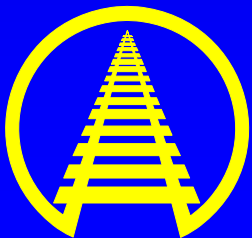


# **Railroads and Ethanol**

**Association of American Railroads**

**June 19, 2007**



# North America's Rail Network: Extensive, Efficient & Integrated

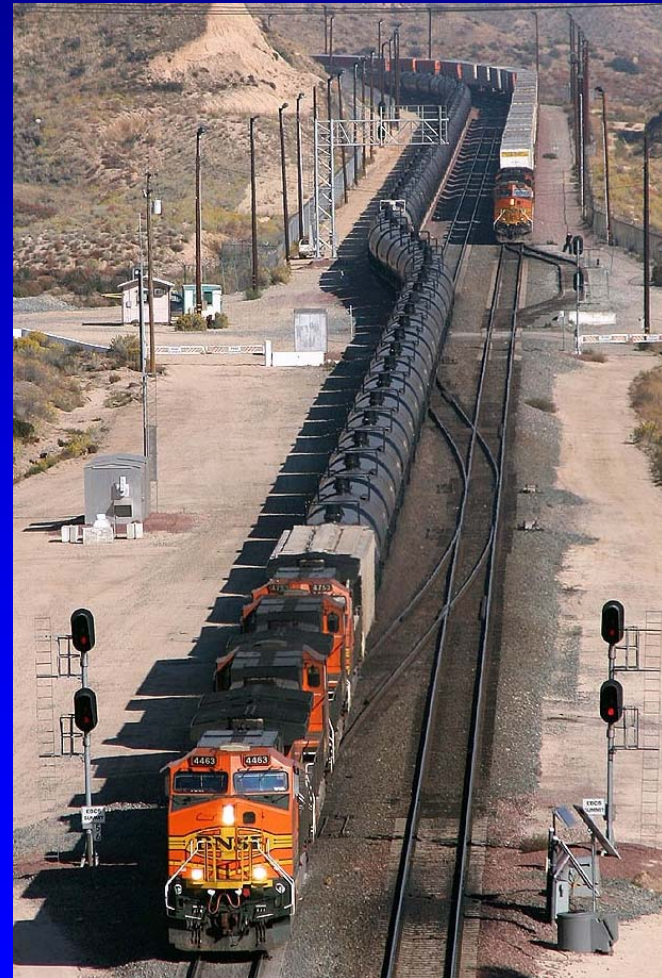


# Freight Railroads Are Critical to the Economy

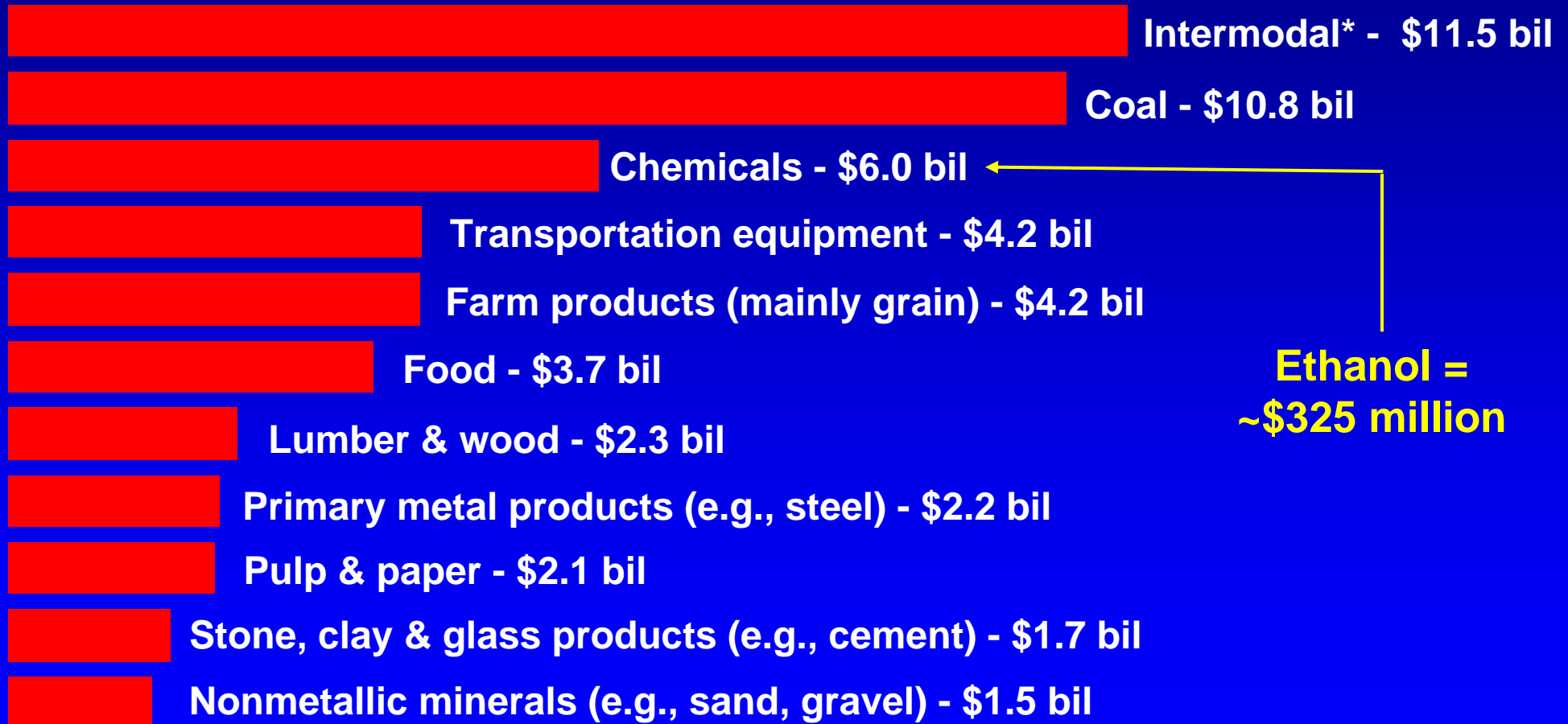
- Indispensable link connecting markets here and abroad – huge global competitive advantage
- Billions of dollars per year in:
  - Savings in shipping costs
  - Taxes and purchases that support tens of thousands of additional jobs
  - Avoided highway construction and maintenance costs

# Today's U.S. Freight Railroad Environment

- Vast majority privately-owned
- Generally owner and operator
- Access privately negotiated, voluntary
- Historically very low government funding
- Freight & passenger are separate



# Class I Railroad Traffic in 2006 (Gross Freight Revenue)

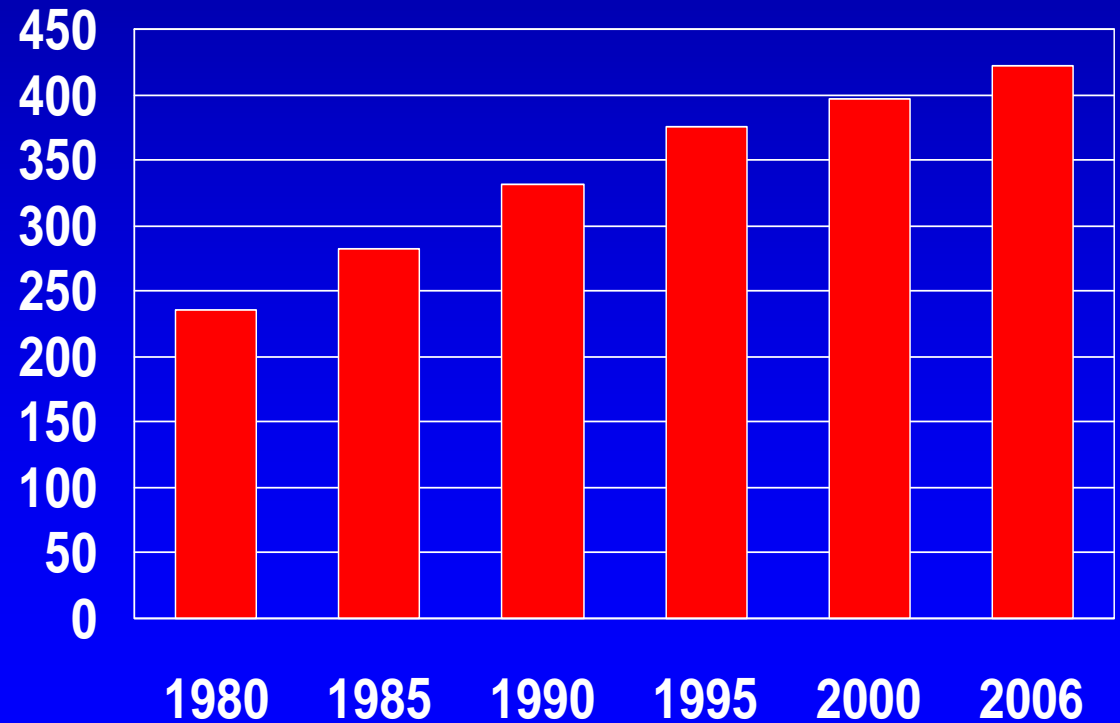


Source: AAR \*Estimated. Some intermodal revenue is also included in individual commodities.

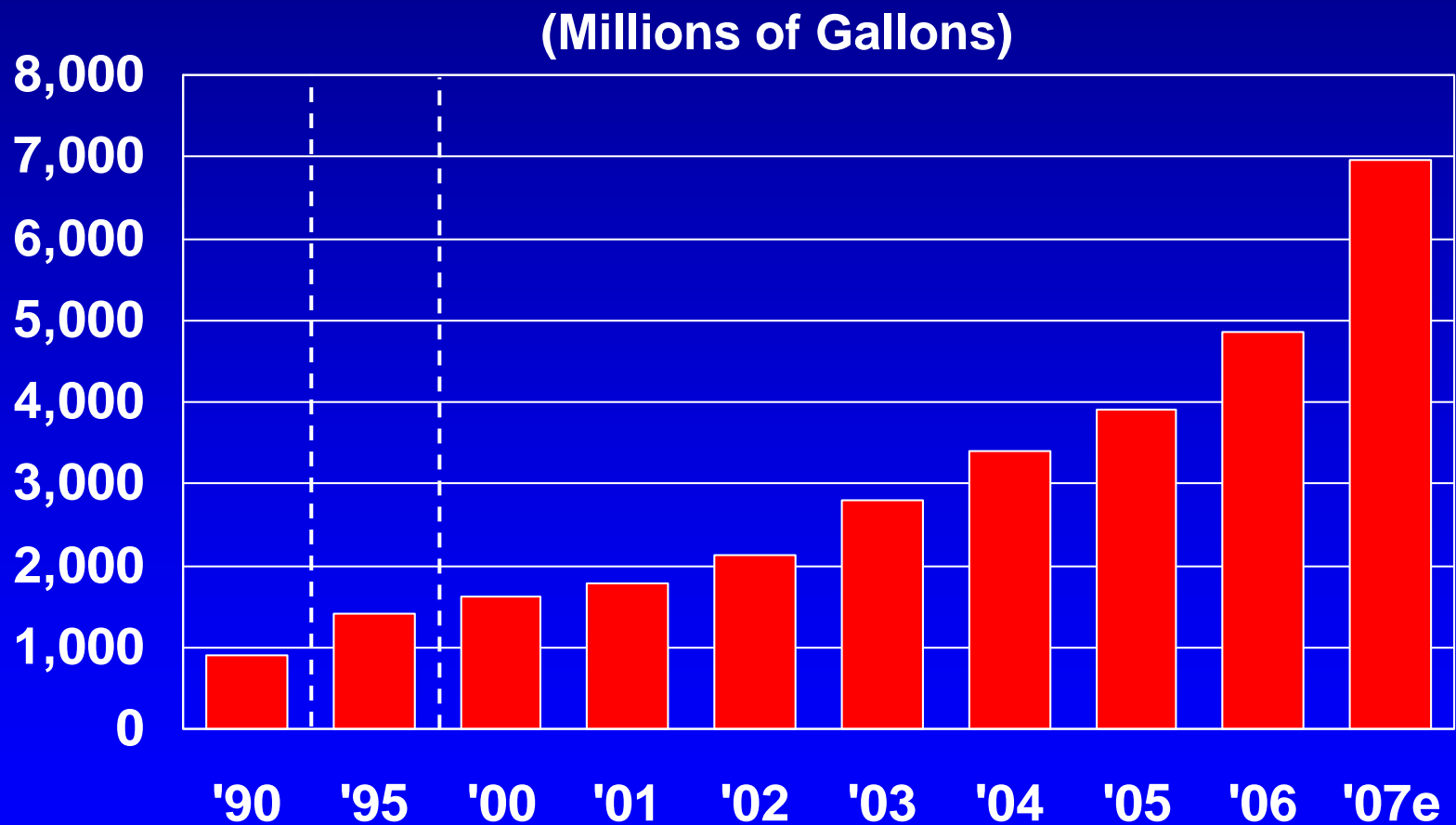
# Freight Rail Provides Major Public Benefits

- Cost effectiveness
- Fuel efficiency
- Reduced congestion and highway costs
- Environmental benefits
- Safety

**Railroad Fuel Efficiency  
(Ton-Miles Per Gallon)**



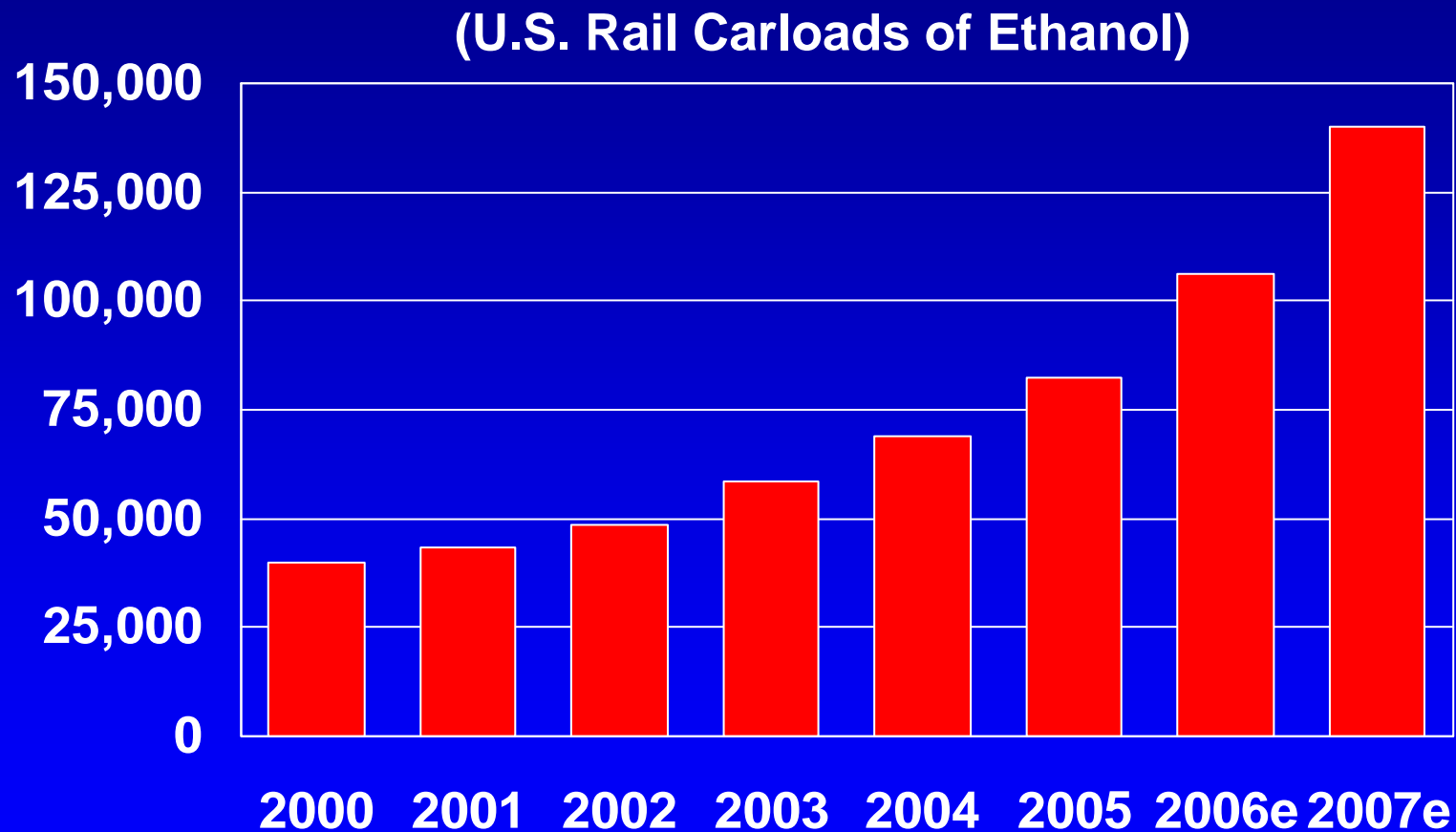
# U.S. Ethanol Production is Rising Rapidly...



e – estimate

Source: Renewable Fuels Association

# ...And So Is Railroad Ethanol Traffic

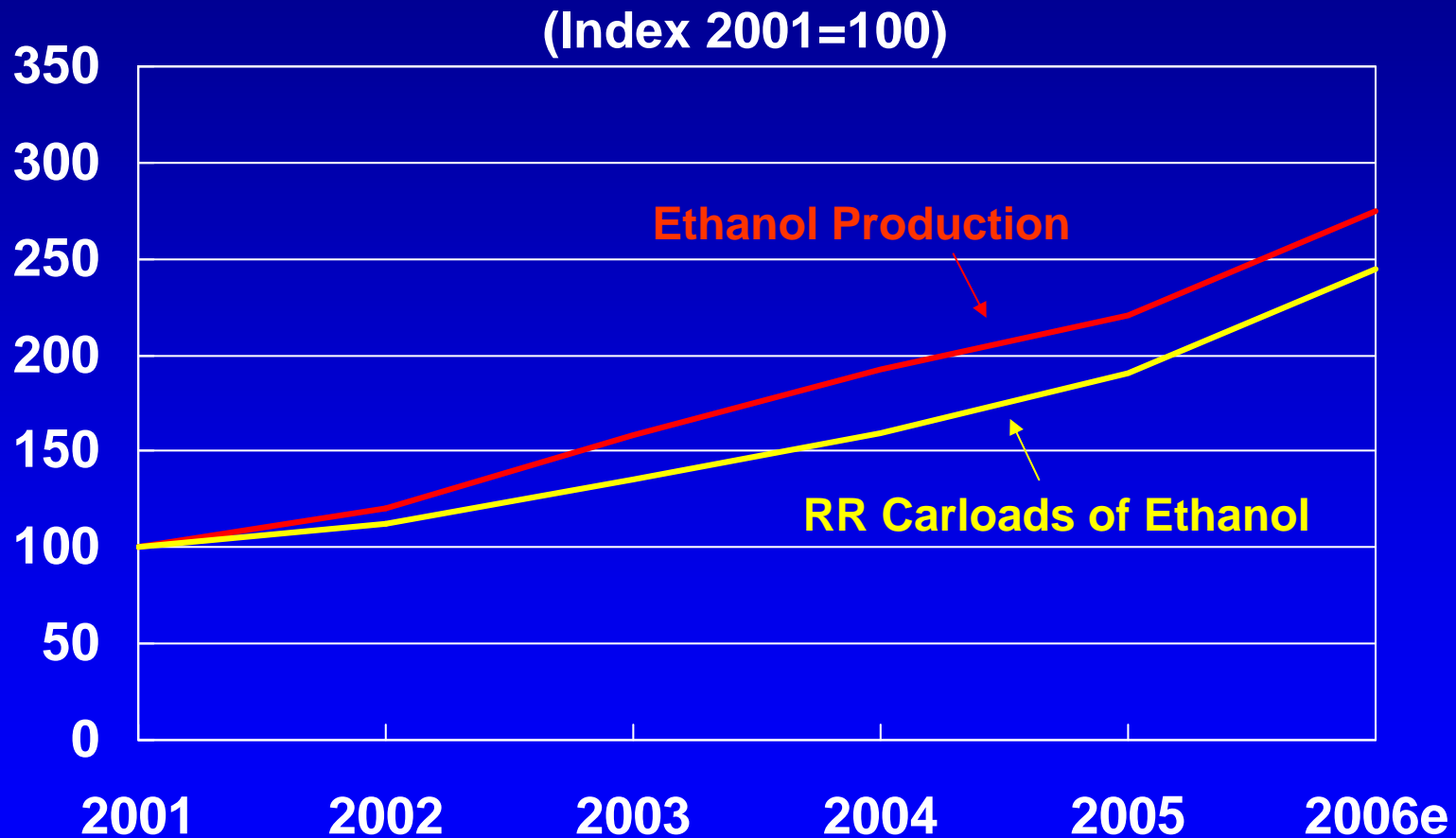


e – estimate

Source: STB Waybill Sample and AAR estimates

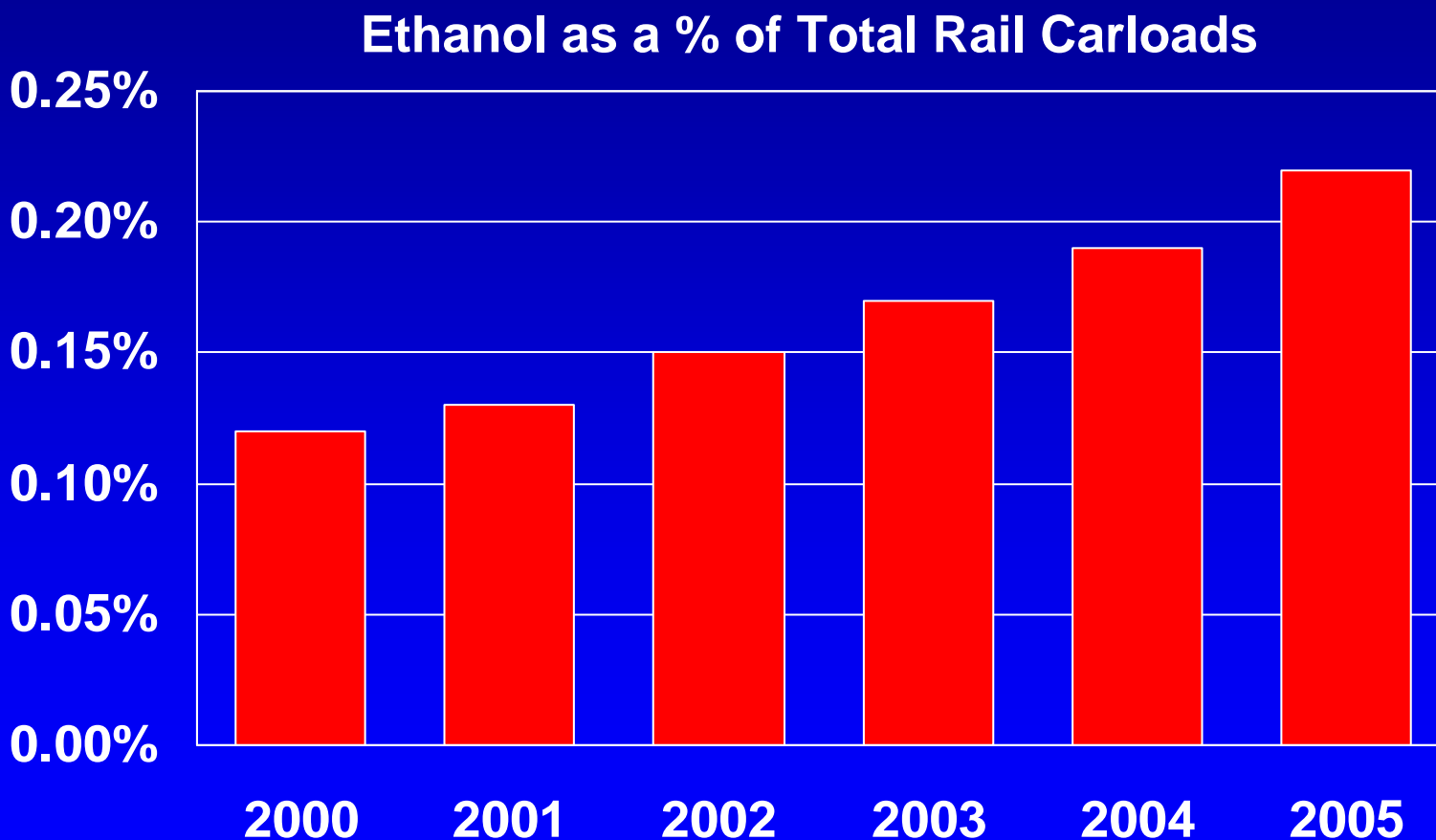


# High Correlation Between Ethanol Production and RR Carloads of Ethanol



e – estimate Source: Association of American Railroads, Renewable Fuels Association

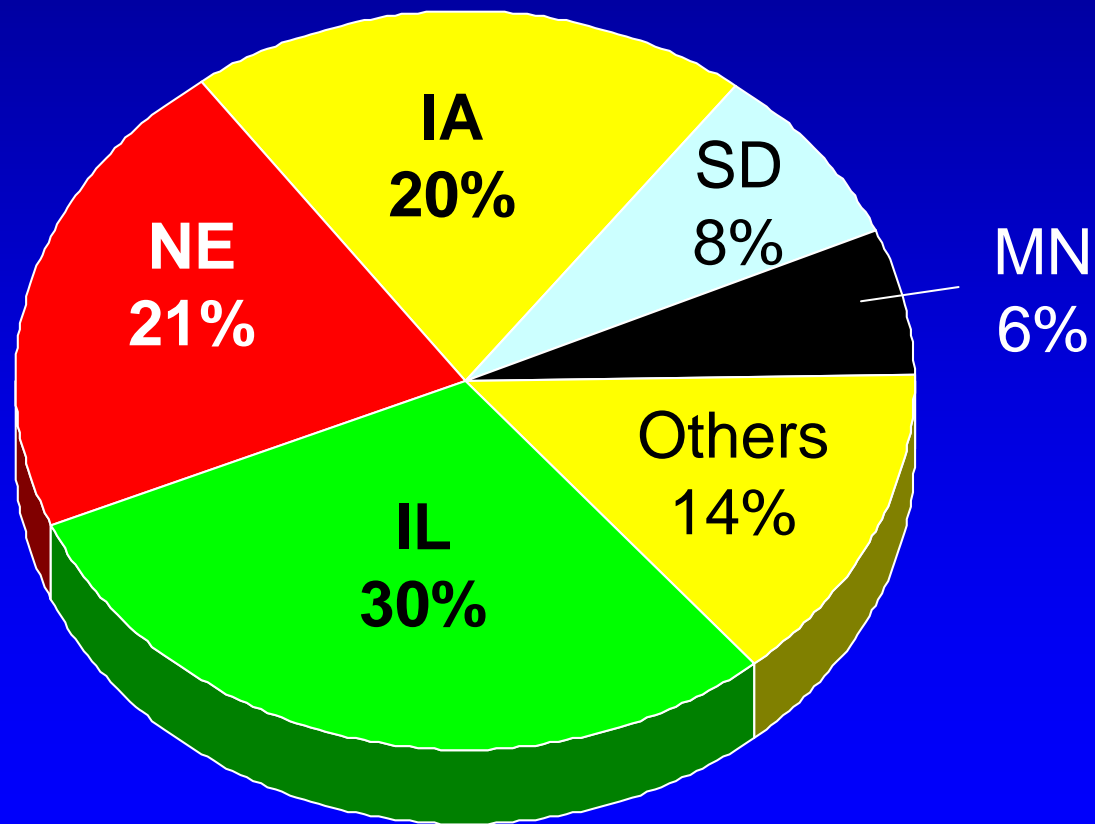
# Ethanol Is a Small But Growing Portion of Total Rail Traffic



Source: STB Waybill Sample

# The Midwest Dominates Rail Ethanol Originations

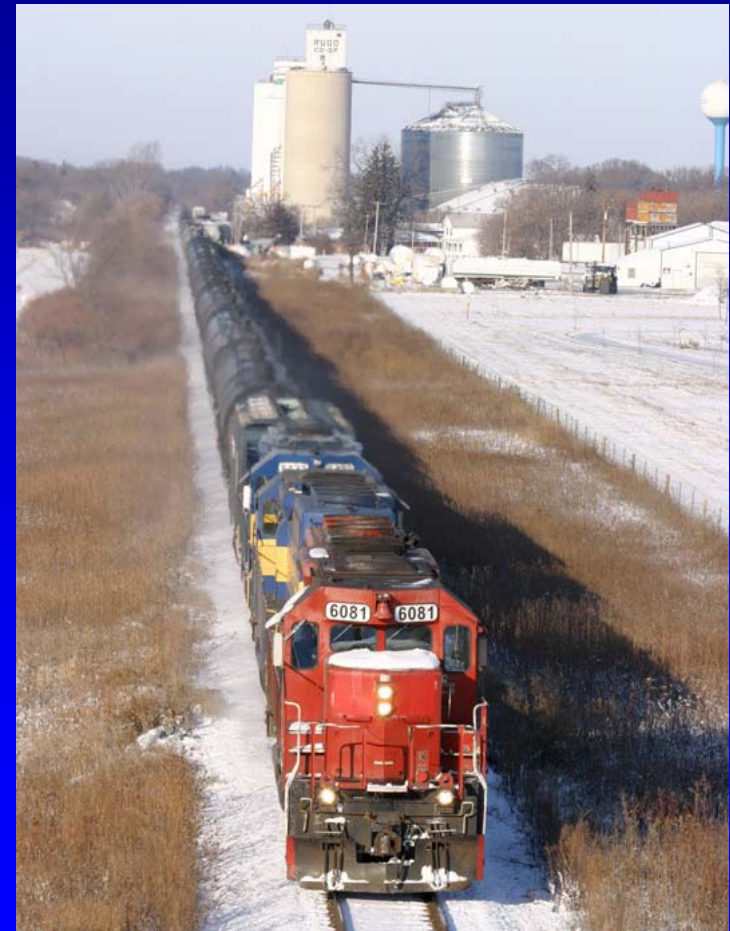
Origin States of Rail Shipments of Ethanol



Data are for 2005. Source: STB

# Railroads Can Handle Rising Ethanol Shipments

- RRs must be involved from beginning of planning
- Unit trains are far more efficient
- Ethanol competes with other traffic for slots
- RRs must be adequately compensated
- Terminal infrastructure



# What Are Railroads Doing to Increase Capacity?

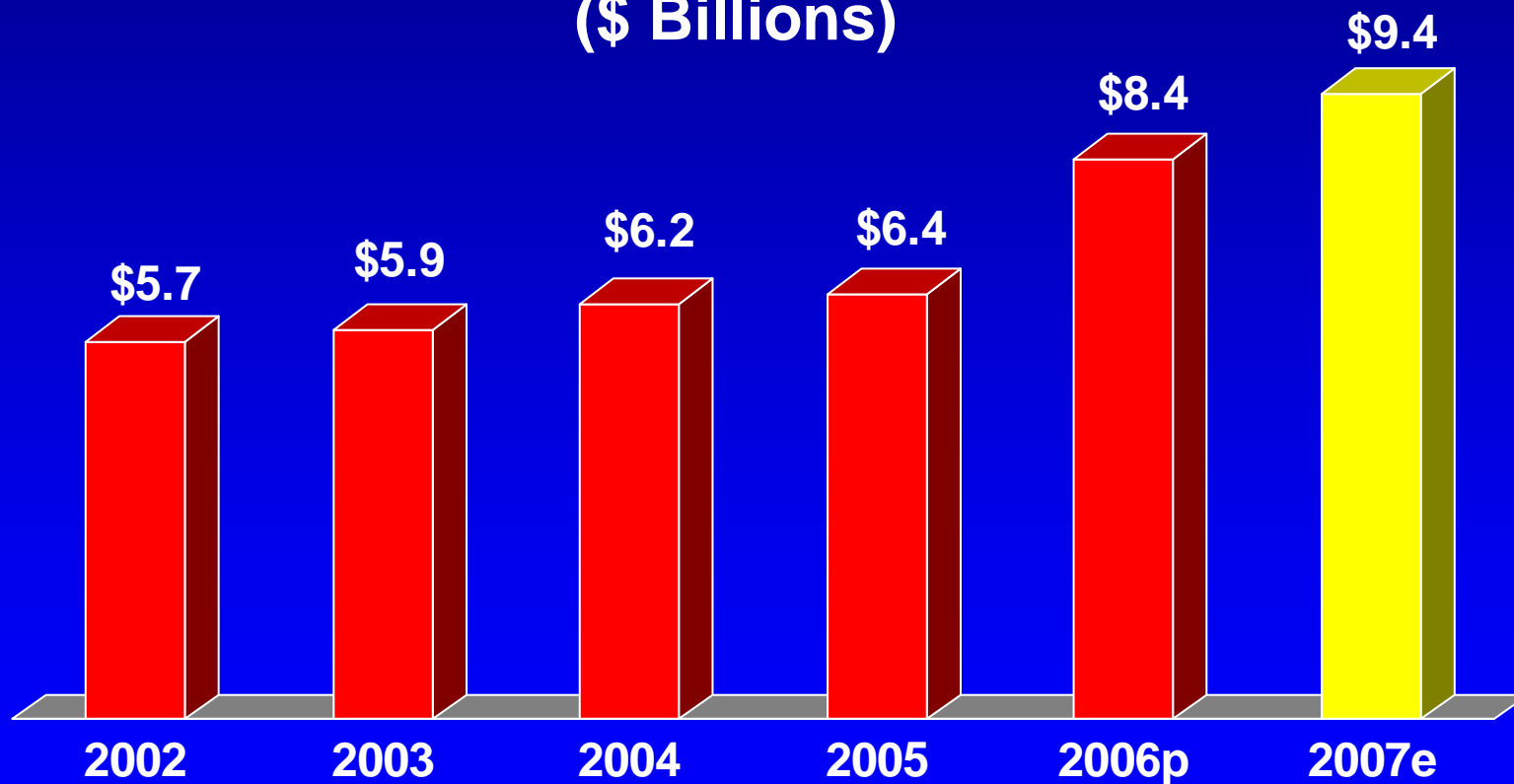
- Aggressive hiring
- Massive equipment and infrastructure investment



- New operating plans
- Cooperative alliances
- Working with customers
- Technology

# Railroads Are Spending More

Class I RR Capital Commitments  
(\$ Billions)



p – preliminary

e - AAR estimate

Source: AAR

# Tax Incentives to Leverage Capacity Expansion



- 25% tax credit for projects that expand rail capacity
- Expense other infrastructure capital expenditures
- Leverage private investment

# Reregulation Would Mean Reduced Capacity and Service

- Goal = lower rail rates for certain shippers
- Result = lower rail revenue, capital drain, disinvestment.
- Reregulation would mean less rail capacity when we need more.

“As demand increases, the railroads’ ability to generate profits from which to finance new investments will be critical. Profits are key to increasing capacity because they provide both the incentives and the means to make new investments.”

– *Congressional Budget Office*  
(Jan. 2006)





The Association  
of American Railroads

