



ASSOCIATION
OF AMERICAN
RAILROADS

Edwin L. Harper
President and
Chief Executive Officer

October 13, 1993

The Honorable Bob Dole
United States Senate
Washington, DC 20510

Dear Senator Dole:

On behalf of the members of the Association of American Railroads (AAR), I am writing to express the railroad industry's strong support for the North American Free Trade Agreement (NAFTA). The railroad industry's interest in NAFTA is simple: the creation of a new "North American Free Trade Zone" through NAFTA will mean faster growth for America's railroads and more jobs for railroad workers.

NAFTA promises substantial gains in railroad business. Since 1986, railroad traffic between the United States and Mexico has grown at a dramatic average of 17 percent a year. NAFTA would ensure that growth in our cross-boarder traffic would continue at this blistering pace. For the railroad industry, that would mean nearly \$2 billion a year in additional gross revenue by the year 2000. Most of this gain will be from carrying U.S. exports to Mexico. In fact, revenue from rail shipped exports to Mexico is over twice that from rail shipments imported into the United States. Railroads account for 36 percent of all land transportation shipments to Mexico.

NAFTA promises significant increases in railroad jobs. For railroad employees, expected traffic growth from a successful NAFTA will mean nearly 12,000 new jobs by the end of the decade. For an industry that has lost over half its employees during the 1980's this is a welcome return to job growth. Trade-generated growth for the railroads will also stimulate demand for new railroad equipment, creating even more new jobs in the \$12 billion year rail supply industry.

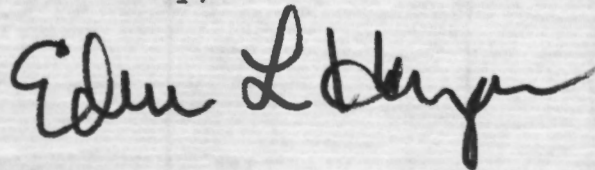
NAFTA promises major opportunities for railroads to improve the environment. Railroads can contribute to improving the quality of life along the U.S.-Mexico boarder. Railroads are the most clean, safe, and energy efficient mode of land transportation. We are one-tenth as polluting as highway freight transportation, over three times as safe, and three times more energy efficient. One way to clean up the border environment--a goal of NAFTA supporters and critics alike--is to ship more by rail.

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Railroads have an additional stake in NAFTA, however, that goes beyond any promise of direct economic gains--attractive as those are. Railroads are vitally dependent on growing U.S. international trade. Our booming intermodal "doublestack" business, for example, depends on international trade flows to keep it competitive. If NAFTA is rejected, efforts to conclude the current GATT negotiations will almost certainly fail. Economists estimate that a successful GATT would mean \$100 billion a year in gains for the U.S. economy. A GATT failure, on the other hand, could start a vicious cycle of protectionism as foreign countries retaliate against the United States--and we respond. Railroads would be one of the principal losers in such a trade war.

I urge you, therefore, to vote in favor of the NAFTA implementation legislation. If you have any questions about the railroad industry position on NAFTA, or wish to discuss these issues further, please do not hesitate to contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Edmar L. Hayden". The signature is fluid and cursive, with the first name "Edmar" being more prominent and the last name "Hayden" written in a more compact, cursive style.

WHY THE RAILROADS NEED NAFTA

The U.S. railroads need NAFTA because free trade with Mexico would mean 12,000 new railroad jobs and \$2 billion in additional railroad gross revenue by the year 2000. For an industry that has lost nearly 250,000 jobs since 1980, NAFTA represents the biggest hope for job *gains* in the decade of the 1990s.

And job gains won't stop with the railroad industry. Growth in rail traffic to and from Mexico will also mean new jobs and new business in the 175,000 employee rail supply industry and in border area construction projects to upgrade rail infrastructure.

Since 1986, when Mexico liberalized its trade policy, U.S./Mexico trade has been growing at an astonishing 17 percent a year. Railroad traffic to and from Mexico has grown at the same pace.

NAFTA will guarantee that this trend will continue. With NAFTA, trade with Mexico in the year 2000 will account for over 7 percent of total U.S. rail revenue.

And the bulk of rail business is -- and will be -- carrying U.S. exports to Mexico. Mexico is the U.S.'s third largest trading partner, and the only partner among the top three with which the U.S. is running a trade surplus -- \$4.9 billion last year. Railroads carry 48 percent of U.S. overland exports -- more than twice as much as our share in the import market.

NAFTA will mean even larger U.S. exports because today, despite Mexico's trade liberalization, Mexican tariffs remain on average much higher than those in the United States (10 percent vs. 3.9 percent). As Mexican tariffs fall under NAFTA, the growth in U.S. exports to Mexico -- already 22 percent a year -- should accelerate.

NAFTA's benefits will be widely dispersed among the nation's railroads. Five of the top 10 states in exports to Mexico (Michigan, Illinois, New York, Pennsylvania, and Ohio) are in the upper midwest or mid-Atlantic regions. The benefits of U.S.-Mexico trade will be spread even more widely with the further development of new rail/water intermodal services linking U.S. Gulf ports to those in Mexico.

Railroads also have a stake in NAFTA because a vote for NAFTA is a vote for free trade. Railroads depend on free trade. Our rapidly growing doublestack business (the innovative rail technology that allows us to carry two trailers or containers on one rail car), for instance, needs strong international trade flows in order to offer a viable domestic service.

And just as NAFTA would benefit the railroads, we can offer the US and Mexico something in return: cheaper, cleaner, more efficient transportation. Railroads are three times more fuel efficient and up to ten times less polluting than highway transportation. And we are over three times safer.