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INDEPENDENT STUDY ON RAILROAD COMPETITION UPDATED

An independent team of consultants charged with looking at competitiveness in the U.S. rail industry has found that railroad rates have been steadily increasing since 2004, with a particularly steep increase in 2008. But Christensen Associates, Inc., of Madison, Wis., found that the rate increases were driven by fluctuating fuel prices and other costs and did not appear to reflect a greater exercise of railroad market power over captive shippers.

The updated study, which now includes data from 1987 through 2008, found that a greater share of traffic in 2007 and 2008 moved at rates less than 180 percent of variable costs than in 2005 and 2006. Variable costs include fuel, labor and other non-capital costs associated with moving freight. Christensen also observed that, since late 2008, railroad traffic has dropped nearly 20 percent from the levels of 2006 and 2007. And Christensen said preliminary data show that rail transportation rates fell last year.

While it was able to form conclusions about railroad rates, the Christensen team was unable to evaluate many of the shippers' service quality concerns beyond anecdotal evidence. Christensen urged the Board to develop better empirical data to capture the service performance of rail carriers.

In 2007, the Board hired Christensen to assess the state of competition in the rail industry. The consultants engaged in extensive outreach efforts to shippers, railroads, trade associations and other stakeholders. Using data from many sources, including the Board, Christensen released its initial report in November 2008. However, shippers raised concerns that the report's study period ended in 2006 and did not include subsequent years of rapidly escalating rates. The Board therefore directed Christensen to update its competition study to include the years 2007 and 2008.

Overall, the updated study painted a portrait of a healthy rail industry that, since 2006, has remained largely revenue sufficient, meaning railroads are able to cover their operating costs and earn a rate of return that enables them to attract investment capital to pay for more locomotives, railcars and make other improvements. The study also found that the large productivity gains in the 1980s and 1990s—when the railroads shed excess rail lines, reduced crew sizes, and streamlined operations—are no longer strong enough to offset rising operating cost. Since 2002, "increases in the rate of input price growth combined with slower productivity growth have resulted in unit cost increases." "Economies of density," the study also reports, "appear to have been exhausted in recent years."

The Christensen report issued today also restated the policy recommendations contained in its original report. "Because the railroad [industry] has remained approximately revenue sufficient in recent years, we re-emphasize one of our original conclusions: Providing significant rate relief to some shippers will likely result in rate increases for other shippers or threaten railroad financial viability."

The report, "An Update to the Study of Competition in the U.S. Freight Railroad Industry," and the earlier full report can be found on the Board's Web site, www.stb.dot.gov under "E-Library" and then "Studies."

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