

The Cost Effectiveness of America's Freight Railroads

ASSOCIATION OF AMERICAN RAILROADS

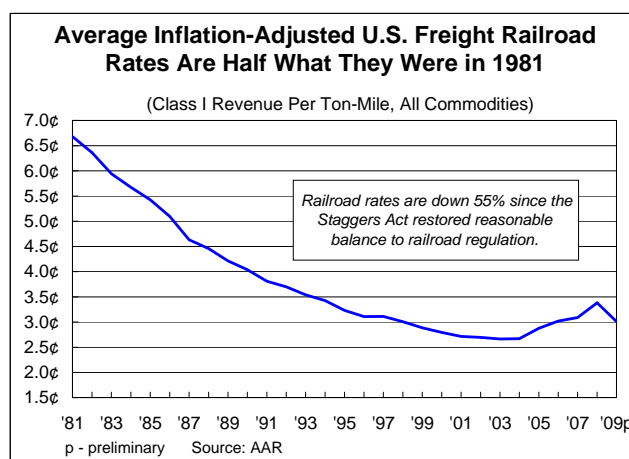
APRIL 2010

Summary

The cost effectiveness of freight rail saves American consumers billions of dollars every year. On a revenue per ton-mile basis, average rail rates have fallen **55 percent** from 1981 (after railroads were largely deregulated) through 2009. Whether it's by supporting vital American jobs, keeping the things we buy and use more affordable, or easing traffic congestion and lowering greenhouse gas emissions, **freight rail confers tremendous public benefits**. Unlike other modes of transportation, freight rail delivers these benefits with very little taxpayer help. For railroads to keep delivering these benefits, they must be able to earn adequate revenue to continue to support the U.S. rail network.

Balanced Regulation = Lower Rates

- Prior to October 1980, when the Staggers Rail Act largely deregulated America's freight railroads, more than 90 years of increasingly burdensome regulation had brought railroads to the brink of ruin. The Staggers Act established a more **balanced regulatory environment**, under which railroads could determine what routes to use, what services to offer, and what prices to charge based on the marketplace — rather than have the government make those decisions.
- The benefits of the Staggers Act were **immediate** and **overwhelming**. Railroad productivity surged, with most productivity gains passed through to shippers in the form of lower rates.
- In fact, average U.S. freight rail rates **fell 55 percent** from 1981 to 2009. Rail rates have dropped across regions and for most commodities.
- Today, U.S. freight railroads are the **most affordable in the world**. According to World Bank data, average U.S. freight rail rates are half those in China and Japan and 50 to 75 percent below those in major European countries.
- The balance brought by the Staggers Act did **not** exempt railroads from all government oversight or take away their customers' consumer protections. Government regulators **still have** the authority to take action — including setting maximum allowable railroad rates — if a railroad has “market dominance” or engages in anti-competitive behavior.

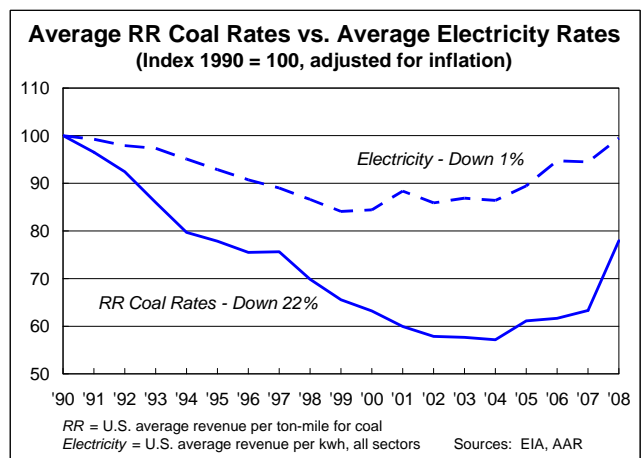
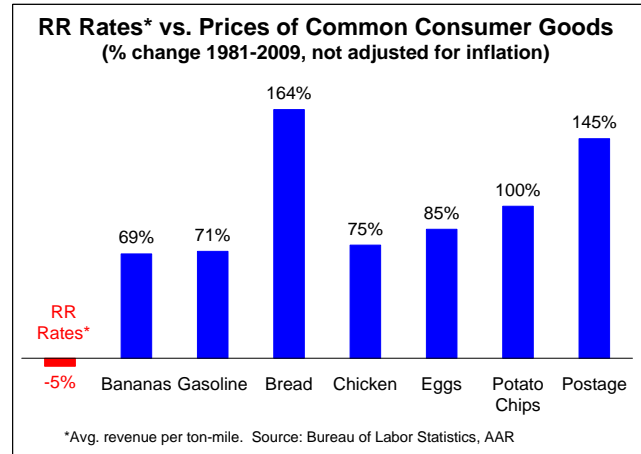


Benefits for American Consumers

- Thanks to the cost-effectiveness of America's freight railroads, the food we eat, the electricity that powers our homes, the clothes we wear, and countless other goods that all of us use every day cost less than they would if rail were not involved.
- For example, from 1990 to 2008 (the most recent year for which comparable data are available), average inflation-adjusted electricity prices fell just 1 percent, while average inflation-adjusted rail rates to ship the coal used to produce electricity fell 22 percent.

Preparing to Meet America's Needs

- Railroads are the **safest, most affordable, and most environmentally sound** way to move freight. If railroads are to continue to deliver these tremendous public benefits, they must be able to earn adequate returns on their investments in the tracks, bridges, signals, rail yards, and equipment that make it all happen.
- While some rail rates have increased in recent years, these increases are in line with higher railroad fuel and material costs. These rate increases also pale in comparison to the significant **rate decreases** that most rail customers have seen over the past 25 years.
- In January 2010, an independent study on rail competition conducted for the Surface Transportation Board (the federal agency responsible for the economic regulation of railroads) reported that recent railroad rate increases were the result of increasing railroad costs, **not a reflection of an increase in the exercise of market power**.
- Even during today's tough economic times, railroads have been reinvesting record amounts back into their systems — helping to ensure they are equipped to **meet America's transportation challenges** in the years ahead.



America's Cost-Efficient Freight Railroads

Facts-At-A-Glance

