

“Bottleneck” Policy: Don’t Fix What Isn’t Broken

ASSOCIATION OF AMERICAN RAILROADS

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WHAT SHOULD BE DONE?

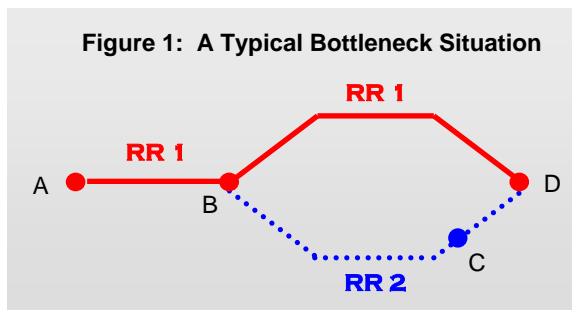
Reject attempts to overturn existing Surface Transportation Board (STB) policy regarding railroad “bottlenecks.”

WHY?

America’s freight railroads are the most **affordable** and **efficient** in the world largely because they operate under a balanced regulatory framework. Reversing existing bottleneck policy would strike at the heart of this regulatory balance. It would force railroads to use routes without regard to their efficiency — reversing the tremendous progress railroads have made in creating an exceptionally productive network. And **several billion dollars** in rail revenue could be lost each year, crippling railroads’ ability to make the investments in new tracks, bridges, and tunnels that America desperately needs.

What’s a “Bottleneck” in the Railroad Context?

- In “bottleneck” situations, a single railroad can move freight from an origin to an intermediate point, or from an intermediate point to a final destination, and it and at least one other railroad can move the freight the rest of the way.
- For example, in Figure 1, only RR 1 has a route from A to B, but both RR 1 and RR 2 have routes from B to D. Therefore, freight moving from A to D could travel the entire way on RR 1, or it could travel from A to B on RR 1 and then switch to RR 2 for the rest of the trip to D.
- The trip from origin to final destination (A to D in the example above) is called a “through movement.” The “bottleneck segment” is the part of the through movement that only one railroad serves (A to B in the example).



What is Existing Policy Regarding Railroad “Bottlenecks”?

- Existing STB “bottleneck” policy has been shaped by nearly a **century** of firmly-established judicial and regulatory precedent:
 - ✓ Railroads are **required** to hand off freight to each other if that’s necessary to get the freight to its final destination. For example, in Figure 1, the only way for freight to get from A to C is for RR 1 to hand it off to RR 2, which then takes the freight to C. RR 1 and RR 2 must agree to do this.

- ✓ However, a railroad is **not required** to involve a second railroad in a movement that the first railroad can handle all by itself. For example, in Figure 1, for freight moving from A to D, RR 1 can decide to handle the entire movement by itself, or it can decide to hand off the freight to RR 2 at B — the choice is up to RR 1. (An exception to this rule is if RR 2 is clearly more efficient than RR 1 from B to D, in which case RR 1 must agree to hand off the freight to RR 2.)
- ✓ Upon request, a railroad **must** quote a shipper a rate for an entire through movement, but **not** for just a bottleneck segment. A shipper can ask the STB to rule whether a railroad’s rate for a through movement is reasonable, but not whether the rate for just a bottleneck segment is reasonable.

Predictability = Efficiency

- Reversing existing bottleneck policy would force railroads to use routes and connecting points chosen by shippers.
- That might not sound like a big deal — but it is. Over the years, railroads have invested tens of billions of dollars and enormous effort into concentrating traffic onto routes that are the most efficient for everyone as a whole. This has created an incredibly productive national system (and correspondingly lower rail rates) while giving railroads reasonable predictability regarding traffic volumes at particular points. This predictability allows railroads to determine where assets are needed and where to make new investments.
- If bottleneck policy were reversed, **that efficiency and predictability would be lost**. In effect, individual shippers would be able to buy bits and pieces of rail service without regard to the needs of the system as a whole. A few individual shippers might benefit, but America’s railroads would become much less efficient overall — and that’s not in anyone’s best interest.

Don’t “Fix” What Isn’t Broken

- Under proposals to reverse existing bottleneck policy, a railroad would have to hand off freight to another railroad if a shipper asked it to. (For example, in Figure 1, for freight moving from A to D, a shipper could order RR 1 to hand the freight off to RR 2 at B.) The rate RR 1 could charge for the bottleneck segment would be **capped** by regulation, while the rate for the non-bottleneck leg would fall to an **even lower** level.
- Why does this matter? It means the total rate for the through movement would be **below what a railroad would need to cover its costs**. Extended over the entire U.S. rail network, this could lead to a revenue loss of **several billion dollars per year**.
- Rail is the most efficient way to move freight, but it’s not magic: no business can survive if it does not cover its costs. If railroads cannot cover their costs, they cannot maintain, replace, or add to the tracks, bridges, tunnels, and locomotives they need to provide safe, reliable service to their customers. Ultimately, American consumers would suffer.
- Freight has to move one way or another. Tampering with existing bottleneck policy would mean less rail capacity (because railroads wouldn’t be able to afford it), so more freight would have to move on overcrowded highways instead. Is this really what America wants or needs?