

Rejects Calls For Mandatory Reciprocal Switching

ASSOCIATION OF AMERICAN RAILROADS

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Summary

If a railroad engages in anti-competitive conduct, existing law already gives the STB effective tools to fix the problem. One of those tools is mandatory reciprocal switching. If a railroad has not engaged in anti-competitive conduct, this remedy isn't warranted. Requiring reciprocal switching for all rail customers would cut revenue that railroads need to reinvest in their systems and prepare for the future. If this happened, rail investment and rail capacity would decline, and with it railroads' ability to continue to provide the affordable, environmentally-responsible rail service that America needs.

What is Reciprocal Switching?

The U.S. freight rail system consists of a huge network of links (over which long-distance rail operations are conducted) and nodes (at which trains are assembled or disassembled, freight is interchanged between railroads, and/or customers are served).

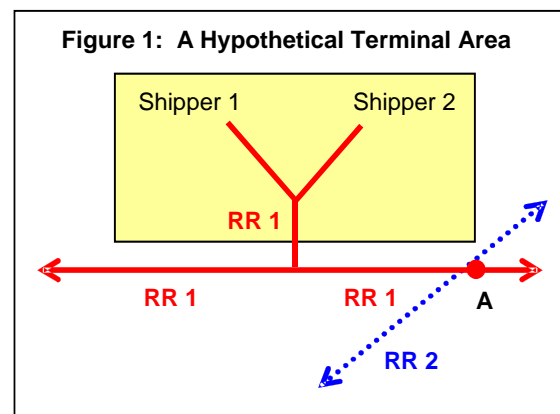
Rail customers may be located within a type of node called a "terminal area," which is typically owned and operated by a single railroad. A terminal area can be very small (as in the hypothetical example in Figure 1) or very large (some encompass much of a metropolitan area).

"Reciprocal switching" is the transfer of traffic from a railroad serving a terminal area to another railroad, or vice-versa.

For example, in Figure 1, traffic carried by RR 2 but destined for Shipper 1 or 2 could be "switched," or transferred, to RR 1 at point A and then carried by RR 1 to its destination. The tracks in the terminal area are owned and operated by RR 1, which also owns the mainline track on which the terminal is located.

Railroads have often entered into voluntary agreements to provide reciprocal switching where market circumstances have made such agreements beneficial to both parties. Under current law, railroads have the right to set the price for this exchange at market levels.

Existing law says the STB "may require" a railroad serving a terminal area to enter into a reciprocal switching agreement with another railroad. However, before forcing railroads to enter into these agreements, the STB has consistently required that the railroad serving a terminal area must first be found to have engaged in anti-competitive conduct.



One Word Makes All the Difference

Some rail critics want to change “may require” to “shall require,” prohibit the STB from requiring evidence of anti-competitive conduct before it mandates reciprocal switching, and allow regulators, rather than market forces, to set the price.

This is not a question of whether shippers will have access to rail service — they already do. If freight can get from its origin to its destination only if one railroad hands the freight off (*i.e.*, interchanges it) to another railroad, the railroads must agree to this exchange. (For example, in Figure 1, if the only way for freight to get to Shipper 2 is for RR 2 to interchange it with RR 1, RR 1 must accept it.)

Rather, the issue here is whether a shipper should automatically gain access to more than one railroad — that is, **whether rail-to-rail competition should be artificially created where it did not exist before** — and at prices set by the government that might be significantly lower than what the market would dictate.

Rail-to-rail competition that is artificially induced by regulation would drive rail rates down to below-market levels, causing railroads to lose substantial amounts of revenue. Without this revenue, railroads would be unable to invest in upkeep and new capacity. Over time, the rail system would deteriorate and rail capacity would be lost — and that’s an outcome that’s in no one’s best interest.

Meanwhile, the STB would likely be flooded with requests from shippers to force reciprocal switching. The STB would need to resolve innumerable disputes covering priorities for use of track, operating conditions, and a host of other issues. Complex, lengthy, and costly disputes would be inevitable, as unbalanced and unnecessary regulatory intervention replaced direct negotiation between railroads and shippers.

Proposals to mandate reciprocal switching are based on the fallacy that service to a shipper by a single railroad is equivalent to unconstrained market power. **In fact, railroads face competition for nearly all of their business, including when a customer is served by only one railroad.** (That competition can come from trucks and barges, as well as from other competitive forces.) And the **STB already protects shippers** from unreasonable rates in cases where railroads do not face effective competition.

Forcing railroads to switch traffic in this way would seriously cut efficiency. Over the years, railroads have invested enormous effort and tens of billions of dollars into concentrating traffic onto the most efficient (and, therefore, least expensive) routes. Forced reciprocal switching would **upset this efficiency** and **raise rail costs**. And if reciprocal switching truly made operational and economic sense, the railroads involved would already have an incentive to do it — they would not need to be forced.

