The Cost Effectiveness of America's Freight Railroads

ASSOCIATION OF AMERICAN RAILROADS **JUNE 2018**

Summary

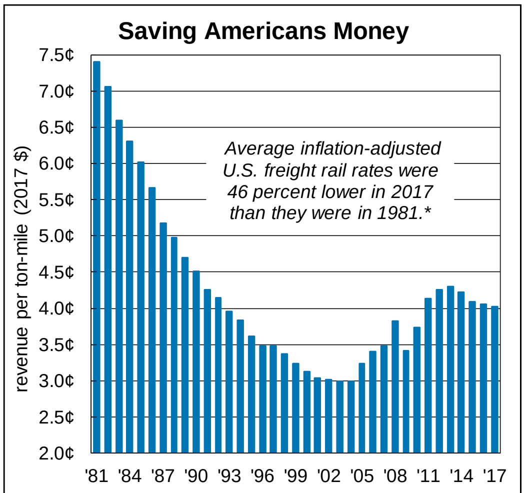
Railroads operating in the United States are the most cost-effective in the world, saving American consumers billions of dollars each year. Adjusted for inflation, **average U.S. freight rail rates** (based on revenue per ton-mile) **were 46 percent lower in 2017 than in 1981**. This means that the average rail customer today can ship close to twice as much freight for about the same price it paid more than 35 years ago. Improvements in the cost effectiveness of freight rail over the years are due largely to **huge rail productivity gains** that have been **passed through to shippers** in the form of lower rates. Rail cost effectiveness is also due to a **balanced regulatory structure** that protects rail customers against unreasonable railroad actions but gives railroads the opportunity to earn enough to make the massive investments in infrastructure and equipment that a best-in-the-world freight rail system requires.

Balanced Regulation Has Meant Lower Rates for Rail Customers

By the late 1970s, excessive and destructive regulation had brought America's freight railroads to the brink of ruin. Rail bankruptcies were common, and tracks and equipment were falling apart because railroads could not afford the cost of upkeep. The economy suffered greatly because railroads could not provide the quality service their customers needed.

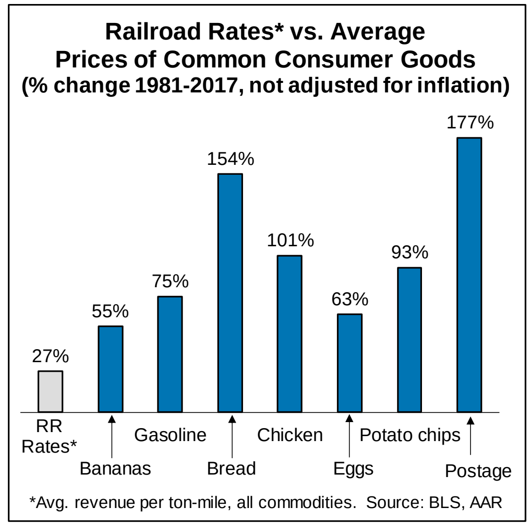
Fortunately, policymakers, railroads, and shippers worked together to pass the **Staggers Rail Act of 1980**. The Staggers Act established a more **balanced regulatory structure** under which market demand, not decrees from Washington, became the primary basis for determining what routes railroads could use, what services they could offer, and the prices they could charge.

- Under the Staggers Act, **government regulators retained authority (which they still have today) to protect railroad customers** against unreasonable railroad behavior and rates.
- Thanks to the Staggers Act reforms, railroads could become much more productive, and most of these productivity gains were passed on to rail customers in the form of lower rates. Adjusted for inflation, **average U.S. freight rail rates were 46 percent lower in 2017 than in 1981** (based on revenue per ton-mile). This means the average rail customer today can ship close to twice as much freight for about the same price it paid more than 35 years ago.



*Revenue per ton-mile, average all commodities. Source: AAR

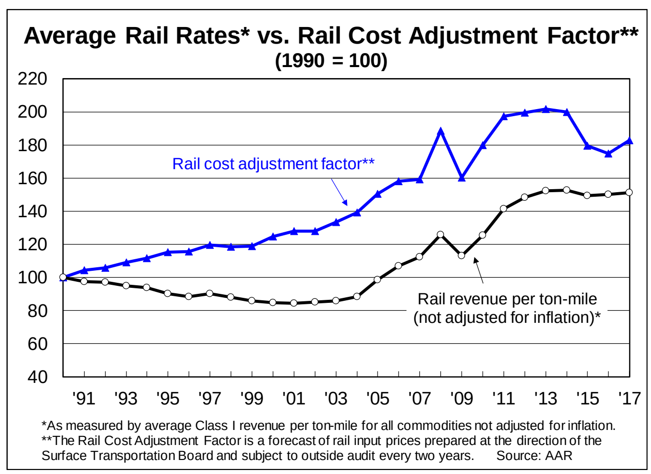
- U.S. freight railroads, along with their counterparts in Canada, are the most cost effective among the world's major countries. This makes **American businesses more competitive in the global marketplace**.



- The behavior of rail rates is in sharp contrast to the much higher costs for many of the items we buy every day. The cost effectiveness of rail means the food, electricity, clothes, and other things we use cost less than they would if rail were not involved.

- A few years ago, the American Association of State Highway and Transportation Officials (AASHTO) estimated that if all freight rail traffic were shifted to trucks, rail shippers would have to pay an additional $69 billion per year. Adjusted for increased freight volume and inflation, it's probably close to $100 billion today. Moreover, thanks to railroads, the pressure to build costly new roads is reduced.

Railroad Price Increases Have Been Less Than Increases in Railroad Input Prices



- Railroads, like most U.S. industries, generally set their prices based on market forces, not based on their input costs. That said, the Rail Cost Adjustment Factor (RCAF) is an index that measures changes in the price of rail inputs much like the consumer price index measures changes in prices for the overall economy. Since 1990, increases in rail rates have fallen short of increases in the prices of rail inputs as measured by RCAF. (RCAF is prepared by the Association of American Railroads under the direction of the Surface Transportation Board and is subject to independent audit every two years.)

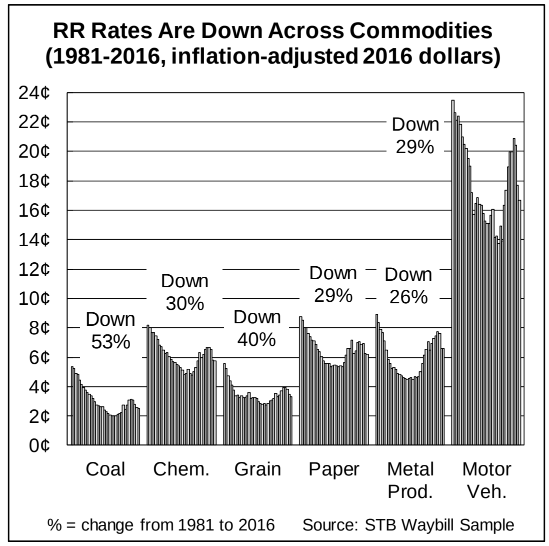
Preparing to Meet America's Needs

- As America grows, the need to move more freight will grow too. Railroads are the best way to meet this demand. Unlike trucks, barges, and airlines, America's privately owned freight railroads **operate overwhelmingly on infrastructure that they own, build, maintain, and pay for themselves**. If railroads are to continue to meet the needs of their customers and support our economy in the years ahead, they must be able to pay for the tracks, bridges, signals, yards, and other infrastructure and equipment that make it all happen. Investment in rail networks should be encouraged, and regulations and legislation should not harm railroads' ability or willingness to make those investments.

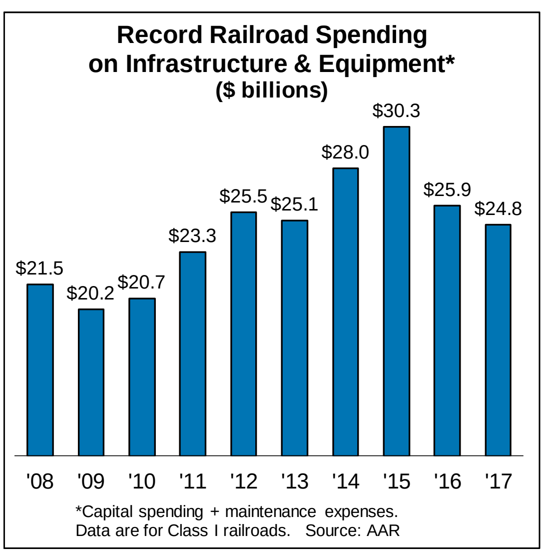
America's Cost-Effective Freight Railroads

The Federal Railroad Administration has called the U.S. freight rail system "the safest, most efficient and cost effective in the world."

Average rail rates are lower today for products across the industrial spectrum.



Improved rail earnings in recent years allow railroads to more readily make the massive investments they need to keep their track and equipment in top condition, improve service, and add new capacity needed for the future.



Rail earnings today pay for capacity and service improvements for tomorrow.