Railroad Re-Regulation, Part I

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Some electric utilities and other coal users are currently leading an effort in Washington to restore teeth to federal regulation of rail freight pricing. Understandably, this is causing alarm among the major freight rail owners and operators. Coal is one of the chief financial sustainers of the freight rail industry, which has prospered in recent years partly as a result of a high volume of coal traffic, much of it long-haul from Wyoming mines. Aggressive pricing by the rails has sometimes been notorious.

Grain, chemicals and coal are examples of commodity groups which are highly dependent upon rail transport. None of these industry groups has been entirely happy with the degree of pricing discretion granted the railroads by the landmark rail deregulation policy changes enacted by the Congress in 1980 under the so-called Staggers Act. At that time, almost everyone had come to realize that the old system of rail regulation, administered by the former Interstate Commerce Commission, was no longer appropriate in the modern era of highly-competitive highway and water transport, most of which was exempt from federal regulation. The rails were at an extreme disadvantage. Relief was granted, and the private rail freight industry revived.

It is doubtful that anyone who lived and worked under the suffocating, repressive, years of I.C.C. regulation and control of U.S. railroads wishes to return to that system. However, there is a perception in some quarters that the successor-system, administered by the Surface Transportation Board, has often been as biased in favor of the rails as the I.C.C. was indifferent, or even hostile.

Consider the following from the 10-K's of the "big four" U.S. freight railroads:

	Average Revenue Increase, 2008 vs. 2006, Per Car/Unit Handled	
Railroad Company	Intermodal Trailers/Containers	Coal Hopper Cars
"A"	9.4 %	39 %
"B"	12.3 %	33 %
"C"	17.5 %	26 %
"D"	23.8 %	33 %

Intermodal is the most highway-competitive of rail freight; coal may be the least. Average weights have remained about the same, per unit, 2008 vs. 2006. Changing traffic mix, domestic vs. international, could have been a factor in boosting 2008 intermodal unit averages.

This is not the last word on the subject, but only one piece of information. Nor is pricing the only area of rail freight service oversight that is in need of public policy review. The fact is that the highly-touted rail renaissance that followed "deregulation" masks an industry which, by its own admission, still falls short of being totally self sustaining, that is to say that the private rails cannot internally generate adequate earnings to fund capital needs necessary to maintain rail share in a growing cargo transport market.. If the current Congressional review were to include an even-handed look at this situation, including potential remedial public policy action in the areas of highway and waterway competition, then perhaps the coal users would no longer represent one of the rail freight industry's prime targets for "revenue enhancement". ####