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"Railroads Profit From Increased Competition," ARC Study Says

Washington, D.C. – Increased competition among the nation's rail carriers will result in at least a \$500 million improvement in net rail profits by the year 2005, according to a study commissioned by the Alliance for Rail Competition (ARC) and released today. Conducted by L.E. Peabody & Associates, Inc. a leader in rail economic analysis, the study demonstrates that railroads' claims that increased competition would result in financial hardship are not only greatly exaggerated, but are simply wrong.

"We have always known the railroads' claims that competition would hurt the industry's financial viability were based on unrealistic assumptions," said ARC Chairman Terry Whiteside. "But until now, rail customers' have not directly challenged the railroads' numbers. The completion of this analysis changes that."

The analysis projects rail industry revenues and profits in the year 2005 assuming that the industry continues to perform as it has. Then the analysis compares those revenues and profits against what the industry might reasonably expect to earn assuming rail terminals are opened to competition and that the so-called bottleneck decision is reversed. This analysis relies on qualified data regarding projections for railroad industry and its customers.

Most analysts accept that growth in railroad profits will be realized by a combination of increased traffic volumes, reductions in the costs of providing service and increased revenues. The study recognizes that significant cost reductions from the 1980s to the present allowed the railroads to increase their traffic base and profits. In the future, however, the study also asserts that railroad profitability will be more a function of revenue growth achieved by attracting new business through competition and better service. The efficiencies gained as a result of competitive pressures also would produce reductions in the cost of providing the service. None of this will happen unless the railroads become more customer-oriented. The railroads' treatment of captive shippers, particularly over the past several years, combined with the lack of an effective regulatory "backstop" suggests that competitive pressures must increase if profit potentials are to be realized.

"Clearly, the railroad industry is not going to independently change its tune toward its captive customers without some outside force," said Diane Duff, Executive Director of ARC. "And the outside force being proposed by rail customers—namely the provisions included in S. 621 and H.R. 2784, companion bills entitled, The Railroad Competition and Service Improvement Act of 1999—would likely benefit the rail industry more than it would benefit rail customers themselves." S. 621 was introduced on March 15, 1999 by Senators Jay Rockefeller (D-WV), Conrad Burns (R-MT), Kent Conrad (D-ND), Byron Dorgan (D-ND), and Pat Roberts (R-KS); H.R. 2784 was introduced on August 5, 1999, by Congressman Jack Quinn (R-NY).

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The Alliance for Rail Competition is a diverse coalition of shippers, representing many rail dependent industries, including agriculture, coal, chemicals, consumer products, forest and paper products, industrial products, minerals and petrochemicals. ARC was formed in March 1997 to develop a consensus plan for achieving rail-to-rail competition.