

Amount and Characteristics of "Captive Rail Traffic"

(abstract of June 1998 study conducted by L.E. Peabody & Associates, Inc.)

This report considered a movement "captive" if it had a revenue to variable cost ratio of 180 percent or more in the Surface Transportation Board's (STB) 1996 Costed Carload Waybill Sample. In other words, the rate charged by a railroad for handling a particular movement had to exceed its variable cost of providing service by at least 80 percent to qualify as "captive rail traffic."

This level was chosen for several reasons. First, under current law, any rate with this ratio is subject to a rate reasonableness challenge before the STB. Second, this ratio is well above the revenue/variable cost ratio needed to pass the STB's "revenue adequacy test," which the agency uses to determine whether a railroad is earning sufficient revenues to cover all costs and provide an appropriate return on investment. And finally, the experience of the researchers indicates that a railroad can only command a rate exceeding the cost of service by 80 percent if it has a sufficient degree of market power.

In addition to the confidential Costed Carload Waybill Sample, Peabody relied on other documents filed by the railroads at the STB, as well as publications and databases provided by the Association of American Railroads.

With the above in mind, Peabody found that for movements included in the 1996 Costed Carload Waybill Sample:

- a. Over 31% of the revenue was generated by "captive rail traffic;"
- b. Captive rail traffic accounted for 600 million tons;
- c. Captive rail traffic yielded the railroads \$11 billion in revenue;
- d. Captive rail traffic on average has a revenue/variable cost ratio of 2.44; and,

Movements of captive rail traffic were comprised of 129 different industry groups, broken down as follows:

STCC	Industry Groups	Captive Revenues
112	Bituminous Coal or Lignite	\$3.542 B
371	Motor Vehicles or Equipment	\$1.094 B
281	Industrial Inorganic or Organic Chemicals	\$1.480 B
282	Plastic Materials or Synthetic Fibers	\$740 M
011	Field Crops	\$607 M
422	Trailers, Semi-trailers Returned Empty	\$356 M
291	Products of Petroleum Refining	\$270 M
331	Steel Works, Rolling Mill	\$267 M
329	Abrasives, Asbestos Products	\$225 M
101	Iron Ores	\$168 M
262	Paper, excluding Building Paper	\$161 M
289	Miscellaneous Chemical Products	\$156 M
402	Waste or Scrap Excluding Ashes	\$137 M
299	Miscellaneous Coal or Petroleum Products	\$130 M
461	Misc. Mixed Shipments Excluding Forwarder Traffic	\$119 M
242	Sawmill or Planing Products	\$107 M
204	Grain Mill Products	\$101 M
147	Chemical or Fertilizer Minerals	\$95 M
324	Hydraulic Cement	\$88 M
287	Agricultural Chemicals	\$86 M
261	Pulp or Pulp Mill Products	\$74 M
209	Miscellaneous Food Preparations	\$60 M
206	Sugar, Beet or Cane	\$59 M
263	Fibreboard, Paperboard or Pulpboard	\$57 M
142	Crushed or Broken Stone or Riprap	\$57 M
144	Gravel or Sand	\$48 M
208	Beverages or Flavoring Extracts	\$47 M
105	Bauxite or Other Aluminum Ores	\$46 M

333	Nonferrous Metal Smelter Products	\$40 M
201	Meat, Poultry or Small Game	\$33 M
241	Primary Forest or Wood Raw Materials	\$31 M
327	Concrete, Gypsum or Plaster Products	\$24 M
411	Miscellaneous Freight Shipments	\$23 M
149	Miscellaneous Nonmetallic Minerals	\$23 M
284	Soap or Other Detergents	\$20 M
131	Crude Petroleum or Natural Gas	\$19 M
441	Freight Forwarder Traffic	\$19 M
145	Clay, Ceramic or Refractory Minerals	\$15 M
335	Nonferrous Metal Basic Shapes	\$14 M
286	Gum or Wood Chemicals	\$12 M
471	Small Packaged Freight Shipments	\$11 M
372	Aircraft or Parts	\$11 M
481	Hazardous Materials	\$10 M
111	Anthracite	\$10 M
84 Commodities comprise the remaining 1.5% of revenues or \$161 million.		

Further analysis was completed on movements of bituminous coal or lignite, chemicals and plastics, refined petroleum products, and field crops. This analysis compared captive traffic in these commodity groups to total traffic, and identified captive movements by territory.