

FINANCIAL IMPACTS OF INCREASED COMPETITION AND IMPROVED SERVICE

Summary:

In recent years, rail customers—particularly captive rail customers—have united in a call for increased competition among railroads. The growing demand for competitive rail options has been driven in large part by declining service performance during an era of substantial consolidation of the rail industry through mergers, abandonments and closures of gateways. Further, rail customers have concluded that regulators not only are unwilling to promote competition among rail carriers as intended by the 1980 Staggers Rail Act, but that regulators can offer little or no effective relief from the poor service and unreasonable pricing often provided by freight railroads. Increasing choices among carriers is viewed by rail customers as the only viable means of getting better service at a fair price.

Increased competition among the nation's rail carriers will result in a \$500 million improvement in net rail profit by 2005 thus allowing the rail industry to sustain the gains made since the passage of the Staggers Act in 1980.

The competitive process itself is the best means of achieving the needed balance between cost and quality of service. Based on conservative projections, 1998 railroad profits will grow \$4.9 billion by the year 2005 if there is more competition at currently captive shipper locations and railroad service improves. This analysis demonstrates that the railroad industry will not lose profits, as railroad representatives claim. In fact, the rail industry will gain at least \$500 million more in profits than it would be projected to earn by the year 2005 if it continued to provide today's service levels. Regardless, the benefits in terms of additional revenues and profits more than offset the rail rate reductions that are likely to occur when currently captive traffic is opened to competition. Conversely, if the railroad industry does not adequately address the transportation problems experienced by their customers, railroad traffic growth will be affected negatively.

Wall Street analysts expect railroads to grow their revenue, and they recognize that this growth hinges upon improved customer service. Yet, railroaders have continued operations in a "business-as-usual" mode, which focuses on the components of rail operations rather than on developing appropriate operational responses to customers' needs. Even more telling, railroads continue to argue that they can only survive if their ability to perpetuate such poor service and to extract exorbitant rates from captive customers is protected by regulators. Both the behavior and rhetoric of railroaders demonstrate that ongoing concerns about rail customer service will only be resolved when currently captive rail customers have the ability to choose another carrier's service.

In short, modestly enhancing the choices available to rail customers as proposed by S. 621, the Railroad Competition and Service Improvement Act of 1999, would provide sufficient opportunity to balance the concerns of both railroads and their customers. The railroad industry will be stronger financially, and their customers will be happier, giving the industry the best opportunity to begin growing their market share as demanded by Wall Street.

The modest pro-competitive changes proposed by rail customers offer a solution to everyone's concerns. More choices for rail customers will result in more satisfied customers. More satisfied customers will result in increasing demand for rail service. Increasing demand for rail service will result in the traffic growth needed by the industry to increase revenues and profits. Based on this analysis, the railroad industry should be able to respond to more competition at currently captive shipper locations in a way that is financially beneficial to the industry as a whole.

How did we arrive at this conclusion?

