



Highlights of [GAO-08-218T](#), a report to Subcommittee on Surface Transportation and Merchant Marine, Committee on Commerce, Science, and Transportation, U.S. Senate

Why GAO Did This Study

The Staggers Rail Act of 1980 largely deregulated the freight railroad industry, encouraging greater reliance on competition to set rates. The act recognized the need for railroads to recover costs by setting higher rates for shippers with fewer transportation alternatives but also recognized that some shippers might be subject to unreasonably high rates. It established a threshold for rate relief and granted the Interstate Commerce Commission and the Surface Transportation Board (STB) the authority to develop a rate relief process for “captive” shippers. Since 1980 GAO has issued several reports on the freight railroad industry and issued the most recent report in October 2006 and, at the request of this Subcommittee, issued an updated report in August 2007. This statement is based on these recent reports and discusses (1) recent changes that have occurred in railroad rates and how those changes compare to changes in rail rates since 1985, (2) the extent of captivity in the industry and STB’s efforts to protect captive shippers, and (3) STB’s actions to address GAO’s recent recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-218T](#). For more information, contact JayEtta Z. Hecker at (202) 512-2834 or heckerj@gao.gov.

FREIGHT RAILROADS

Updated Information on Rates and Other Industry Trends

What GAO Found

While railroad rates have generally declined and declined for most shippers since 1985, in 2005 rates experienced a 9 percent annual increase over 2004—the largest annual increase in twenty years—and rates increased for all 13 commodities that GAO reviewed. For example, rates for coal increased by nearly 8 percent while rates for grain increased by 8.5 percent. However, despite these increases, rates for 2005 remain below their 1985 levels and below the rate of inflation over the 1985 through 2005 period. Revenues that railroads report as “miscellaneous”—a category that includes some fuel surcharges—increased more than ten-fold from about \$141 million in 2000 to over \$1.7 billion in 2005.

It is difficult to precisely determine how many shippers are “captive” because available proxy measures can overstate or understate captivity. However some data indicate that the extent of potentially captive traffic appears to have decreased, while at the same time, data also indicates that traffic traveling at rates significantly above the threshold for rate relief has increased. In October 2006, GAO reported that STB’s rate relief process to protect captive shippers have resulted in little effective relief for those shippers. GAO also reported that economists and shipper groups have proposed a number of alternatives to address remaining concerns about competition—however, each of these alternative approaches have costs and benefits and should be carefully considered.

STB has taken some actions to address our past recommendations, but it is too soon to determine the effect of these actions. Our October 2006 report noted that the continued existence of pockets of potentially “captive” shippers raised questions as to whether rail rates in selected markets reflected reasonable pricing practices, or an abuse of market power. GAO recommended that the Board undertake a rigorous analysis of competitive markets to identify the state of competition. STB has awarded a contract to conduct this study. It will be important that these analysts have STB’s authority and access to information to determine whether rail rates in selected markets reflect reasonable pricing practices—the Chairman of the STB recently testified that these analysts would have that authority and access. GAO also recommended that STB ensure that freight railroads are consistently reporting all revenues, including miscellaneous revenues. While STB has revised its rules on fuel surcharges, these rules did not address how fuel surcharges are reported and STB has not yet taken steps to accurately collect data on other miscellaneous revenues. STB has also taken a number of steps to revise its rate relief process. While these appear to be promising steps, it is too soon to tell what effect these changes will have.