



Highlights of [GAO-07-94](#), a report to congressional requesters

Why GAO Did This Study

The Staggers Rail Act deregulated the freight rail industry, relying on competition to set rates, and allowed for differential pricing (charging higher rates to those more dependent on rail). The act gave the Surface Transportation Board (STB) authority to develop remedies for shippers “captive” to one railroad and set a threshold for shippers to apply for rate relief. GAO was asked to review (1) changes in the railroad industry since the Staggers Rail Act, including rates and competition; (2) STB actions to address competition and captivity concerns and alternatives that could be considered; and (3) freight demand and capacity projections and potential federal policy responses. GAO examined STB data, conducted interviews, and held an expert panel.

What GAO Recommends

GAO recommends that STB analyze the state of competition and consider appropriate actions. GAO also recommends that DOT consider strategies to level the playing field for all freight modes to maximize public benefits from federal investment. STB disagreed with our recommendation because it would take resources from efforts it believes will address GAO concerns, among other reasons. We recognize STB’s efforts, but believe further analysis is needed. STB should seek more resources from Congress if needed. DOT took no position on our recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-07-94.

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker at (202) 512-2834 or heckerj@gao.gov.

FREIGHT RAILROADS

Industry Health Has Improved, but Concerns about Competition and Capacity Should Be Addressed

What GAO Found

Changes in the railroad industry since the Staggers Rail Act are widely viewed as positive, as the industry’s financial health has improved and most rates have declined; however, concerns over competition and captivity remain. Rail rates generally declined between 1985 and 2000, then increased slightly from 2001 through 2004. Concerns about competition and captivity remain as traffic is concentrated in fewer railroads. It is difficult to determine the number of “captive” shippers as proxy measures can overstate or understate captivity. Nevertheless, GAO’s analysis of limited available measures indicates that the extent of captivity appears to be dropping, but the percentage of traffic traveling at rates substantially over the threshold for rate relief has increased. Also, some areas with access to only one major railroad have higher percentages of traffic traveling at rates above the threshold. These findings may reflect reasonable economic practices by the railroads or a possible abuse of market power. GAO’s analysis is limited by available data and proxy measures but suggests that shippers in selected markets may be paying excessive rates, meriting further inquiry and analysis.

While STB has taken action, further efforts to improve its rate relief processes and assess competition could help address competition and captivity concerns and inform the merits of proposed alternative approaches. STB’s rate relief processes are largely inaccessible and rarely used. STB recognizes this and is taking steps to improve its processes. STB has broad statutory authority to inquire into and report on railroad industry practices and, given a reasonable possibility that some shippers may be paying excessive rates, an assessment of competition could determine whether there is sufficient evidence that market power is being abused in specific markets. While competition between railroads may not always be feasible, alternative approaches have costs and benefits that should be carefully considered to ensure the balance envisioned in the Staggers Rail Act—including the railroads’ need for adequate revenues.

Significant increases in freight traffic are forecast, and the industry’s ability to meet them is largely uncertain. Investments in rail projects can produce public benefits, such as reducing highway congestion. As a result, federal and state governments have increasingly participated in freight rail projects. In 2005, for example, Congress provided \$100 million for rail improvements in the Chicago area. Congress faces additional decisions about potential federal policy responses in years ahead. Responses should recognize that the freight transportation system includes many modes that are treated differently by the federal government and functions in a competitive marketplace and a constrained federal funding environment. In developing a National Freight Policy, the Department of Transportation (DOT) has made a good start by providing context for those decisions and DOT can help sustain the role of the competitive marketplace through strategies that promote a level playing field for freight transportation decision making and acknowledge the constrained federal fiscal environment by focusing federal involvement where demonstrable, wide-ranging public benefits exist.