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Small Businesses, Farmers Bear Burden of the Railroad's Monopoly Practices

House Small Business Committee hears testimony from rail customers on consequences of a lack of competition in the freight rail industry

Washington, D.C. (May 1, 2008)—Small business and family farms increasingly bear the burden of a monopolistic freight rail industry that subjects its “captive customers” to shoddy service and outrageous rail rates, according to rail customers testifying at today’s House Small Business Committee hearing examining competition in the rail industry.

During the House Small Business hearing on “Rail Transportation Access for Small Businesses and Family Farmers,” rail customers testified on the lack of competition in the rail industry that is the direct result of decades of consolidation and a lax oversight agency—the Surface Transportation Board (STB)—that consistently turns a blind eye to rail companies’ monopoly power abuse.

Because rail companies charge customers exorbitant rates and refuse service, farmers are being forced to let their crops rot on the ground, electric coops are forced to use coal from overseas, and small businesses are forced to pass these price increases along to their consumers.

“While the major railroad companies log record profits and stock prices on Wall Street, delays in coal deliveries and steep increases in rail rates have caused higher electricity prices on Main Street,” Nelle Hotchkiss of North Carolina Electric Membership testified today. “In the past few years, some U.S. electric utilities have been forced to import coal from Colombia and Indonesia in order to meet consumer demand because the railroads are not delivering adequate supplies of U.S. coal.”

Witnesses at the hearing included Hotchkiss; David Cleavinger, National Association of Wheat Growers; Kendell Keith, National Grain and Feed Association; and Dan Weber, Agricultural Retailers Association.

“The STB has fallen asleep at the switch, allowing rail companies to run roughshod over our nation’s small businesses, farmers and families,” said Glenn English, Chairman of Consumers United for Rail Equity (CURE) and CEO of the National Rural Electric Cooperative Association. “In today’s consolidated rail environment, rail companies are free to treat their captive customers as they please with no regard for how it affects farmers getting their food to market or electric co-ops supplying their customers with power.”

When Congress partially deregulated the railroad industry in 1980, there were 41 major freight railroads. Only seven remain today, with four railroads carrying more than 90 percent of all rail freight. This has created regional monopolies for the railroads, who often charge captive rail customers up to five times what it costs them to move that customer's goods.

Congress charged the Interstate Commerce Commission—now the STB—with overseeing the railroads to monitor for potential monopoly abuse and to give rail customers an outlet for relief. But the STB has failed in its mission, as verified by a Government Accountability Office (GAO) study published in October 2006 and supplemented in August 2007.

“Congress needs to take action and inject some much needed competition into the freight rail industry,” English said. “By passing common sense legislation aimed at increasing fairness and competition in the industry, Congress can help bring the rail industry under the original intent of the Staggers Act which would have allowed competition to flourish.”

CURE supports two Congressional efforts to bring accountability and fairness to the rail Industry:

- Railroad Antitrust Enforcement Act of 2007 (H.R. 1650, S. 772): This bill would repeal railroad antitrust exemptions, increase competition in the rail industry and allow the U.S. Department of Justice and the Federal Trade Commission to review mergers under antitrust law. The House Judiciary Committee reported H.R. 1650 yesterday and the Senate Judiciary Committee reported S. 772 last year, which is awaiting action on the Senate floor.
- Railroad Competition and Service Improvement Act of 2007(H.R. 2125, S. 935): This bill would require the STB to address rail services problems, streamline the rate challenge process for captive rail customers and remove artificial barriers to competition.

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Consumers United for Rail Equity (CURE) represents a wide variety of rail customers including public utilities, rural electric coops, agriculture; chemical, ethanol, cement and other manufacturers, forest and paper companies, and their customers.

For more information about CURE visit: www.railcure.org