

Freight railroad customers complain about prices, service

Lawmakers get in on the debate

By Paul Davidson
USA TODAY

In the late 1800s, railroad robber barons enjoyed monopolies in many rural markets before regulation and the trucking industry tempered high freight prices.

Now, businesses contend the nation's major railroads are trying to resurrect that Gilded Age.

Many customers say the nation's big freight railroads are socking them with unreasonable rate increases and providing poor service in areas where they face no rail competitor, hurting the economy and the nation's ability to compete globally. The cost increases typically are passed to consumers, says Curt Grimm, a business professor at the University of Maryland.

The practices especially hurt industries — such as utilities and chemical and grain producers — that depend heavily on rail transport because they ship in huge quantities and own plants or farms in rural areas. Railroads transport about 40% of the nation's cargo.

Chemical giant DuPont says raw-material shipments to its Richmond, Va., Spruance plant that makes Kevlar — a fiber for body armor used by U.S. troops in Iraq — have arrived more than five days late several times the past 15 months.

Noting the plant is served by one railroad, CSX, DuPont Vice President Gary Spitzer told the House Transportation Committee Tuesday that CSX also raised its rates recently by up to 102%. That will cost DuPont an extra \$2 million a year.

CSX's Bob Sullivan says 97% of its deliveries to the Spruance plant are on time. He says rate increases partly reflect costs to transport toxic chemicals.

Congress getting involved

Now, Congress is wading into the debate. The Senate Judiciary Committee last week passed a bill that would apply competition laws to railroads, which are largely exempt from antitrust scrutiny. A measure in the House would make it easier for shippers to challenge high rates.

Railroads "have monopoly power ... and they charge rates that have nothing to do with costs," says Bob Szabo, head of Consumers United for Rail Equity. Its members include trade groups for the utility, chemical and paper industries.



By Jessica Rinaldi for USA TODAY

Delivery: Box cars full of coal arrive in Vernon, Texas. Businesses say the nation's largest railroads are overcharging them to deliver raw materials.

A comparison of railroad freight-delivery costs

Freight-delivery costs of major railroads are often more than twice as much for "captive" traffic — cargo sent to or from areas served by a single railroad — as for freight of shippers that can choose between at least two carriers. Costs per ton (which vary based on distance and other factors):

Product	Rates	Burlington Northern Santa Fe	CSX	Norfolk Southern	Union Pacific
Farm	Captive	\$46.33	\$40.18	\$25.30	\$45.02
	Non-captive	\$25.54	\$22.15	\$13.95	\$24.82
Coal	Captive	\$20.98	\$22.47	\$22.73	\$21.50
	Non-captive	\$9.01	\$9.65	\$9.76	\$9.24
Pulp	Captive	\$88.30	\$61.93	\$59.53	\$91.30
	Non-captive	\$37.56	\$26.34	\$25.32	\$38.84
Chemicals	Captive	\$42.99	\$40.71	\$44.28	\$43.92
	Non-captive	\$21.48	\$20.34	\$22.12	\$21.94
Primary metal	Captive	\$66.62	\$43.18	\$37.36	\$70.34
	Non-captive	\$32.59	\$21.12	\$18.27	\$34.40
All commodities	Captive	\$48.13	\$36.27	\$36.99	\$48.25
	Non-captive	\$22.32	\$16.82	\$17.15	\$22.38

Source: Escalation Consultants, based on data from the Surface Transportation Board

The railroad industry cites Government Accountability Office figures that show average rates have held steady since 1985, without figuring in inflation. Ed Hamberger, head of the American Association of Railroads, says the industry faces competition from trucks and gas pipelines, as well as among railroads. Recent price increases, he says, make up for 20 years in which rates for many customers fell.

In the 1970s, railroads were losing money and going bankrupt under stifling government regulation. Deregulation in 1980 let carriers set rates and ditch or spin off unprofitable routes. Consolidation shrank the number of major railroads from about 40 to seven. Today, the industry enjoys record profits, with the seven big carriers earning \$7.6 billion last year, up from \$3.7 billion in 1996.

But customers say the mergers and track abandonments increased the number of towns served by one railroad. Since 2004, when a robust economy boosted freight demand, rates for cargo sent to or from such "captive" shippers have surged. Those prices averaged \$34.05 a ton in the second quarter, more than double the rates in competitive markets, says Escalation Consultants, a consultant for shippers.

About 20% of rail traffic is from shippers served by one railroad and who have no other viable option, Grimm says. Partly as a result of sharp price increases in captive areas, average freight rail rates rose 9% in 2005, the largest jump in 20 years, the GAO said this week.

Shippers also say railroads have improperly passed along much of the price increases in the guise of fuel surcharges that far exceed their actual fuel costs. Miscellaneous revenue, including fuel surcharges, jumped from \$141 million in 2000 to \$1.7 billion in 2005, the GAO says. In January, the federal Surface Transportation Board, which oversees railroads and is successor to the Interstate Commerce Commission, barred carriers from imposing excessive fuel surcharges.

Among those complaining:

► **Utilities.** About 500,000 electric customers in Wisconsin, Minnesota, Iowa and Illinois were hit with an \$11 monthly bill increase last year after Dairyland Power Cooperative passed on a 93% rate increase from Burlington Northern Santa Fe for coal delivery. The wholesaler now pays \$75 million a year in rail costs, more than twice the cost of the coal itself, says procurement director Dennis Rackers.

In a statement, Burlington says, "Railroad pricing reflects the value

of the market attached to the delivered cost of energy," as well as the need for capital improvements.

Arkansas Electric Cooperative says it hasn't gotten a full coal allotment from Union Pacific in three years, including a 20% shortage in 2005, says principal engineer Steve Sharp. The gap has forced the power wholesaler to import about 3% of its coal from Indonesia, boosting electric bills, though the USA has the world's richest coal reserves.

Union Pacific's Kathryn Blackwell blames the 2005 shortages on rail closures due to the buildup of coal dust on tracks from mines in the Powder River Basin and says the problem has been fixed. But Sharp says shortages began before 2005 and are still running about 5%.

► **Chemicals.** DuPont is challenging CSX rate increases of 30% to 176% on seven routes.

Two-thirds of U.S. chemical plants that rely on railroads are served by one carrier, the American Chemistry Council says. In the next decade, 120 chemical plants costing at least \$1 billion are scheduled to be built worldwide — none in the USA. While high natural gas prices in the USA are the main culprit, exorbitant rail rates are the No. 2 factor, says council chief Jack Gerard.

► **Grain.** About 10 million bushels of wheat piled up in Colorado last month, mainly in single-railroad towns, as rail pickups ran about two weeks late, says Darrell Hanavan, head of the Colorado Association of Wheat Growers.

The state's farmers are paying an extra 40 cents a bushel, or a total of about \$30 million, in additional costs to ensure rail pickups, he says.

Hamberger says rail systems aren't designed to handle the peak demands of a harvest: "You don't build a church for Easter Sunday."

Hard to challenge rates

Customers can challenge high rail rates before the Surface Transportation Board, but winning is tough. It costs \$178,000 to file a rate case, and a customer must prove it could build a hypothetical railroad without charging as much as its carrier.

A bill by Transportation Committee Chairman James Oberstar, D-Minn., would slash filing fees and create a simpler standard of proof.

The big railroads say the bill would impede their ability to make \$135 billion in necessary system upgrades over the next 30 years.

"You would eventually see capital fleeing the sector, like back in the '70s," Hamberger says.