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GAO: FREIGHT RAIL RATES SPIKE IN 2005 MORE COSTS SHIFT TO CUSTOMERS

Updated data from 2005 shows the largest increase in shipping rates since 1985

Washington, D.C. (August 28, 2007)—Shipping rates in the freight rail industry continue to increase, with 2005 rates marking the largest annual increase since 1985, according to an August 2007 Government Accountability Office (GAO) report.

In 2005, freight rail rates jumped by 7 percent, while at the same time railroads shifted to shippers other costs that had been included in the overall rate. In addition, rail customers increasingly are required to own and maintain freight rail cars and other railroad equipment, greatly increasing the costs of doing business with railroads. GAO reported that the 7 percent increase is an aggregated number – which means that the increase to captive shippers, who have no transportation alternatives, is significantly higher.

Meanwhile, the Surface Transportation Board (STB), the federal regulatory body charged with overseeing the rail industry, is unable to adequately determine or regulate potential monopolistic practices.

The new report, "*Freight Railroads: Updated Information on Rates and Other Industry Trends*" provides an update to the October 2006 GAO report that analyzed the state of the freight rail industry and the efficacy of federal oversight of the industry. The report looked at 2005 data that was not previously available and reinforces the GAO's earlier finding that there is little competition available to rail customers.

"Railroads continue to enjoy unrestrained ability to increase prices at a whim and transfer almost every imaginable cost to the rail customers," said Glenn English, Chairman of Consumers United for Rail Equity (CURE), a coalition of rail customers seeking changes in federal rail policies. English is the CEO of the National Rural Electric Cooperative Association and is a former ten-term member of Congress. "Meanwhile, unreliable and shoddy service has become standard operating procedure for most railroad companies. Yet, the industry continues to be protected by an STB that is either unable or unwilling to provide adequate oversight."

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The report also found that the amount of industry revenue reported as "miscellaneous" tripled between 2004 and 2005, increasing from about $633 million to over $1.7 billion. Included in this miscellaneous category were fuel surcharges, which the STB recently banned the railroads from collecting because they found them to be improperly calculated. To date, the STB has refused to order the railroads to return any of the illegitimate fuel surcharges. Consumers across the country ultimately pick up the tab.

The GAO concluded:

- "In 2005, industry rates rose 7 percent over their 2004 levels. This represents the largest annual increase in rates during the 20-year period from 1985 through 2005, and outpaced changes to inflation—5 percent in 2005."

- "Similar to overall industry trends, rates for individual commodities have increased. In 2005, rates increased for all 13 commodities that we reviewed…In 2005, the largest rate increase (for fireboard and paperboard) exceeded 12 percent…"

- "In 2005, freight railroad companies continued a 20-year trend of shifting other costs to shippers. With the addition of the 2005 data, our analysis shows a 20 percent shift in rail care ownership (measured in tons carried) since 1987….freight railroad company railcars no longer carry the majority of tonnage."

- "In 2005, the amount of industry revenue reported as miscellaneous nearly tripled over 2004 levels, rising from about $633 million to over $1.7 billion. This miscellaneous revenue includes some fuel surcharges and other charges for providing rail service. In 2004, miscellaneous revenue accounted for 1.5 percent of freight railroad revenue reported, while in 2005 this percentage had risen to 3.7 percent."

- "In 2005, traffic traveling at rates over 300 percent R/VC (Revenue to Variable Cost) increased." [NOTE: Revenue to Variable Cost describes the amount charged to a shipper compared to what it costs the railroads to provide that service]

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