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## **Railroad Monopoly Pricing Power on Display in Earnings Reports** *Profits Way Up; Volume Down*

Washington, D.C. (Oct. 23, 2008) — The nation's largest freight railroads posted blistering third quarter profits this week despite declining shipping volumes, a historic economic crisis, two hurricanes that disrupted service and soaring fuel prices – providing further proof that they are committed to using their monopoly pricing power to its fullest extent, a coalition of rail customers charged.

Consumers United for Rail Equity (CURE), a coalition of rail customers, noted the following 3<sup>rd</sup> quarter railroad profits:

BNSF – Today reported third quarter earnings of \$818 million (21 percent) or \$2.00 per diluted share, compared to \$1.47 per share in the third quarter of 2007.

Union Pacific – Today reported a 32 percent increase in third quarter net income to \$703 million, up from \$532 million a year ago. Per share earnings climbed 38 percent to \$1.38 from \$1.00 last year.

Norfolk Southern – Reported a 35 percent jump in third quarter profits on Tuesday, \$520 million, or \$1.37 per share, compared with \$386 million, or 97 cents per share in the third quarter of 2007.

CSX – Reported a 40 percent increase quarterly net income of \$382 million, or 94 cents a share, compared with \$297 million, or 67 cents a share, a year earlier (Oct. 14).

A Morgan Stanley analyst had this to say about the CSX windfall: “The fact that CSX could grow earnings 40% in the face of a 2.3% carload decline and hurricane disruptions only underscores why we like the rail story. The company's impressive 2010 guidance despite economic uncertainty is also a positive. As for pricing, the strong 3Q08 yields and a recent rate case filing suggest CSX has no plans to ease up on pricing near-term.”

Because coal must be transported only by rail, railroads can charge whatever they want for their service, and they do. In fact, it costs more to ship the coal than the cost of the coal

itself. These exorbitant rates are passed down to consumers in the form of higher electric bills, since more than 50 percent the nation's electricity is generated by coal.

An article in today's *Motley Fool* noted the role coal has played in the railroad's profitability: "Norfolk has enjoyed expanding pricing power in each of the first three quarters of 2008, reaching a 24% year-over-year improvement for the latest quarter. Not surprisingly, the red-hot coal sector accounted for a substantial portion of that improvement, as the company generated 43% more revenue per carload of coal than it did in Q3 2007."

These profits are the result of monopoly pricing power over captive rail customers, noted CURE. While these record profits benefit wealthy investors and CEOs, consumers "pay the freight" through higher prices on everything from utility bills, to breakfast cereal, to lumber.

"When the economy is suffering, when railcar volumes are declining, when fuel prices are soaring – how can these railroads continue to post massive profits?" asked CURE Chairman Glenn English. "The answer is clear – unfettered monopoly pricing power that hurts consumers, hurts our rural communities and hurts our nation's farmers."

The results of higher prices generated through monopoly pricing power has a dramatic impact on agriculture, which has no viable transportation options and is being hit hard by rising input costs, including transportation, falling commodity prices and price increases on moving agriculture products to market.

"Our farmers and our rural communities are being hit with a massive hidden tax imposed by the monopoly pricing power on our nation's railroads," English said. "Our farmers are already suffering. The last thing they need are indefensible rail transportation price increases while all of their input costs are increasing and commodity prices are declining."

CURE supports legislation in Congress to apply the nation's antitrust laws to the railroads and to tighten the regulatory oversight of the four remaining major railroads by the responsible federal agency, the Surface Transportation Board. Legislation to apply the nation's antitrust laws to the railroads passed both the House and Senate Judiciary Committees during this session of Congress.

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*Consumers United for Rail Equity (CURE) represents a wide variety of rail customers including public utilities, rural electric co-ops, agriculture groups, as well as chemical, ethanol, cement, forest and paper companies, and other manufacturers.*

**For more information about CURE visit: [www.railcure.org](http://www.railcure.org)**