

Analysis of the Premium Railroads Charge Shippers

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Introduction

U.S. producers depend on rail service to ship their products to their customers. As railroads consolidated and government rules protected railroads from competition, freight rail rates skyrocketed by 98 percent over the past decade – more than three times the rate of inflation and three times as much as truck rates have increased. While a strong rail industry is vital to the U.S. economy, excessive rates can be a burden on U.S. manufacturing and provide a competitive advantage to foreign producers. To better understand these impacts, Escalation Consultants quantified the premiums railroads charge U.S. manufacturers in a report entitled, *Analysis of Freight Rail Rates for U.S. Shippers*.

Methodology

For this study, Escalation Consultants examined Class I railroad rate data from the Surface Transportation Board's (STB) Public Use Waybill sample for all major commodity groups shipped by rail. Data was analyzed for 2013, the most recent year available from STB, and for 2005. Escalation Consultants calculated the railroad's revenue-to-variable-cost ratio (RVC) for each shipment that originated or terminated in the U.S. RVC is an important indicator for freight rail rates because a rate greater than 180% RVC is subject to potential STB review for being unreasonably high.

For each group of related commodities, Escalation Consultants calculated the average rate for shipments below 180% RVC (those assumed to be competitive) and the average rate for shipments above 180% RVC (those potentially non-competitive and subject to STB jurisdiction). The difference between these average rates is presented as the shipper's rate 'premium.' Escalation Consultants further broke down the potentially non-competitive rates by RVC ranges (180-240%, 240-300% and above 300%) to show the impact of the highest rates on the total premium. Data are reported for all commodities combined, as well as for major commodity groups and individual products within each group.

Summary of Findings

These key findings are based on the Public Use Waybill sample provided by the railroads to the STB:

- In 2013, more than half (67 percent) of all rail rates exceeded 180% RVC.
- The average rate for carloads above 180% RVC was \$1,338 higher than the average rate for carloads below 180% RVC, meaning that shippers paid a 49% premium for these shipments.
- As a result, the total rate premium paid by commodity shippers in 2013 was nearly \$19 billion.
- The commodity groups with the largest total rate premiums were chemicals (\$5.3 billion), coal (\$4.1 billion) and transportation equipment (\$1.7 billion).
- Many rates were far above the STB's jurisdictional threshold of 180% RVC; for example, one quarter of rates exceeded 300% RVC, or three times the railroad's variable cost.
- From 2005 to 2013, the total rate premium paid by commodity shippers increased 121% while the carload volume declined by 2.4%.