

Presentation Outline

“The Basic Structure Of The Rail Freight System In The U.S. Compared To Some Of The Other Models Of Privatization In England, Mexico And South America”

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at the Center for International Legal Studies Conference on the Provision Of International Services and Sale Of Goods

Salzburg, Austria

10/26-29/00

I. United States System—Vertically Integrated

- A. In a vertically integrated system, a railroad company owns the track and infrastructure and controls who passes over the track. This is opposed to an open access system where multiple railroads have rights over the track. *Railroads—Vital Link....International Comparisons.*
- B. The vertically integrated system saves shippers billions of dollars per year. *Railroads—Vital Link.....International Comparisons.*

II. History of United States System—How it Became So Successful

- A. Prior to 1980: 20% of the Railroad Industry was bankrupt—and of those that were profitable, the average return of investment on some was under 2%; 25% of the track was operating under slow orders because of deferred maintenance; accident rates were high; and there was a capital shortfall in the industry of as much as \$20 billion. *Railroads—Vital Link.....Sample Speech: Reregulation.*
- B. 1976: 4-R Act passed. Two goals were to infuse capital into the rail industry and provide greater ratemaking, abandonment, and merger freedom to railroads. *Railroads and the Marketplace, p. 302.*
 - 1. Although intentions of the Act were good, execution did not meet the goals. *Railroads and the Marketplace, p. 303.*
 - 2. Study mandated by the 4-R Act said that the financial situation of the railroads would only get worse. *Railroads and the Marketplace, p. 305.*
 - 3. 4-R Act began to deregulate the railroads—it recognized that railroads should be able to earn a rate of return on investments and that they should be allowed to adjust rates to be more competitive. *Railroads and the Marketplace, p. 306.*
 - 4. To solve these problems, the Staggers Act was passed. *Railroads and the Marketplace, p. 306-07.*

- C. Staggers Act Passed in 1980. Goals were: assist the industry in the rehabilitation under private ownership; reform the federal regulatory policy to create a stable railway system; and balance the needs of carriers, shippers and the public. Nine fundamental regulatory changes (listed below) were made. *Railroads and the Marketplace*, p. 307.
1. Regulation was now because of demand and competition—maximum rates continued only where there was no effective competition.
 2. ICC must take into consideration the revenue adequacy of a railroad when determining whether or not a rate was reasonable.
 3. It mandated a rail cost recovery index.
 4. ICC no longer had jurisdiction over minimum rates.
 5. Competing routes and services could be priced differently.
 6. Railroads were allowed to enter into confidential contracts.
 7. Collective ratemaking was abolished.
 8. States had to control their intrastate rail regulation standards to those used by the ICC.
 9. Expansion of the power of the Commission to authorize exemptions from regulation. *Railroads and the Marketplace*, p. 308.
- D. Prior to the Staggers Act of 1980, railroads were controlled by the government and were not meeting the needs of the people. *Railroads—Vital Link...Contracts*
- E. Statistics after Staggers: rail rates have declined by more than one half (on an inflation-adjusted basis); accident rates have dropped 70%; productivity has increased 170%; earnings have increased (allowing \$230 billion to be reinvested to maintain and improve railroads). *Railroads—Vital Link.....Sample Speech: Reregulation*

III. Unsuccessful Systems—Open Access or Forced Access

- A. Theory behind open access is that it will increase rail to rail competition, thereby making the railroad industry more competitive with other modes of transportation. *Assessing...Open Access*, p. 12.
- B. Private Investment is hard to come by when the system is open access. *Assessing...Open Access*, p. 14-15.
- C. The Government's role in the railroad industry is higher in an open access system because (1) it must interpret the rules and mediate disputes between rail operators and infrastructure managers; and (2) it becomes the source of funds to cover the gap between access fees and infrastructure investments. *Assessing....Open Access*, p. 20-21.
- D. The European Union adopted the open access system. Since then in the freight market, rail share has declined from 32% in 1970 to 13%. Trucking share has increased to 70% and is growing. *Assessing...Open Access*, p. 12.

1. If the demise of rail freight continues in Europe, most shippers, policy-makers, and the railroads agree that there is only about a decade left before it disappears. *The Road Less Traveled*.
 2. In 1970, rail carried one third of the continent's cross-border freight, now it only carries 13%. *The Road Less Traveled*.
 3. In October of 1999, Europe's transport ministers agreed that licensed foreign rail operators should have access to the rail track in each of the 15 member states. However, many of the details remain unresolved. *The Road Less Traveled*.
 4. Suggestions for improvement: concentrate marketing on freight that moves 300 miles or more; shuttle service rather than individual train service on some routes; a slot-chartering system; trains run on a fixed schedule whether or not shippers are ready; and eliminate excess personnel. *The Road Less Traveled*.
- E. Sweden: Adopted the EU open access policy in early 1990s. Although the dominant rail operator has made a profit since 1992, the infrastructure program is subsidized more than \$4 billion from public coffers. The government also subsidizes by changing track access fees. *Assessing....Open Access, p. 14*.
- F. United Kingdom: Subsidies have started to decline since the reform to open access, but government support still remains in excess of \$2 billion a year. *Assessing....Open Access, p. 14*.
- G. Brazil: System was privatized by splitting the rail system into six networks. *Rail Privatization in Brazil, p. 44*.
1. RFFSA (the previous Brazilian Rail System) retained a regulatory role and ownership of all operating assets until the "concession" was terminated. *Rail Privatization in Brazil, p. 44*.
 2. The six new RFFSA networks were given exclusive use to tracks, rights of way, locomotives, and rolling stock. *Rail Privatization in Brazil, p. 44*.

IV. Successful Systems that have Followed the United States Model

- A. Argentina: Freight subsidies used to cost the government \$1.3 billion per year. After it privatized under the vertically integrated model, freight subsidy was eliminated and government expenditure has been reduced to \$250 million. *Assessing....Open Access, p. 13*.
- B. Mexico: After 1995 (when it realized the previous method of restructuring did not work) the government privatized under the vertically integrated model. This eliminated the freight subsidy and generated \$2.7 billion in sales for the government. Plus the new freight concessions are investing hundreds of millions of private fund dollars to rehabilitate the system. *Assessing.....Open Access, p.13-14*.

1. Service Improvements include: increase in number of railcars; 44% increase in average train speed; 80% reduction in cargo thefts; 85% on-time record for positioning empty railcars; and the percentage of railcars sitting idle for more than 48 hours dropped from 40% in 1997 to 5% in 1998. *Mexican Railroads face long, uphill climb.*
 2. Vertical integration protected franchise values and ensured a match between market demand for rail freight services. *Assessing....Open Access, p. 29.*
 3. Traffic is returning to the rails—Pacific North concession traffic increased 17% in its first six months of operation. *Assessing.....Open Access, p. 29.*
 4. Transit times have decreased by 20-50% for many commodities, and equipment availability has increased 92-97%. *Assessing....Open Access, p. 29.*
 5. Government tried to restructure from 1992-94; productivity improved but operating loss and government subsidy continued. Various approaches to a new restructuring were test-marketed, open access received the lowest rating. *Assessing....Open Access, p. 29.*
- C. Although there may not be as much competition among rail carriers in a vertically integrated system, there is more competition among the different forms of transportation, especially trucking. *Assessing.....Open Access, p. 21.*
- D. Customer relations are improved because the rail can fine tune its practices to meet the requirements of customer requirements. *Assessing.....Open Access, p. 21-22.*
- V. Lessons Learned (Why the United States System is Better)
- A. United States leads the world (or is close to the top) in: miles of railroad, traffic carried, freight revenue, productivity, and affordability. *Railroads—Vital Link.....International Comparisons*
 1. US Rails have the lowest rates in the world. *Railroads—Vital Link.....International Comparisons*