

America's Freight Railroads: Global Leaders

ASSOCIATION OF AMERICAN RAILROADS

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Summary

As the Federal Railroad Administration has noted, "By many measures, the U.S. freight rail system is the safest, most efficient and cost effective in the world." America's freight railroads greatly enhance our nation's competitiveness in the global economy. Countries all over the world have restructured their freight rail systems and looked to the United States for guidance.

America Has the Best Freight Rail System in the World

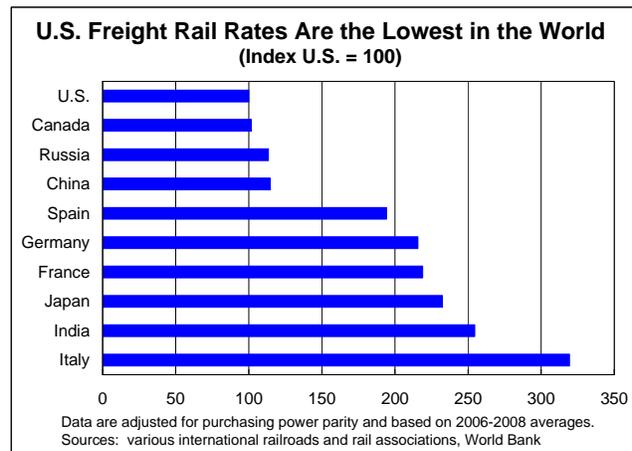
The U.S. freight railroad industry is the **envy of the world**. The United States is **at or near the top among all countries** in terms of miles of freight railroad, the condition of rail infrastructure and equipment, the amount of freight carried by rail, rail productivity, and other key rail-related measures.

U.S. freight railroads are also **the most affordable among the world's major countries**. According to data from the World Bank and other sources, U.S. freight rail rates (measured by revenue per ton-mile) are half those in major European countries and well below China and Japan as well.

As the World Bank's Lou Thompson has noted, "Because of a market-based approach involving minimal government intervention, today's U.S. freight railroads add up to a network that, comparing the total cost to shippers and taxpayers, gives the **world's most cost-effective freight service.**"

Adjusted for inflation, average U.S. freight rail rates (measured by revenue per ton-mile) were **51 percent lower in 2010 than in 1980** — saving consumers billions of dollars each year in lower shipping costs.

The global dominance of America's freight rail industry is a direct consequence of a **balanced regulatory system**. Railroads can largely decide for themselves what rates to charge, how assets should be used, and what services to offer. Meanwhile, regulators protect shippers against unreasonable railroad conduct and unreasonable railroad pricing. This ensures that freight rail in the United States is fair and competitive, and that **railroads are held accountable** for their actions.



International Restructurings Demonstrate the Superiority of the U.S. Model

The U.S. rail model is of “vertical integration,” in which a railroad generally both owns the track and operates trains over that track. The efficient U.S. model has resulted in **huge productivity gains, sharply lower average rail rates, and massive reinvestment** by railroads back into their systems.

In fact, from 1980 through 2010, U.S. freight railroads reinvested some **\$480 billion** — more than 40 cents out of every revenue dollar — back into their networks.

The main alternative to the vertical integration model is the “open access” model, in which multiple railroads operate over tracks they do not own. The right-of-way is owned by the government or a government-approved manager.

When Argentina and Mexico restructured their rail industries, an “open access” regime was initially considered but met with an overwhelmingly negative response from potential investors who were not interested in committing funds to railroads if competitors could appear at any time and capture the economic benefits of those investments. Investors realized that in a capital-intensive industry like railroading, **“open access” simply entails too much risk for private investment.**

Investors also recognized that “open access” would make it more difficult to operate a railroad efficiently and profitably due to government interference and a lack of coordination between infrastructure investment decisions and operational goals.

Where open access has been implemented, additional rail-to-rail competition has been **slow to develop** and **problems have abounded**. As Mercer Management Consulting, a firm deeply involved in rail restructurings all over the world, testified at a U.S. Senate hearing, “No country has been successful in implementing [open] access without providing significant and, in some cases, unexpected government subsidy of rail service.”

