Rail Status Quo Unacceptable

BY JOHN L. HURST III, KEVIN LYDEN AND ATTILA MOLNAR

Many captive rail customers and railroad executives no doubt followed with great interest *Traffic World's* recent coverage of a January speech by Basell North America President Chuck Platz ("Living in Captivity," Feb. 3) and a detailed response by Edward Hamberger, president and chief executive officer of the Association of American Railroads ("Railroads Have Enhanced Service," March 3).

Although we don't presume to speak for Mr. Platz, as captive rail customers that collectively employ roughly 30,000 in North America and generate about $15 billion in sales, we would like to share our perspective on the issue.

Although captive rail customers and "differential pricing" were envisioned in the 1980 Staggers Rail Act, it is clear that an unintended consequence also resulted, namely deregulation without competition. This problem has become so perverse that it is attracting the attention — and ire — of senior executives at a growing number of captive rail customer companies. Our position is straightforward:


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● Captive rail customer companies find the status quo unacceptable. Because of the types of products captive companies primarily produce and the remote location of many of our facilities, transportation is one of our largest operational costs. In many instances, rail is the only truly viable means of transport. But railroads that operate in captive locations — areas served by a single rail line — are empowered to charge whatever rates they see fit. For example, one of our colleagues recently incurred a rate increase that meant his rail costs would exceed the price of the product his company was shipping.

In the case of UPM-Kymmene, the world's largest producer of publication (magazine and catalog) papers, we can ship raw materials from Georgia to our company's home country of Finland (4,900 miles) more cheaply ton for ton than we can transport these same materials from Georgia to our operations in northern Minnesota (1,100 miles). Why? Our Minnesota facility is served by only one railroad.

● Another manufacturing sector harmed by captivity is the chemical industry. Nearly two-thirds of rail-served U.S. chemical facilities are captive to one railroad and consequently pay rates substantially higher than locations with competitive transportation options, according to an American Chemistry Council survey. A recent analysis by Gaithersburg, Md.-based Escalation Consultants Inc. published in the quarterly *Rail Price Advisor* found that captive rail customer companies paid anywhere from 106 percent to 137 percent more per ton to ship commodities on the country's four largest Class 1 railroads than noncaptive rail customers.

● Railroads consistently argue that without this "differential pricing" system, they cannot remain economically viable. We share their pain. Our companies, too, are experiencing mounting economic pressures. However, unlike the railroads, our companies face global competition and the unreasonable rail costs we pay as captive rail customers weigh onerously on our bottom lines. (The impact of rail captivity is such a business liability that it is increasingly becoming a deciding factor in whether companies build or expand in certain locations.) Rather than railroads continuing to focus their efforts on preventing competition at captive locations, we invite them to partner with us to forge a more equitable approach that will allow all of us to prosper.

● The captive rail debate is not new, but the hands-on involvement by senior executives of captive rail customers is. We're accustomed to working with our customers and, as railroad customers, we ask only for the same consideration. However, we have consistently been met with a "take it or leave it" stance from the railroads whenever the possibility of a more balanced rate structure is broached. This position is underscored by Mr. Hamberger's contention that rail monopoly pricing is a "birthright" and that railroads will fight every shipper attempt to create competition at captive locations *("Trojan Horse," Feb. 26, 2001)*. In a capitalistic economy, preservation of monopoly power is never a "birthright," particularly for industries that are largely deregulated. As Sen. John Breaux, D-La., has said, railroads cannot expect to have both deregulation and no competition.

● These facts bring us to our final point: captive rail customers are not going away and we fully intend to do something about this problem. We would prefer to arrive at a collaborative resolution in partnership with the railroads, but the issue is so grave and our complaints so long ignored that we are no longer willing to accept the status quo. A coalition of captive rail customers comprising a variety of industries is emerging and is ready to take this fight to Capitol Hill to secure the relief our companies so desperately deserve. We're encouraged by the growing interest and support of Congress and believe the time has never been better to obtain a legislative remedy.

We agree with Mr. Platz that the U.S. rail system is a national asset critical to the health of the nation's economy. As companies that rely on rail transportation, we have a strong self-interest in doing what we can to help ensure the railroads' prosperity. However, we can no longer do so at the expense of our own companies. An equitable commercial relationship must be achieved between the railroads and all of their customers. Anything less and the railroads may irreparably damage the very customers upon which their industry depends.

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