

# Staggers Act – 30 Years Later



## The Shippers' Perspective

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# From the shippers' perspective has Staggers been a success?

From 1980 to 2004      ***Absolutely***

From 2004 to today      ***No longer***

# What's Changed?

The entire landscape of the railroad industry

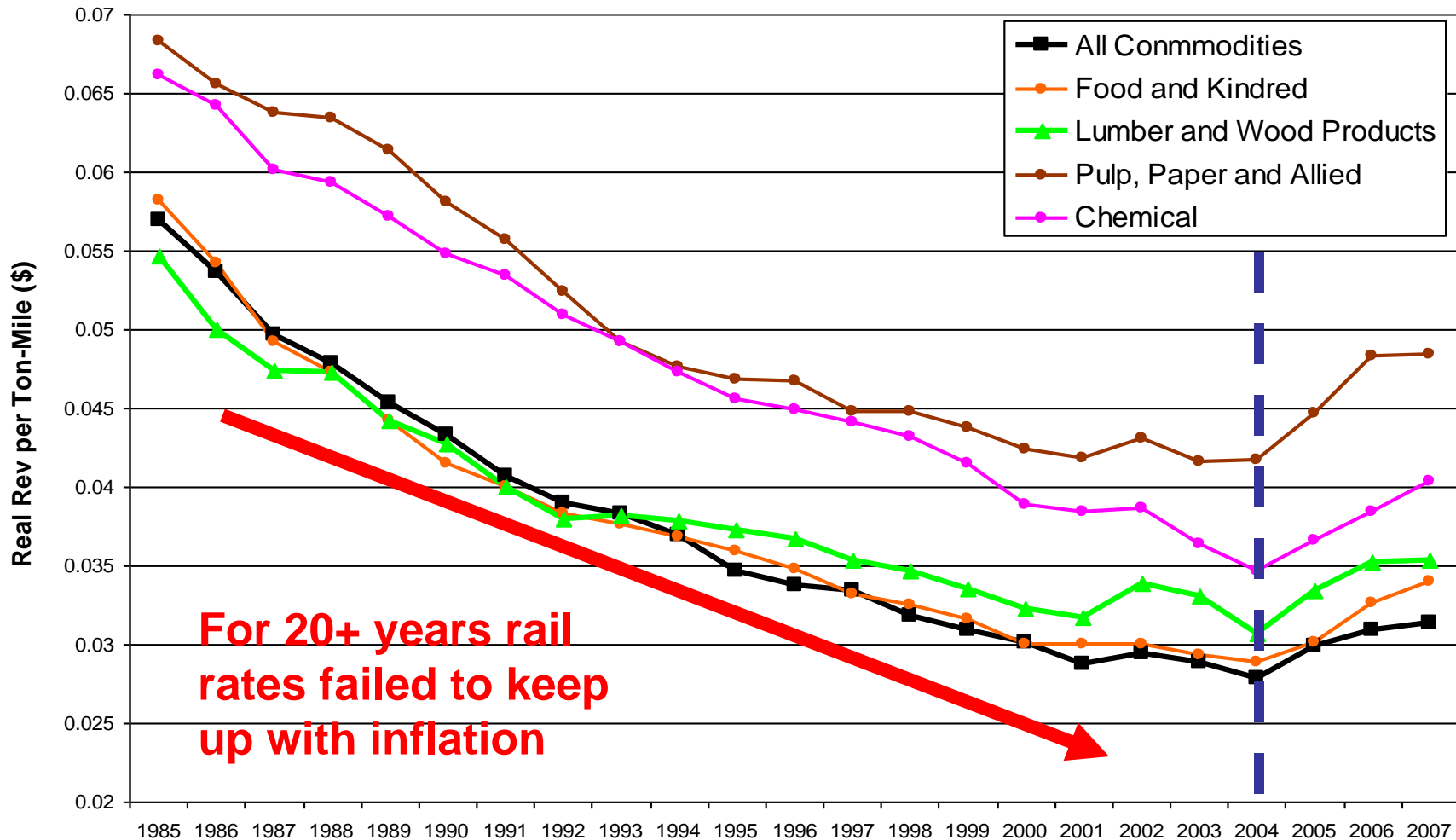
- Makeup
- Ratemaking
- Attitudes

# Industry Makeup

<u>Year</u>	<u># of Class I's</u>	<u>Employees</u>	<u>Miles of Track</u>
1980	39	458,000	270,000
2010	7	152,000	158,000
Regionals & Shortlines			
(estimate)	759	20,000	68,000

# A Fundamental Change Has Occurred

## Real Revenue Per Ton-Mile (1985-2007)



# **Post Staggers Tactics**

## **(1980 to 2004 – Buyer's Market)**

Branch line disposal

Mergers/acquisitions

Price competition

Contract rates, refunds, surcharges

Volume Commitments

One-on-one negotiations

# Post-Post-Staggers Pricing (2004 and beyond – seller’s market)

Less contracting

More tariffs, more Rule 11

“Closed” routes

Less one-on-one negotiations

More independent carrier rate control

**Goal – Increase Operating Margins**  
(always the primary focus)

# RATEMAKING

## Looking to the future: irreversible change

Rates increasing in real dollar terms

Carriers taking back control of rates:

- tariffs: in more than just commodity markets
- proportional rates (Rule 11)
- major RRs will control own destiny

Less head-to-head price competition





## Justification for our beliefs:

1. Higher Fuel costs
  - 1a. Rail 4x more fuel efficient than truck
2. Declining rail productivity gains
3. Volume growth, taxing capacity
4. Fewer major RRs
  - 4a. Fewer routing options

# Attitude

- \* Wall Street RR's are **5<sup>th</sup> most profitable** industry in U.S.
- \* STB  
Adopted a laissez faire approach since 1995  
46 rate cases filed: 40 decided - 6 TBD avg 3/yr  
Only 4 Small Rate Cases filed

**On June 22 holding hearing on competition. Wall St's take:**  
*Lot's of noise – little to no change. No threat to railroads' raising prices*

- \* Shippers Take it or leave it  
Ratemaking is handled at higher levels  
Shipper contact by Marketing is avoided

# What has Staggers Produced for Shippers?

2 healthy duopolies – one east, one west – who act like it

A rail market that has evolved into 70%+ single–line moves

A regulatory agency that is seen as offering little help

Escalating rates, mixed fuel surcharges, same service



# Redefinition of Terms

- **Negotiation:**

*Old Definition:* discuss with the RR in hopes of reaching a bilateral agreement

*New Definition:* provide insights in hope of influencing RR to take favorable rate action

- **Deal:**

*Old Definition:* a bilateral business transaction

*New Definition:* unilateral RR rate action in response to outside influence

