Industry Overview

Less than four years after a California train disaster spurred passage of major safety legislation, railroad companies are pushing hard to relax the law’s chief provision. The Rail Safety Improvement Act, passed in late 2008 soon after the head-on collision that caused 25 deaths and 135 injuries in Chatsworth, CA, will cost railroad companies $13 billion. The law calls for installation of a technology known as Positive Train Control, or PTC, that automatically puts the brakes on trains about to collide or derail. Railroads are required to install PTC by the end of 2015 on an estimated 70,000 miles of track used by trains carrying passengers or extremely hazardous materials such as chlorine. The railroad industry and its allies, arguing that the project is unaffordable, have put up stiff resistance. They also maintain that the technology still needs to be refined.

The rail services industry includes railroad companies (both freight and passenger), manufacturers of railroad equipment and companies that service railroads. The industry was in major financial trouble during the 1970s, in part due to over-regulation, but it experienced somewhat of a resurgence after the Staggers Act in 1980 de-regulated the industry. Since then, however, the industry has been in relative decline, due to competition from other modes of transportation, but remains influential because of the importance of rail transport to the entire economy.

Freight Rail. Within the rail services industry, freight railroads are frequently broken up by category – Class I, Class II and Class III railroads. The distinctions between classes are a product of the railroad’s revenue, with Class I being the largest and Class III being the smallest. The government’s revenue standards are periodically adjusted for inflation; as of 2008, Class I railroads had revenue exceeding $401.4 million each, according to the Association of American Railroads. Seven line-haul Class I railroads, including two Canada-based lines, operate in the U.S. Class I carriers account for most of the industry revenue and about two-thirds of overall track mileage. About 30 regional Class II railroads typically operate routes of about 500 miles between two to four states. More than 500 short-line Class III railroads haul cargo 350 or fewer miles on local rail lines. Although freight railroads have a long history, they are still very much relevant to the modern economy. Nearly half of all intercity freight transportation is handled by rail, by weight. While that number is impressive in its own right, it only tells part of the story. More than two-thirds of the U.S. coal is transported by rail, and railroads carry a sizable percentage of the bulk shipments of chemicals, grains and cars in this country. Rail also offers compelling safety and efficiency advantages – accident rates are far lower for trains than trucks, and a train can move a ton of freight over 430 miles on a gallon of diesel.

Passenger Rail. Most rail transportation in the U.S. today is based on freight train activity. Carload activity, as do the number of railcars deployed or held in storage. Likewise, context on the state of international trade and the mix of traffic can offer a notably strong or weak. The sole intercity passenger railroad in the U.S. is the National Railroad Passenger Corporation, more popularly known as Amtrak. It is a quasi-public corporation, created by an Act of Congress to supervise the country’s rail passenger train service.