University of Idaho
College of Agriculture

Cooperative Extension Service
Agricultural Experiment Station

Current Information Series No. 681

Railroad Transportation Issues Affecting Idaho Wheat

Ken Casavant, Frank Dooley and Neil L. Meyer

Agricultural marketing's dynamic nature has placed constraints on and yet offered opportunities to the Idaho wheat producer. The following issues face the wheat shipper:

- Rail line abandonment.
- The advent of multiple car and unit train rates.
- The formation of contract rates.
- The deregulation of railroad rate and service levels.
- Continuing increases in energy costs.
- Additional waterway and highway user fees.
- Problems of congestion and delay at Bonneville Locks and John Day Dam.

These problems may force Idaho wheat shippers to make hard decisions regarding the transportation of their agricultural products. In fact, a major restructuring of the grain merchandising industry in Idaho and the Pacific Northwest may well be underway.

The historical availability of a complete transportation system has allowed the Idaho wheat industry to be heavily export market oriented. Based on its production capacity and on its location relative to its markets, Idaho wheat producers enjoy a comparative advantage in the Pacific Rim countries. The international market has become increasingly important to Idaho wheat producers, with at least 60 to 70 percent of Idaho wheat moving into those markets in recent years. Thus, any review of changes in the transportation sector of wheat marketing must also consider the dependence on access to foreign markets.

In this publication, some transportation issues affecting railroad movement of Idaho commodities are discussed. Specific attention is paid to:

1. Deregulation of railroads in the Stagger's Rail Act.
2. The development of multiple and unit train rates in Idaho.
3. Rail line abandonment.
4. Grain subterminal construction.
5. Rail siding purchase by shippers.

Deregulation

The Stagger's Rail Act of 1980 was designed to improve the financial stability of the rail industry by giving the railroads increased rate making flexibility, freedom in constructing contract rates and a decrease in their common carrier obligation. It followed in the shadow of substantial deregulation of the airline and motor carrier industries and reflected the Carter and Reagan philosophy of "getting the federal government out of the marketplace."

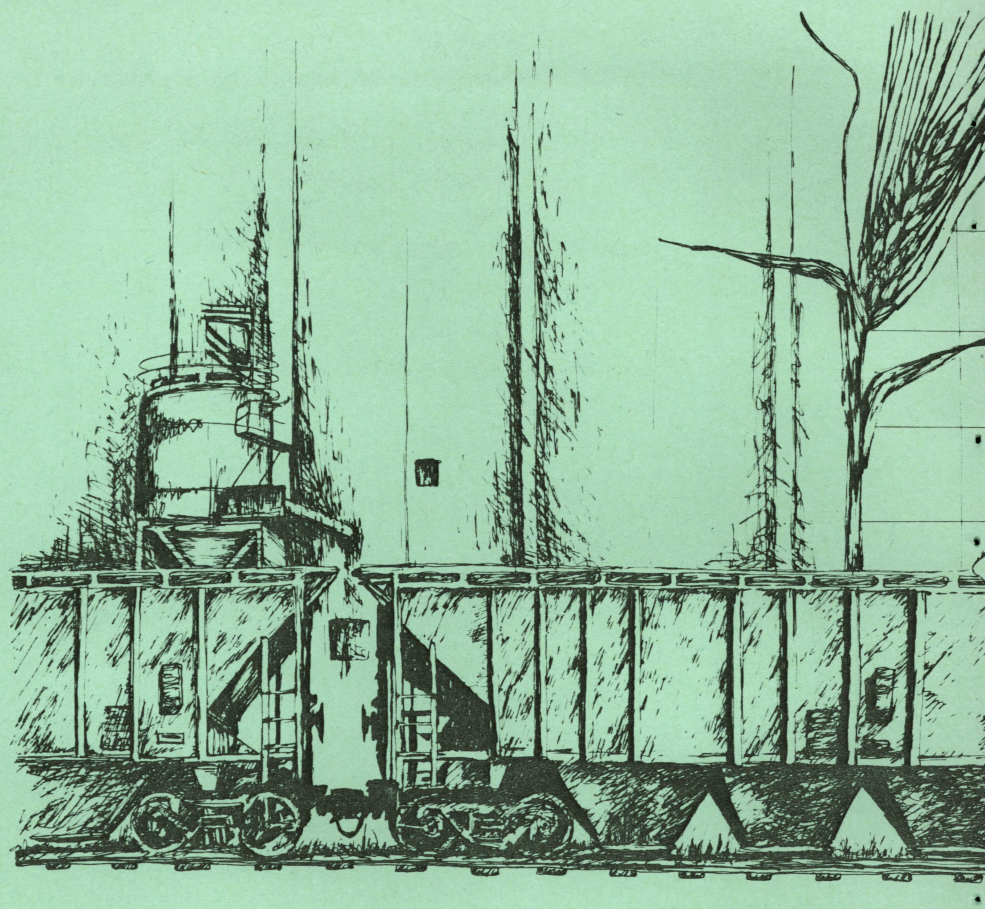
This act's total impact on agriculture in general and Idaho wheat producers in particular is as yet undetermined. Nevertheless, after 25 months of experience under the new freedom granted to the railroads, some preliminary findings can be presented. A major reason that findings are considered only preliminarily is because of the high degree of excess transportation capacity existing since early 1980. The low traffic levels and continued build-up of rail and barge capacity have caused railroads to seek traffic by dramatic changes in traditional rate and service offerings to agricultural shippers. Thus, no real information exists as to what and how railroads will react to

their newly found ratemaking freedom when the demand for transportation services increases.

Few rail contracts for agricultural commodities have been entered. Apparently, a major concern of agricultural shippers is the lack of information concerning contracts that is currently being released by the Interstate Commerce Commission. Under the Stagger's Rail Act, the purpose of this information is to allow shippers to evaluate the use or existence of discriminatory pricing practices. However, recent rules issued by the ICC require only that the base or tariff rate be given, not the actual contract rate. The ICC should either expand the amount and timeliness of the information or provide a regulatory control against discriminatory rail contracts.

Railroads were given the authority to adjust their rates on a quarterly basis to reflect inflationary impacts on ICC's rail cost index. These frequent changes of uncertain magnitude have sometimes disrupted the pricing practices of wheat merchandisers in Idaho and the Pacific Northwest. This has led to uncertainty in the market, further exacerbating the non-dynamic wheat market existing during the past 2 years. It might be necessary for wheat shippers to use contracts to reduce such uncertainty, once again emphasizing the need to release more information on contract structure.

The most significant change occurring since the advent of the Stagger's Act has been in rate and service structure for grain movements, discussed in more detail in the following section. It is not clear what, if any, impact can be identified as being a result of the Stagger's Act. Most of the rate changes were in response to efficiencies of "batch" movement and competitive structures and were entirely feasible under pre-Stagger's regulations.



Multiple Car Rates

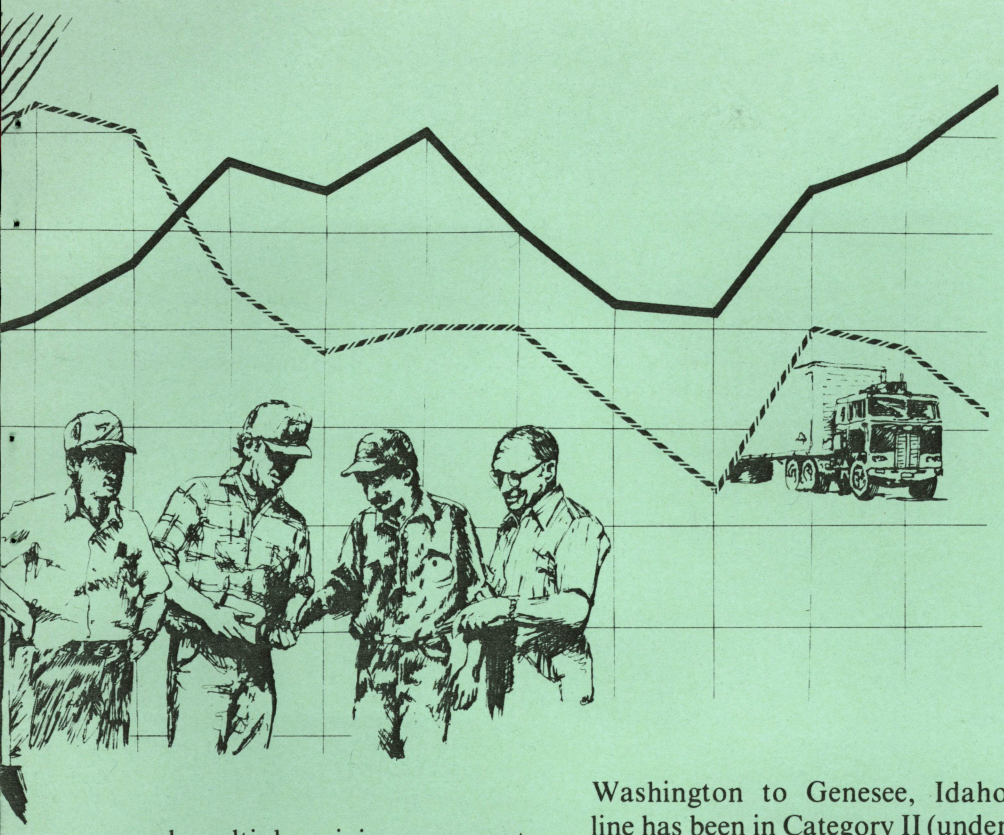
Rates have substantially decreased on grain in the Pacific Northwest and, in those areas where a nominal increase has occurred, real rates adjusted for inflation still show a substantial decrease. In the summer of 1981, multiple car rates were quoted for Idaho, Washington, Oregon and Montana. Rates decreased significantly at that time, and even now the multiple car rates are only 4 to 5 cents per bushel higher than the (previous) single car rate in Idaho. The single car rate in 1982 has increased 41 cents over the Oct. 1, 1979 rate in areas of Idaho where multiple car rates were not quoted.

The "spread" or difference between the single car rates and multiple car movements has been increasing in recent times. Northern Idaho has a 26-car rate available to it. The spread between single and multiple car rates has increased from 9 cents to 11 cents. In eastern Idaho, the 25-car rate spread is as high as 45 cents per bushel.

Contrasting the multiple rates to the single car rates during the past 2 years, northern Idaho single car rates were reduced 5 cents in June, 1981, and have since risen to about the June, 1979, level. In southern Idaho no significant rate reductions have occurred; thus rates have continuously increased from 91 cents to $1.32 in early 1982.

A new addition to the rate structure in the Pacific Northwest is the 3- to 5-car rate quoted by the Union Pacific, temporarily at first and now permanently. This rate, within 4 to 6 cents in some cases of the 25- or 26-car rates, may well be the source of a new rate structure in the area.

In summary, the spread between single car rates and multiple car rates is substantial and has increased over time. This spread has increased overall as well as between the rates for single origin



and multiple origin movements. Both spreads put pressure on grain merchandisers to invest in facilities capable of handling multiple car movements. The use of 3- and 5-car rates by the Union Pacific and the Burlington Northern may relax this pressure in those areas where intrarail and intermodal competition are available.

Rail Line Abandonment

Recent legislation has shortened the time for processing applications, thus expediting the abandonment process. If no protest is filed within 30 days of filing for abandonment, the request is approved, and abandonment may take place within 75 days after the filing.

Compared to other states, Idaho has not been subjected to large amounts of rail line abandonment. Presently, the Palouse, Washington to Viola, Idaho rail line and the Moscow to Estes line in Idaho are in Category 1, meaning that the carrier anticipates filing an abandonment application within 3 years. The Pullman, Washington to Genesee, Idaho line has been in Category II (under study for abandonment in the future) but has recently been removed from this category.

Lines with the potential for carrying grain in south Idaho have also been abandoned. Specific lines abandoned in southern Idaho include Fairfield to Hill City, Richfield to Ketchum, Twin Falls to Rogerson and Tetonia to Victor.

Other lines that have been abandoned in both northern Idaho and southern Idaho include much of the Milwaukee line in the state. Even the Grangeville line of the Camas Prairie Railroad may be considered for future abandonment, caused primarily by the traffic lost to the barge competition on the Columbia/Snake River system.

Rail line abandonment in Idaho, while having impact on some individual shippers, will not be a strong issue in the near future for the wheat industry as a whole. Where it does occur, it will cause increased costs to shippers and increased impact on roads and bridges as damage and congestion increase. Some rail lines may be operated as a short line, such as the Nez Perce and St. Maries rail roads in northern Idaho.

Capital Investment

A transportation issue affecting Idaho wheat producers is the potential need for massive amounts of capital to be invested in rail facilities as grain merchandising facilities. Particular needs are arising for capital to construct facilities capable of handling multiple car shipments. These needs are caused by new rates, rail line abandonment and deregulation impacts. Also, there is a need for capital to purchase rail sidings previously operated and maintained by the railroads.

Subterminal Construction —

Many other forces influence the future of grain handling, transporting and merchandising of Idaho wheat. Differing rates of cost increases between rail and truck/barge may affect their future competitive relationship. The changing technology of farm trucks and the available highway system make it possible for producers to move grain much further today than previously.

These changes imply that private and public decisions must be made in the Idaho grain merchandising system. These include decisions of location, size of facility, economic viability, investment in transportation infrastructure, purchases of farm equipment and storage capacity. Paramount among these is the movement in many states, including Idaho, toward the use of subterminals to consolidate grain shipments into large volumes capable of accessing multiple car rates.

The construction of a subterminal can be extremely capital intensive. Capital cost estimates range from $100,000, if a leg and only minor additions are needed for an existing facility, to $6 million to build a new, million-bushel capacity subterminal.

To service the debt on a $6 million facility, a considerable volume of grain must be shipped. Thirteen 25-multiple car trains will move almost a million bushels of grain. Therefore, once this new facility is developed, the potential increases that this elevator may become "captive" to the railroad. As indicated earlier, there is no existing information as to how the railroad rate and service structure will look when demand for transportation increases.

An additional concern is whether an elevator should build a facility capable of accessing a 52-car rate since the spread between the 52- and 26-car rates may change. Or, what about the new and proposed 3-, 5- and 10-car rates that are and may be quoted? Should an elevator trade off the slightly higher rate of a 3- to 5-car shipment for the savings in capital investment over the larger facility? Although agricultural contracts have been few in number thus far under the Stagger's Act, it does appear that judicious use of contracts by shippers may help alleviate this uncertainty.

The construction of subterminals and abandonment of rail lines force more grain to move longer distances on the roads and highways as it is transported to the terminal elevator. Subterminal construction tends to significantly increase the traffic on roads leading to those locations. These roads may require reconstruction since they may not have been initially constructed to handle high traffic volume of heavier trucks. The costs of rebuilding these roads are real costs that can be attributed to the development of a subterminal. However, they are public costs and not costs that will enter into the decision-making process of the country elevator or subterminal.

Although these are public costs and not costs borne privately by the subterminal, there should be a strong relationship between the private firm (the subterminal) and the public funding agencies (Idaho Department of Transportation and county highway departments) in planning any subterminal project. If roads are not rebuilt as needed, the trucking costs of movements to the subterminal may increase, thus affecting the economic feasibility and viability of the subterminal. Alternatively, the Idaho DOT and local highway districts require political and social support so that adequate planning and funding levels can be maintained or developed.

Rail Sidings — An ancillary investment need occurring for Idaho grain elevators is the question of purchasing existing or new rail sidings. In Idaho, rail sidings have historically been provided and maintained by the railroad. Now, when a lease arrangement comes up for renewal, it almost always (always in the case of the U.P.) must be purchased by the elevator. The railroads feel that the rate incentives (of the previously discussed multiple rate structure) include the cost of private siding. They will either sell the siding at the salvage value of the existing track or will build a new siding and sell it at full cost. This policy likely will be maintained by the U.P. and may be adopted by the B.N.

Purchasing rail sidings creates problems for the Idaho wheat industry. The elevators are faced with the initial investment cost, the maintenance cost, a tax cost and a physical liability cost (insurance). This change has opened up other concerns, namely: union reaction to non-railroad employees moving multiple car units on railroad property and insurance costs for liability of derailment or accidents on elevator-owned sidings.

Summary

The issues affecting rail transportation of wheat out of Idaho are causing a great deal of uncertainty for producers, shippers and exporters. The changes do offer the potential for increased efficiency and lowered marketing costs but little certainty that all of these efficiencies will be made available to the Idaho wheat shipper or grower. Certainly the railroads — through multiple rate quotes, abandonment of line and increased access to regulatory freedom — are causing a major restructuring of the Idaho and PNW wheat merchandising industry. The future structures of the grain industry and its transportation system have not yet been finalized. The future does look exciting and promising to the extent that moving to a more market oriented rail transportation policy offers greater flexibility and motivations for innovation of rail systems and operations in Idaho.

The Authors

Ken Casavant is a professor of agricultural economics, and Frank Dooley is a research assistant, both in the Department of Agricultural Economics, Washington State University, Pullman. Neil L. Meyer is an associate Extension professor and Extension economist, Department of Agricultural Economics, University of Idaho, Moscow.

Issued in furtherance of cooperative extension work in agriculture and home economics, Acts of May 8 and June 30, 1914, in cooperation with the U. S. Department of Agriculture, H. R. Guenthner, Director of Cooperative Extension Service, University of Idaho, Moscow, Idaho 83843. We offer our programs and facilities to all people without regard to race, creed, color, sex, or national origin.

1500 2-83

35 cents per copy