



COMING TRANSPORTATION ISSUES

By Jon Newkirk and Ken Casavant

Transportation plays a pivotal role in all aspects of the agribusiness industry. The transportation industry has undergone significant changes in recent years in response to the highly competitive transportation environment. These changes affect the price and selection of the menu available to firm managers who utilize transportation services.

In this newsletter we present information and provide a perspective on the issues facing the transportation industry. We also discuss implications of these issues for consideration by agribusiness managers¹.

RAIL SERVICE

Rail Revenue

According to the American Association of Railroads (AAR), the first three quarters of 1988 indicate it will be a good year for the nations Class I railroads. (Class I railroads are the large mainline railroads such as the Union Pacific and Burlington Northern.) Railroad freight traffic has increased over the past two years and is expected to have reached an all time high of 995 billion ton miles in 1988. Rail income in the third quarter of 1988 was up 13.8 percent over the same period in 1987. During the first

¹ For a fuller discussion of the transportation situation, see various issues of *Traffic World*, the source of much of this discussion. *Traffic World* is a weekly news magazine covering the transportation and distribution industry.

nine months of 1988 railroad traffic increased 7.1 percent over 1987 and car loadings were up 4.9 percent for the same time period. Traffic increases were great enough that locomotive and rail car shortages developed in parts of the country. Certainly, many elevator and export firms in the Pacific Northwest felt the impacts of these shortages.

Record rail traffic levels combined with cost cutting by the railroads gave the large railroads a net railway operating income (NRDI) of \$714 million in the third quarter of 1988. NRDI includes operating revenue less operating expenses. Operating expenses did rise during the first three quarters of 1988, but they trailed expenses and income tax liability as well as investment and interest income and interest increases in traffic expenses.

AAR president William H. Dempsey, credited these gains to the railroads cost cutting measures. "Railroads continue to streamline their plants to meet changing consumer tastes and worldwide economic conditions," he commented.

The Class I railroads return on investment (ROI) was 7.39 percent for the 12 months ending September 30, 1987. However, the Interstate Commerce Commission has set an ROI target for the railroads of 11.6 percent. This shortfall means rail will still be considered revenue inadequate and thus their rates will be subject to only limited regulation.

Labor Considerations

Labor contract negotiations in 1988 brought into focus one of the issues high on the railroads cost cutting agenda. At the beginning of the year, rail officials announced that 1988 was a crucial year for cutting labor costs. The first breakthrough for the railroads came as the United Transportation Union (UTU) approved reduced crew sizes on the Grand Trunk Western Railway. The CSX, St. Louis Southwestern, and Southern Pacific were also able to negotiate reduced crew sizes on parts of their systems, which railway officials say should reduce labor costs up to 40 percent on those systems.

However, not all negotiations were so successful. The Chicago and North Western were not able to convince its unions and the result was a strike, which ended with President Reagan and the Congress using the Railway Labor Act to forestall a work stoppage. The Burlington Northern (BN) tried to circumvent the unions by setting up a subsidiary non-union railway company (The Winona Bridge Railway) to whom it would lease operating rights over its tracks to operate reduced crew, non-union staffed intermodal trains. A Federal Court blocked the operation of the Winona Bridge Railway on the grounds it was merely an attempt to get around the Railway Labor Act. The UTU has refused to negotiate crew reductions with the BN. Labor contract negotiations between UTU and the BN may prove to be extremely bitter in light of the Winona Bridge situation, which has since been withdrawn by the BN.

Rail labor contract negotiations will continue to be an issue in 1989. The AAR, the organized voice of the Class I railroads, predicts difficult negotiations as the Unions try to resist pressure for givebacks while the carriers continue the pressure for reduced crew sizes so they can face the competition of the growing number of non-union trucking companies. The outcome of this

confrontation may well affect the quantity and quality of service available to users of transport.

Commodity Movements

Coal and grain make up about half of railroad tonnage. Transportation industry forecasters do not look for 1989 to be as good a year as 1988 for these two commodities. They call for coal exports, fueled by the cheap dollar, to continue to be strong but domestic coal movements are expected to decline. Grain loadings in 1989 are not expected to match 1988 levels.

The doublestack container portion of intermodal traffic is expected to grow while traditional piggyback, used heavily by agricultural products, will be negatively impacted by the lack of investment in piggyback trailers. Aging piggyback trailers are creating a tarnished problem for those movements.

Although traditional piggyback service is expected to continue as a key part of rail intermodal service, the Trailer Train Company, a major owner and lessor of intermodal rail cars, expects to see further conversion of traffic from piggyback to doublestack. Westbound doublestack traffic (formerly a difficult transportation move to fill) has been high enough recently to create a shortage of containers in the Midwest.

While doublestack operations depend on international containers for the majority of their traffic, industry spokesmen expect to see continued growth in domestic container traffic. The westbound traffic when empty had been having the effect of decreasing backhauls on traditional fruit and vegetable movements with attendant increases in eastbound fruit and vegetable rates.

Several companies, American President Lines (APL) and the BN Railroad for example, are actively marketing domestic doublestack container movements. APL, an

early leader in utilization of doublestack trains, is concentrating on refining the concept of point-to-point intermodal service on its international traffic and on domestic containerized service. The use of advanced logistics analysis and computer systems gives a single carrier the ability to plan and control the entire movement of a shipment. APL announced they are working on expanding the number of service points and frequency of departures on their doublestack network. Some advances in development of refrigerated doublestack technology can be expected in 1989.

Rail Car Fleets

Even though rail traffic is reaching all-time highs, the rail car fleet hit a post World War II low of 1.9 million cars in 1988. Coal and grain shippers experienced shortages during 1988. In spite of the shortages, new car orders for covered hoppers are limited. An eastern-based railroad, the CSX Transportation Co. is taking delivery of 2,000 covered hoppers for grain. The American Railway Car Institute reported no other covered hopper orders.

In lieu of new car orders, some railroads are repairing or rebuilding bad order cars. This pool of cars is limited though and the Santa Fe, the nation's third largest grain hauler, has nearly exhausted its supply of bad order covered hoppers awaiting repair. Many railroads, such as the BN, have relied on increasing their trips per year (21 in 1988) as a means of affecting an increase in net capacity. Restrictions imposed on shippers to increase rail car turnaround have tightened shipper flexibility.

Financial analysts such as Shep Rainie of the Bank of Boston believe grain rates are presently too low to justify increased investment in new grain cars. He believes grain rates would have to rise 40 to 50 percent before investment in new covered hoppers would be justified. Shipper owned cars may be a requirement. There is

expected to be continued investment in intermodal rail cars, tri-level and bi-level autoracks, and specialty cars such as the 180 new centerbeam lumber cars ordered by the BN.

Regional or Shortline Railroads

Analysts do not see as bright a picture for the regional railroads as for their Class I brethren. A regional railroad in the Midwest, the Chicago, Missouri and Western Railway, filed for protection from creditors during the year and others are struggling financially. Several regional and shortline railroads have been established in recent years when the Class I railroads sold off portions of their trackage. Most often the new railroads have been active participants in selling off branchlines to form regional railroads.

A federal appeals court ruled in April 1988 that negotiations must be held with affected labor under the provisions of the Railway Labor Act before the branch lines can be sold. This ruling placed a damper on attempts to set up regional railroads through sale of portions of Class I trackage. The waters were muddied when another federal court seemed to rule in favor of the railroads in August. Final settlement of the issue awaits an appeal to the Supreme Court. Many rail experts feel the regional railroad movement is doomed if they have to live by the provisions of the Railway Labor Act.

MOTOR CARRIER SERVICES

Drug Testing

Drug testing is a major issue facing the trucking industry serving agricultural firms in 1989. As Robert Kursar wrote in *Traffic World*, "New federal safety regulations came down on the motor carrier industry this year like firefighters on an overturned tank truck." The new drug testing rules will cover all modes of trucking and will necessitate the testing of about 3 million people. The U.S. Department of

Transportation has estimated that each test will cost a minimum of \$60. An additional \$13 million will be spent annually by the government to oversee the drug testing programs. Owner operators have filed suit to stop the drug testing, and a federal judge temporarily enjoined the random testing rules. If Implementation of these new requirements occurs, significant impact on rates will be seen.

Rates

Trucking rates did not increase on January 1, 1989 as had been expected. Rates were expected to increase in the 3 percent range on April 1, 1989 when Teamster Union wages increased. The Teamsters Union elected a new president in 1988 and ratified a new three-year master contract. The contract provided modest wage increases and was not approved by a majority of the teamster rank and file. Teamster rules required that two-thirds of the membership must vote against a contract to reject it. This rule has since been changed so that a simple majority will be required for future contract ratification. Several large trucking firms such as P-I-E International and Transcon Lines have won wage reductions below the contract level. There were a number of leveraged buyouts and mergers within the trucking industry in 1988 as well as several bankruptcies.

Increased User Fees

Talk of a 10 to 15 cent increase per gallon in federal tax on fuel (the present federal tax is 15.1 cents per gallon on diesel), has served to unify the trucking industry. The American Trucking Association (ATA) has helped organize more than 30 groups of fuel users against the tax. They have formed the Coalition Against Regressive Taxation (CART). The American Automobile Association (AAA) is lead group for Fuel Users for Equitable Levies (FUEL), also opposing the fuel tax increase.

Fuel taxes were last raised in 1982. At that time twin-trailers were allowed on designated roads in all fifty states. This time the industry fears nothing will be granted in return for the tax increases except the good feeling of having helped reduce the federal deficit. In Washington, D.C., supporters of the tax increase argue that for every penny the tax is increased, \$1 billion is raised to ease the deficit. Trucking industry lobbyists and others opposed say that because of increased unemployment and an associated decrease in the GNP, the net increase is only \$270 million for every penny of increased fuel tax. At present the trucking industry is paying \$7 billion of the \$12 billion or 57 percent of funds charged to the Highway Trust Fund. Industry analysts say that the fuel tax issue will overshadow any other 1989 trucking industry issue.

This concern is compounded by the many state legislative initiatives on increased state fuel taxes. Trucking firms involved in interstate trucking have long been concerned with differing state tax systems. Industry feelings that state taxes are discriminatory against motor carriers are growing. Many see individual states raising their creativity level to new highs in the effort to raise revenue. Four states raised their tax on diesel fuel as of January 1, 1989 and 17 other states raised their fuel taxes in 1988. The average state diesel fuel tax is 15.25 cents per gallon. The industry does not plan to attack each state individually but to attach an amendment to the federal highway-funding bill, which would force new tax uniformity.

Truck Density Efficiency

Also looming on the horizon is a density rate battle between shippers and truckers. The less-than-truckload (LTL) segment of the trucking industry want to use density as the basis for a new rating system for certain types of traffic. In those cases, rates would be determined by the weight per cubic foot with high volume/low weight shipments

paying a premium. Three major trucking firms, Yellow Freight System, Consolidated Freightways, and Carolina Freight Carriers, added linear-foot rules to their tariffs during 1988. Shippers fear that rates on light density shipments could increase 70 to 80 percent if the LTL industry gets its way on this issue.

Another issue of 1989 will be truck bans such as the one proposed by the City of Los Angeles during peak traffic hours. Also at issue is the fight for a uniform hazardous materials law, implementation of the commercial drivers license, and resolving intermodal problems such as oversize and overweight containers. All of these issues can affect the availability and cost of transportation to agribusiness firms in the Pacific Northwest.

Final Thoughts

The transportation industry situation is a dynamic and expensive service needed by agribusiness firms in the Pacific Northwest. These changes, compounded by the heavy regulatory changes of the early 1980's, mean transportation rates and services can no longer be taken as a given by managers. Rate structures as well as service timing and quality are now open items to be negotiated between shipper and carrier. The coming years may see the successful buyer of transportation service as the firm that becomes increasingly competitive in the marketplace. Time, and transportation expertise, will tell.

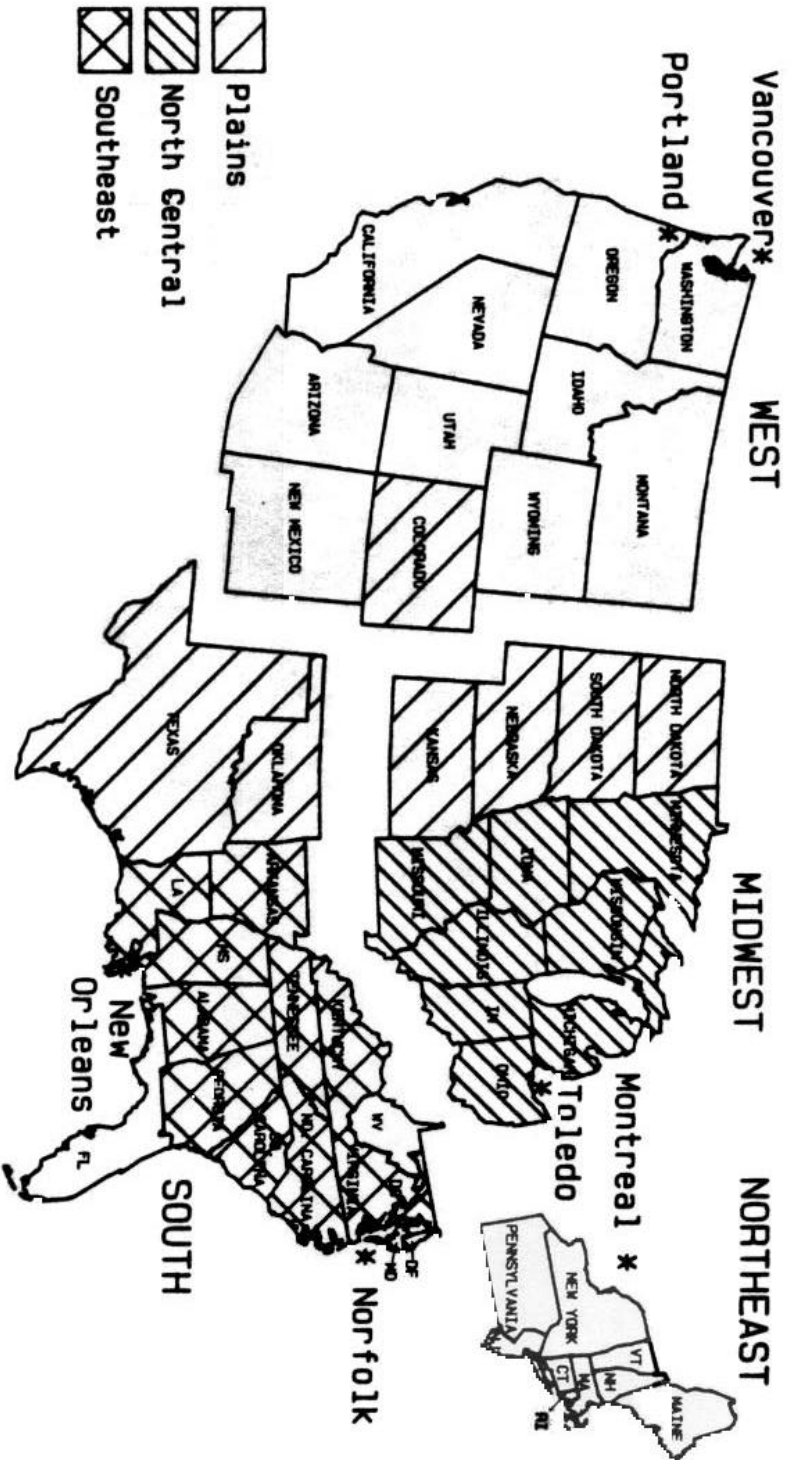


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TABLE 1: Production & Shipments of Pork & Beef, Base, Short Term F.T.A. and Long Term F.T.A. Models

BEEF			
REGION	BASE – PRE F.T.A.	MODEL SOLUTIONS	
		Short Term – F.T.A.	Long Term – F.T.A.
		(000,000 lbs.)	
<u>North Central</u> to:			
Eastern Canada	0	0	911.7
Western Canada	0	0	0
Northeast	4,919.5	3,434.9	5,430.7
Midwest	8,298.5	8,301.5	9,155.8
South	5,832.4	5,834.5	3,900.6
<u>Plains</u> to:			
West	4,246.8	4,245.6	0
South	0	0	2,536.9
<u>Eastern Canada</u> to:			
Eastern Canada	1,633.9	1,631.6	870.3
Northeast	0	1,486.3	0
<u>Western Canada</u> to:			
Western Canada	663.6	660.6	722.4
West	635.7	638.8	5,393.3
PORK			
<u>North Central</u> to:			
Eastern Canada	0	0	0
Western Canada	491.6	491.6	0
West	3,020.3	3,021.7	3,448.3
Northeast	0	1,279.0	3,480.8
Midwest	5,160.7	5,163.2	5,881.3
South	3,360.0	3,621.4	4,128.1
<u>Southeast</u> to:			
Northeast	1,513.9	1,773.6	0
South	259.7	0	0
<u>Eastern Canada</u> to:			
Eastern Canada	1,228.3	1,226.1	1,378.5
Northeast	1,434.9	0	0
<u>Western Canada</u> to:			
Western Canada	0	0	556.0

Figure 1: Production and Demand Regions for the U.S. and Export Ports for the U.S. and Canada



1. Regions of Pork and Beef Demand include west, midwest, northeast and south.
2. Regions of U.S. grain production represent the plains, north central and southeast
3. Regions of U.S. hog production and pork processing included the North Central crop region as defined above plus portions of South Dakota, Nebraska and Kansas and Southeast excluding Louisiana, Mississippi and Maryland
4. Regions of U.S. beef production and processing were specified as West, including Washington, California, Idaho and Arizona; North Central including Minnesota, Iowa, Illinois and Indiana; Plains as specified for crop production excluding North and South Dakota
5. Grain Export Points are shown by a *