THE EFFECTS OF TRANSPORTATION DEREGULATION ON THE FOOD DISTRIBUTION INDUSTRY

by

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For several decades, U.S. transportation policy was dominated by a regulation mentality. However, in recent years, the mood has changed. Both Congress and the Administration are now pursuing policies aimed at deregulation of transportation. The Airline Deregulation Act of 1978 paved the way for the removal of economic regulation of airlines. The Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act) liberalized ICC (Interstate Commerce Commission) regulation of railroads. Further efforts to deregulate railroads is continuing in Congress and within the ICC. Administrative change by the ICC has opened trucking to increased competition. Congress is considering making deregulation of trucking statutory.

As the transportation regulatory environment changes, industries which rely on the transportation will experience changes in rate and service levels. One industry certain to be affected is the food distribution industry. This paper will briefly examine the impacts of two alterations in transportation regulation on this industry. The first section will discuss how liberalized entry and exit in trucking might be felt by food distributors. The second section will report early impacts of deregulation of fresh fruits and vegetables rail rates, and speculate as to future effects of this move.

It is important to note that many of the comments presented here are more speculative than factual. The process of transportation deregulation has only just gotten underway. The extent to which it will eventually affect the structure, conduct, and performance of the system can only be hypothesized at this time.

Trucking Deregulation

The Motor Carrier Act of 1935 places all nonagricultural, for-hire trucking under ICC auspices. Raw agricultural freight was declared exempt. Entry, exit rates, service, and routes are all controlled for nonexempt carriers.

The ICC has begun to reduce the extent to which it applies its' regulatory authority, particularly with respect to entry restriction. In 1975, the ICC granted permits to 86.4 percent of those applying. In 1978, this ratio had risen to 96.7 percent.

Freer entry should work to the benefit of users of truck load or bulk freight trucking services. Those truckers and trucking firms now moving agricultural products are prevented from legally backhauling nonagricultural freight. As a result, these truckers often operated loaded in only one direction. All costs of round trips must be applied to the front haul movement. This tends to elevate agricultural freight rates, and artificially support nonagricultural rates. Moreover, this practice is energy inefficient.

With liberalized entry, agricultural truckers (and other new entrants) will provide intensified competition for now non-exempt traffic. The ability to cover at least a portion of the costs of return trips by agricultural truckers will serve to lower front haul rates on agricultural freight. Thus, raw food products will move more cheaply from rural areas to urban and/or processing centers. Some processed food products will move more cheaply back to rural communities.

However, removal of entry controls must be accompanied by removal of exit, route, service, and rate controls. Such deregulation may disadvantage small shippers in remote locations. Under current regulations, holders of ICC permits must provide less-than-truck-load (LTL) services to all who request it. Often such service is provided at a low, or even negative, rate of return to the trucking firm. Consequently, there is a threat that LTL shippers will be left without service following deregulation. If service is maintained, rates may be increased substantially.

At least two possible responses by users of LTL service may occur. Small users may be able to offset the higher LTL rates through traffic pooling. Thus, full loads can be assembled and moved between principal terminals. Collection and dispersion from these terminals will be handled by the user or by the pooling organization. The role truck brokerage firms may be expanded to handle this pooling function.

Also, small transportation might find it desirable to provide some or all of their own service. With deregulation, private carriers will be able to compete for common carrier freight. Thus, firms which decide to operate their own trucks may be able to generate some backhaul revenue by providing for-hire service. This, however, may involve more logistics management effort that the firm desires to commit. At any rate, an increase in private trucking for smaller users in remote areas is likely to occur.

Along with some uncertainty in service levels which may result from truck deregulation, rate uncertainty may also occur at the outset. Most proposals for deregulation would remove the exemption from anti-trust prosecution offered rate bureaus under existing law. Rate bureaus publish rates for specified time periods on all classified freight. Without regulation and bureaus, rates will probably be more variable and responsive to market conditions. Consequently, users may not be able to perfectly predict truck rates on future shipments. This may give rise to more contract trucking to remove the risk of rapid rate increases.

Partial Rail Deregulation

Since 1887, virtually all rail transportation has been subject to extensive ICC regulation. The 4-R Act of 1976 opened the way for partial rail deregulation. In early 1979, the ICC took administrative steps to completely deregulate movements of selected commodities. Under this policy change, rail rates on fresh fruits and vegetables were allowed to move without ICC review or approval.

Assessing the impact of this by the ICC, at this time, is very difficult. Volumes of these shipments via rail increased dramatically during the past spring and early summer. However, the extent to which the increased traffic handled by railroads resulting from the truckers' strike, rather than rate savings, cannot be determined.

Railroads did, however, realize a significant increase in fruit and vegetable business, particularly from California to eastern markets. Rail shipments of fruits and vegetables for June 1979 nearly tripled over the June 1979 level. Truck shipments decreased by 4 percent between these dates.[1] Much of this moved in truck-on-flat-car (TOFC) equipment. The deregulation of rail rates certainly serves to encourage joint truck rail rates designed to draw TOFC traffic. Presently, railroads are quoting spot rates on these shipments. Such rate flexibility permits carriers to instantly respond to changes in the transportation market.

One possible development that might result from this liberalized rate authority for rail carriers is the introduction of joint modal and unit train rates on long-haul shipments. TOFC railroads may be able to create rates for the complete intermodal move. This would simplify the transportation costing for users.

Unit trains, as used in export grain shipments, may be introduced as an efficiency move in TOFC fruit and vegetable shipments. The hope is that the cost effectiveness of trucks for small short shipments and of railroads for long-haul large shipments will lead to an improvement in transportation system performance. The hope is that more efficient intermodal transport service will offset rising costs to individual modes and that this will alternately hold down the delivered cost of these products in consumer and processing markets.

Other changes in transportation regulation may impact on the food distribution system. While the intent of this paper is not to address them in detail, they deserve mention. Rail branchline abandonment is an issue which will alter composition and intermodal relationships in the transportation system. Recent policy changes have simplified the abandonment process. Over the last 50 years, the total U.S. rail has been pared down from nearly one-quarter million miles of line to less than 190,000 miles in 1979. Abandonment can be expected to continue leaving many rural communities without rail service. Transportation users in these communities will be forced to rely exclusively on motor carriage. When abandonment is combined with the threat of loss of common carrier truck service, posed by truck deregulation, some of these communities might face a real transportation squeeze.

The deregulation of airlines may lead to an increase in freight shipments of some food products. However, air freight is only economic in limited cases. Specifically, high value, perishable specialty products move by air. Given the current cost per unit of weight for air shipment, it is these types of movements which are likely to comprise only a small portion of total food traffic in the foreseeable future.

Summary and Conclusions

The transportation sector, serving the food distribution industry, has, by and large, grown up under the constraints and directives of federal regulation. As the control by regulatory agencies is reduced, transportation planners and decision makers will have to learn how to function in a new, more open, business environment. During this learning process, a certain amount of experimentation and confusion will probably occur. The final effect on transportation services provided for food distribution is very difficult to predict. Most proponents of deregulation believe, however, that deregulation will improve performance and hold down costs.

FOOTNOTE

[1] Agricultural Outlook, ESCS, U.S. Department of Agriculture, August 1979.