RAILROAD ABANDONMENT
AND GRAIN MOVEMENT

by

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In today's world of tight economics, many businesses are having a hard time staying out of the red. The railroad industry is one such business. In an attempt to avoid bankruptcy, many lines are looking to abandonment as a possible means of escape.

Simply stated, abandonment is the cessation of service to a line. Unfortunately, abandonment is not a simple issue. It's quite complex and controversial. The people on the lines where service is cut are often losing their primary form of economic transportation. In 1976, of the 26.4 million tons of grain farm sales in Iowa, 45 percent were shipped by rail.¹ For many farmers, this loss of service represents a loss of several thousand dollars a year.

The Staggers Rail Act of 1980 gave the railroads some much needed rate flexibility but it did nothing to change current abandonment procedures. The railroad must present abandonment proposals to the governing body who then makes the final decision. When considering an abandonment, the costs of continuance must be weighed against the costs of cessation. The costs of continuance would include such things as maintenance of equipment, upgrading of right-of-ways, and present operating loss associated with the line. The costs of cessation refers to the economic burden that loss of service places on users, which is considerable in many instances.

Dave Plazac of the Iowa DOT planning and research division said the state's current rail branch line abandonment plan is "frightening" with half the system up for abandonment.² The number of people affected varies with each situation, but in Iowa, the farmers and others in farm related industry, are the most likely to suffer. Railroads move not only grain, but fertilizer, feed, and heavy farm machinery as well. In many small farming towns, the elevator is the only business. Loss of service in these areas could mean loss of an elevator and death of a town.

What led railroads down the track of abandonment? In less than six years Iowa has witnessed the bankruptcy of two lines, the Rock Island and the Milwaukee. A third, the Northwestern, is considered to be in marginal financial condition. The three lines together account for 75% of Iowa's track mileage.³ All things considered, that could leave those dependent on the railroads in a very precarious position.

Again, there are several possible reasons for the ill health of the railroads. One problem is overexpansion. "Much of the branch line rail network currently in place was the response of an earlier era to the need for efficient transportation,"⁴ and although productivity, along with markets and demands, have changed dramatically, the lay-out of rail lines is very similar to what it was years ago.
Regulation forces service on light-density lines and restricts rates that can be charged. This is detrimental to the growth of the railroads. The Federal Railroad Administration (FRA) estimated in 1971 that approximately $57 million could be saved by terminating service on 21,000 miles of light density lines. This mileage, approximately 10 percent of the national network, generated only one-half of one percent of all carloads moved by rail.5

Public subsidization of competing modes has also hurt railroads financially. The interstate system allows trucks to bypass congested areas which increases their time advantage over the railroad. The user charges they are assessed, are very small in comparison with the railroad's maintenance of way costs. Another competitor of the railroads, the barge, went years without even paying a user charge.

The railroads have also been characterized by poor management, low worker productivity, and inefficient work rules. Personally, I feel the railroad is guilty on all counts. In most cases, they have failed to change with the times. The railroads need to adopt more efficient policies and see that they're implemented.

Railroads see abandonment as a means of accomplishing efficiency, and in many respects they are right. Not only are they eliminating redundant trackage, but they are also reducing the number of unprofitable lines, which will increase profits. Since they will no longer be pouring capital into the inefficient lines, they will be free to invest capital in areas that will represent a higher return. This arrangement should mutually benefit both the railroad and its users because the increased investment will also result in improved service. The fact that they will be running over less track means more efficient utilization of equipment. The equipment once used to served the low-density lines can now be used to improve service efficiency on the profitable lines.

In Iowa, agriculture is the industry most affected by abandonment. Farmers probably suffer most because the increased transportation costs of elevators forced to move grain by truck are passed on to farmers in the form of lower bids for their crops. The director of the Iowa Department of Transportation (DOT) said last February that farmers would lose $125 million if the Rock Island closed.6 Most of the loss would result because farmers wouldn't receive much needed fertilizer, causing grain harvest to be cut by 25 percent.

Greene is one of the many towns in Iowa to lose rail service. Last summer, the elevator was paying six cents a bushel less for grain. That was a reflection of the higher costs of shipping by truck. By fall, they expected to be paying about 20-23 cents less per bushel.7

At a price cut of 18 cents a bushel, a farmer with 300 acres of corn and an average Iowa yield would get some $7,300 a year less for his grain.8

The farmers aren't the only ones hurt in the agricultural picture. Companies dealing in fertilizer and other farm products also stand to lose a good deal since railroad is one of their more popular modes of transport. If they can't get products to the outlets at a reasonable price, they aren't going to make much money. The elevator operators may also be unfortunate victims. Farmers that have trucks available may transport their grain to an elevator with existing rail service if the distance isn't too far. This can leave the operator without rail service high and dry, especially if he relies on local business and the alternate elevator is a short distance away.

Pioneer Hy-Bred International, Inc. conducted a poll covering 16 central...
states on the attitudes of farmers and elevator operators toward abandonment. A few opinions voiced in the poll included:

"Keep federal and state money out of this. We all know what a mess they can make of things." -- Nebraska

"Although I am a small independent shipper who stands to lose personally from rail deregulation, I believe that by allowing railroads to once again enter the private marketplace unassailed by public restriction, the higher value would be served... Let the railroaders be businessmen." -- Illinois

"Unfair freight rates, both high and low, make prices in different areas inequitable. Deregulate now." -- Colorado

Although these statements represent the opinions of but a few, only 6.7 percent of all grain producers polled, and 14 percent of all elevator operators polled, felt there should be no changes in existing regulation.

The poll also showed operators in South Dakota and Iowa were more optimistic toward the transportation problem. Phillip Baumel, faculty member at ISU and consultant for the poll said, "The reason for the optimism may be the fact that operators in the two states have been hard hit by the crisis and are still surviving. Farmers in these two states were also more willing to invest capital to keep the branch lines operating."

At the local level, my hometown elevator manager expressed views similar to those throughout the Midwest. He opposes more government subsidies and interference but said he would be willing to pay more to keep lines running. It costs them between seven and ten cents more per bushel to transport grain by truck.

The consequences of rail abandonment are far reaching. With less railroad track available, there could be a rise in highway traffic. In many communities the surrounding roads just aren't built to handle such an increase. There are costs other than maintenance that also need to be considered. Since railroads handle a lot of heavy equipment, switching this traffic to highways is going to increase congestion and decrease safety substantially. These are cost trade-offs that must be considered when dealing with abandonment.

One alternative to abandonment is subsidization. However, I don't feel that this is a realistic solution beyond the local level. Under regulation, if a railroad wants to abandon a segment of track, the law as it's set up actually encourages them to lose money. Subsidization programs seem to give the railroads no real incentive to improve profitability. The atmosphere of regulation is conducive to inefficiency.

Railroad labor is one area of inefficiency. Featherbedding is common practice among railway workers. The amount of work to be done by a train crew has been lessened through modernization. Yet, in many cases, train crews are the same size. This is clearly an inefficient practice though special arrangements can be made which improve efficiency. AGRI Industries has an agreement with Milwaukee Road and Railroad labor that allows a shuttle train serving AGRI to run with only two crew members instead of the usual five. Union work rules often result in crews "stopping the train in the middle of a corn field some place in Des Moines, then waiting until a new crew shows up from Des Moines." These are only a couple of examples of costly and unnecessary practices. Years ago, railroads were profitable enough that they could allow these practices to continue; but the days of waste
are over... for all of us. Subsidization isn't the answer to the rail abandonment problem.

Although the answer isn't subsidies, I feel federal and state loans would be extremely beneficial in rebuilding the crumbling railroad industry. The loans could be used for the purchase and/or renovation of abandoned lines.

One prospective buyer for such lines are other rail companies. Though the track is often in very poor condition, many times the state in which the track is located and shippers served by the line share in the costs of repair. In Iowa, since 1974, contracts between the three parties; shippers, state, and railroad company have negotiated agreements for upgrading 718 of the 3,657 miles of branch lines--representing a total of $23 million. Each party typically pays one-third of the cost. The railroads repay the state and shippers based on the amount of traffic generated by the line.13

Other railroad companies aren't anxious to take over abandoned lines because it means re-establishing redundant trackage. James R. Wolfe, chief executive of the C&NW said, "If the problem in the Midwest has been that there has not been enough revenue to support all of the railroads, the answer is not to substitute new entities."14 However, railroad companies aren't the only ones buying up abandoned track. Shippers are in the picture as well.

Many larger firms are attempting to own and operate their own lines. Maurice Van Nostrand is a former chairman of the Iowa Commerce Commission and is now director for marketing research at AGRI where they are hoping to acquire and rehabilitate 950 miles of Rock Island track.15 Van Nostrand's view as a shipper differs considerably from Wolfe's "railroad" point of view. He feels the shippers are as qualified to run the lines as the larger railroads have shown themselves to be. Much of the line they (AGRI) are purchasing, parallels C&NW track.

Because of the tremendous investment involved in purchasing and rehabilitating track, the buyer must carefully weigh the costs and benefits of such a purchase. If the amount of traffic they generate is relatively small, they may find it more economical to avoid the high investment and absorb the higher costs of shipping by truck. Each case must be considered separately.

Federal officials have encouraged Iowans to buy their own railroads. The Iowa Department of Transportation has a pamphlet available, "Acquiring Railroad Right of Way," that briefly explains the procedures to be followed. In some cases, upon abandonment, the right of way may revert to the adjoining property owner as a condition of the deed. So when considering the purchase of right of ways, the prospective buyer should examine the title to determine the railroad's type of ownership.

Richard Schiefelbein of the ICC said, "We're looking for self-help projects; ones that work. The old rules don't apply anymore...and, if you need waivers on old rules, we'll waive them."16 He stated that buyers could limit themselves to a purchase of real estate--the track, ties, ballast and land--and lease the property to a professional rail manager. By doing that, you're not really a railroad and thus don't have to worry about the ICC regulations.17

A group of Atlantic, Iowa businessmen have plans to buy a portion of the bankrupt Rock Island. They filed their incorporation papers for the "Atlantic-Pacific" in the summer of 1980. The company is authorized to sell $60 million in stock. They say shippers along the line, even the small businesses and farmers, have shown an interest in the stock and $50,000 in donations has

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When raised to get the corporation started. They plan either to run their own trains on the line or lease the track to another railroad. Since the loss of rail service to Atlantic, the county's spendable income has been reduced by over $1 million a year.

All these solutions seem to be a step in the right direction. Although total deregulation isn't a prerequisite for any of these solutions, I do feel it is necessary for a solution to the total railroad problem. Railroads need to become a competitively run business again.

The importance of the railroad industry and the role it plays in the movement of farm products and other food commodities can't be overstated. The industry provides a fuel efficient, relatively low cost method of moving products long distances. The nation's farm economy relies heavily on railroads. In 1980, 1,573,313 carloadings of grain were shipped by railroad. This represents a 10.1 percent increase over 1979. Rail also transported over 282,000 carloadings of food products.

Although abandonment is a serious threat to this nation's farm economy, it is much less of a threat than the loss of the nation's entire rail system; a situation that could occur if railroads are not allowed to drop unprofitable lines.

With the current fuel situation, railroad transportation represents the most viable means of moving bulk commodities long distances. Abandonment gives the railroad industry the flexibility they need in establishing profitable routes. Their loss is this nation's loss because an industrially developed country such as the one we live in can't economically operate without the support of an economically sound railroad network.

Abandonment is an extremely complex issue and there are no easy solutions.

Either way, someone is going to be hurt; but to be most effective, policies need to be geared to the long run. The railroads and the public have suffered long enough in the shackles of regulation. The number of lines up for abandonment is living proof.

FOOTNOTES


3 Iowa Rail Plan, p. 3.


8 Ibid.


10 Ibid. Issue #3, p. 4.


12 Ibid.

13 Iowa Rail Plan, p. 32.


16 "Buy Your Own Railroad, U.S. Officials Tell Iowans," Des Moines Register, July 26, 1980, p. 1A, Column C.

17 Ibid.

