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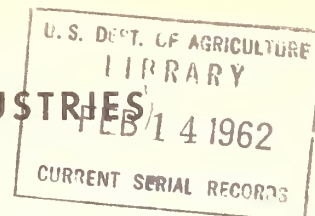
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COMPETITION IN THE TRANSPORT INDUSTRIES

A REVIEW AND PROSPECTS ^{1/}



The transportation industry has passed into an extremely competitive era. There is intense competition both among the different modes of common carriers, and among private carriers of all kinds and common carriers for freight and passengers.

The intense controversy in Congress and before the regulatory commissions recently has been largely over rate reductions and rate-making procedures that intensify competition. Rates have been relatively stable for the past 3 years, and rail rates have actually declined slightly for farm products. Three areas of major difference have developed: (1) The Interstate Commerce Commission's interpretation of the Transportation Act

of 1958 has made it somewhat less difficult for railroads to justify their competitive rate reductions; (2) the ICC and court interpretations of the new piggy-back proposals (Plans III and IV) of the railroads have permitted some experimentation with all-commodity rates as opposed to the historic classification and commodity rate making; (3) finally, the competition from private autos and trucks has compelled common carriers of both freight and passengers to seek ways of reducing rates and fares through volume freight rates and heavier loading of freight cars and trucks, air bus and shuttle fares, and other devices. The Senate has also instituted hearings on the reasons for the decline in common carriage.

Rule of Rate-Making

The Transportation Act of 1958, among other things, amended the Interstate Commerce Act's "rule of rate making" where competition among different modes of transportation is involved. The ICC seeks to protect the inherent cost advantages of the different modes of transport by prohibiting published rates below computed out-of-pocket costs. Prior to 1958, the Commission operated under the general rule of permitting railroad rates to be reduced to the level of competing truck and barge rates but not below levels adequate to cover all the competitive costs including a profit. The railroads argued this procedure, in effect, held an umbrella over truck and water carriers in cases where truck or water competitive rates were above railroad fully distributed costs or well above out-of-pocket costs, because trucks were able, at equal rates, to offer service advantages over railroads.

The railroad argument prevailed and the Congress wrote Section 15a (3) of the act as follows:

"In a proceeding involving competition between carriers of different modes of transportation subject to this Act, the Commission, in determining whether a rate is lower than a minimum reasonable rate, shall consider the facts and circumstances attending the movement of the traffic by the carrier or carriers to which the rate is applicable. Rates of a carrier shall not be held up to a particular level to protect the traffic of any other mode of transportation, giving due consideration to all the objectives of the national transportation policy declared in this act."

The last sentence of the section has been interpreted by the Interstate Com-

^{1/} Prepared by C. P. Schumaier, transportation economist, Marketing Economics Division, Economic Research Service.

merce Commission to mean what it says in the railroad versus truck fight. Railroads have published and had sustained in the courts rates substantially lower than truck rates for some commodities, among them paint and new automobiles. Trucking companies, feeling the effect of this new competition, are seeking an amendment to the rule of rate making that would require the Commission to consider:

"...among other factors, the facts and circumstances attending the movement of the traffic by, and the effect upon the earnings of, the carrier or carriers to which

the rate is applicable, the competitive necessity for the rate, its effect upon a lawful rate structure or adjustment, and its tendency, if any, to cast an unjust burden upon other traffic."

The last sentence of the section would remain unchanged. The Commission is opposed to the change because that agency believes it is administratively unworkable and likely to lead to long and costly court battles over correct interpretation.

The first session of the 87th Congress held hearings on the amendment but voted to postpone action until next year.

Piggy-back Plans III and IV

On June 19, 1961, the Commission approved Plans III and IV for trailer-on-flatcar and container service which it has had under investigation since late in 1958. Early in September a Federal court upheld the rights of freight forwarders to use Plan III for shipments of over 10,000 pounds. Trucking companies had attacked these rates as unlawful competition. Under Plan III the shipper delivers his own trailers or van containers to the railroad. The railroad loads trailers or containers onto the flatcars at origin, performs the line haul service, and unloads the trailers or containers from the flatcars at the terminal. The charge is a fixed rate per flatcar whether the trailers on it are loaded or empty. These rates are subject to the restriction that no more than 60 percent of the total weight of the lading on one car consists of any one article. The service under Plan IV is the same as Plan III except that the shipper provides the flatcar in addition to the trailer or container.

The most interesting feature of Plans III and IV is the fixed rate per flatcar charge. This is a complete departure from the old value of service and commodity classification system of quoting surface transportation rates. The latter is only loosely related to the cost of providing any particular transportation service. The former is tied closely to actual costs. There is no difference between the empty and loaded charges because there is presumably little difference in the cost of hauling loaded or empty trailers.

A serious attempt to relate surface transportation charges to costs and to simplify truck and rail tariff schedules is long overdue. Railroad cars or trucks can be loaded heavily with most agricultural products and earn high per car or per truck revenues. Adjustments of rates to approximate more nearly relevant costs should result in a more economical and rational transportation system and hence lower costs to agriculture.

Rate Experimentation

Railroads and airlines are experimenting with freight and passenger rates as a competitive weapon against both their

common carrier competitors and the trend to private carriage of all kinds.

The ICC has declared unlawful so-called "agreed charges" by railroads. Under agreed charge plans, lower rates are granted if contractually agreed percentages of a plant or warehouse's total shipments move via the contracting carrier. Such agreements are permitted in Canada, and the plans proposed in the United States are similar to those in Canada.

Railroads have been experimenting with various types of incentive rates for heavier loading. Some of these rates were established to make more intensive use of existing equipment. Others are proposed to utilize larger cars. Incentive rates for heavier loading of produce have pushed the average refrigerator car load up from 18.8 tons per car in 1957 to 20.2 tons in 1959, or 7.4 percent. Total revenue per loaded car has gone up 6.4 percent and mileage has increased about 4.0 percent in the same time, while the index of freight rates has decreased. A proposal by the Association of American Railroads to increase the load limit on all cars by 5 percent is another attempt to make better use of existing equipment.

Incentive rates have been published to stimulate more extensive use of new equipment. Lower rates for jumbo tank cars and the recent proposals to establish lower rates for grain shipped in jumbo covered hopper cars are examples of

this type of rate. Some of these new lower rates have been contested by other transportation companies who will suffer a competitive disadvantage, but almost never by shippers. The new grain rate mentioned above was suspended and the initiating company will have to prove to the ICC that the rates proposed are compensatory.

Most agricultural products moving by truck are exempt from ICC regulation, so less is known about these rates. What information is available indicates rates have been fairly stable for the last decade. Apparently, increases in wages, license fees, taxes, equipment prices, and other cost rates have been about balanced by increased vehicle capacity and speed. Laws governing truck weight and length are continually being liberalized. Pennsylvania, for example, legalized 40-foot instead of 35-foot truck trailers this year, removing a bottleneck between the east coast and the Midwest. At least a dozen States have liberalized truck weight and length restrictions this year.

Airlines are proposing lower air freight rates. The recent revocation of air freight minimum rates by the Civil Aeronautics Board should lead to experimental shipments of agricultural products as a backhaul where empty air cargo space is available.

Prospects

The earning position of many common carriers, (railroads, truck lines and air lines) is not bright in the immediate future, particularly in the East. The very keen competition between common carriers and private carriage compels common carriers to seek other means than increased charges on shippers for improving their earning position. Common carriers must find some method of diverting traffic from unregulated carriers, either through economic incentives, better service, or by law, to improve their

earnings within the present level of rates. One method for doing this would be a change in the law to place some of the presently unregulated traffic under ICC regulation. Rates for unmanufactured agricultural commodities are now exempt from regulation when hauled by motor trucks in interstate commerce, and would probably rise if placed under regulation. The Department of Agriculture has consistently opposed such regulation as against the interests of farmers and consumers.

The managements of transportation companies can be expected to pursue economic and service incentives to attract traffic more vigorously in the future than in the past because upward rate adjustments have ceased to aid net revenue of carriers. Current developments in the adoption of transportation tech-

nology, rate-making innovations, and active competition seem likely to increase transportation productivity faster than costs increase and promise lower relative if not absolute transportation costs in the future for the things farmers buy and sell.



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