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AGRICULTURAL INPUTS AND PRODUCTIVITY

TRANSPORTATION OUTLOOK, 1979 AND BEYOND

(By Barbara L. Schlei, Administrator, Agricultural Marketing Service, USDA)

Forecasting any kind of economic activity is inexact. Forecasting demand for transportation may be more difficult than most other forecasting because it is a derived demand, dependent upon the combined demand for all products which share a common transportation system.

In the first part of this paper, the Department reviews some immediate past trends for selected commodities, concentrating on grains and fresh fruits and vegetables, and offers the outlook for the coming years based on commodity projections. Also, the status and outlook regarding adequacy of grain storage is covered. In the second section, current problems are discussed, and USDA offers its views on potential solutions and what the Department is doing to help.

GRAIN (INCLUDING SOYBEANS)

The outlook for the availability of inland transportation to move grain during the 1978–79 crop year is not favorable.

Indications point toward a continuation of the transportation shortages that have plagued the agricultural community over the past year. Total grain production for 1978–79 is projected to be 3.4 million metric tons above the record 1977–78 crop year. Domestic demand for grains is expected to remain stable and export demand should increase slightly from its recent high level. Transportation capacity is not expected to increase rapidly enough to meet the consistently high levels of demand, unless a greater share of the total capacity is allocated to grain.

Anticipated movements

Beginning grain stocks of 76.7 million metric tons combined with a projected total production of 312.8 million metric tons will provide a total grain supply of 389.5 million metric tons for the 1978–79 crop year. Total off-farm movement is projected at 236 million metric tons—compared to a yearly average of 225 million metric tons for the 1975–77 period.

Heavy exports will continue to have a major influence on transportation demand. Exports for the 1978–79 crop year are projected at 109.1 million metric tons—approximately 46 percent of total grain movement—compared to an annual average of 98.5 million metric tons for the 3-year period 1975–77. Expansion in world production is not expected to increase more rapidly than demand caused by economic growth. The United States should maintain its strong export position for several years.

Domestic movements for the 1978–79 crop year are expected to increase by approximately 0.8 million metric ton over the 1975–77 3-year average of 126.5 million metric tons.

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Modal contributions

Motor carriers have made a significant contribution to the movement of grain. The operational flexibility and supply elasticity of trucking make it vital to grain transportation. On many occasions trucks have taken up the slack left by equipment shortages of other modes. With increasing rail line abandonments and rapidly escalating rail rates trucking will become financially more attractive, allowing continued expansion.

Barges haul substantial amounts of grain, particularly in export trade. For the period January through September 1978, barges moved 31.7 million metric tons of grain compared to 27.3 million metric tons for the same period in 1977 and 30.7 million metric tons in 1976. It has been estimated that from 1973 to 1977, barges increased their share of export grain movements from 20 percent to 39 percent. Available figures indicate that barge ownership has been increasing at an average rate of about 1,500 per year.

Barge movements on the Upper Mississippi are sharply curtailed during the winter when freezing closes the upper inland rivers from December to April. Operational problems with river locks from St. Louis upstream also impede the flow of river grain movements. Despite seasonal restrictions and lock limitations, (which will probably continue during the construction of a new lock and dam 26 at Alton, Ill.), water movements of grain should expand apace with exports for the coming year. The long-term outlook may be a declining rate of expansion after waterway user taxes go into effect late next year.

Demand for railcars

The railroads' share of off-farm grain movements was approximately 91.7 million metric tons for the 1975–76 crop year and 95.1 million metric tons for the 1977–78 crop year. If the railroads maintain a constant market share, they must meet the demand to move 105.5 million metric tons in 1985.

For the first 10 months of 1978, railcar supply fell drastically short of demand. Because of the near-crisis car shortage, grain shippers lost sales, late delivery penalties were incurred, deferred sales resulted in added carrying charges and higher cost trucking was used to move grains stranded by car shortages. The Association of American Railroads reports that in January 1978 the average daily shortage of covered hopper cars was approximately 9,000 cars. The shortage gradually intensified to a record high of over 35,000 daily shortages for the month of April and fell to 15,000 for July and 7,000 for September. (See table 1 and chart 1.)

GRAIN MOVEMENTS AND CAR SUPPLY

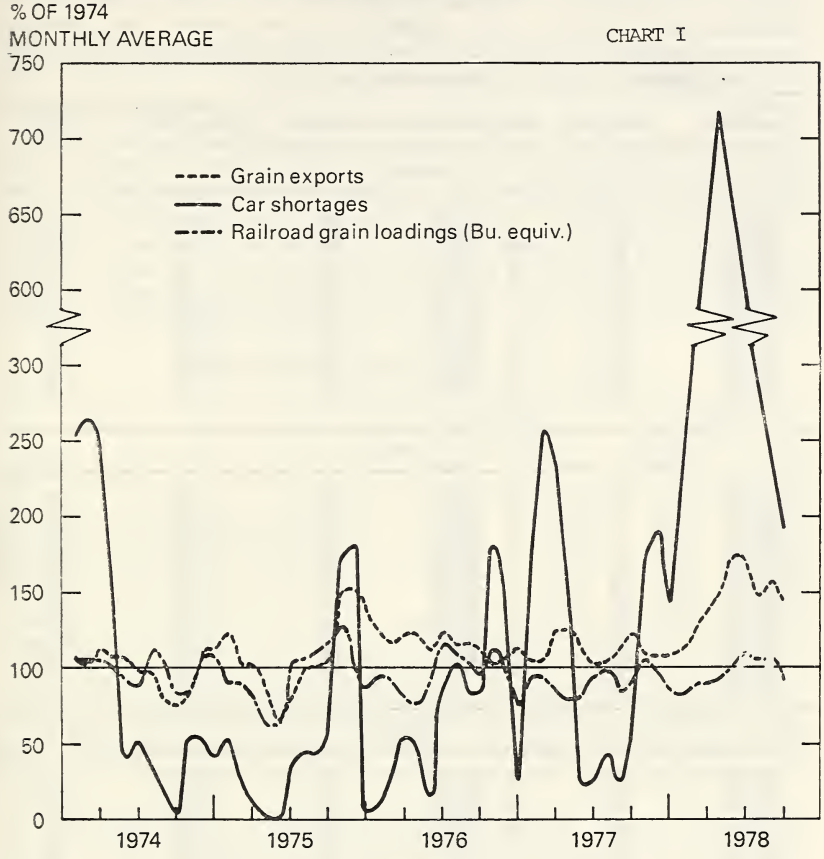


TABLE 1.—GRAIN MOVEMENTS AND CAR SUPPLY

[1974 period average = 100]

1974

Rail originations[1]		Inspection for exports[2]				
Bushels (thousands)	4-week index		Bushels (thousands)	Monthly index	Peak daily[3] C/H shortages	Monthly index
347, 552	108	J	262, 724	109	13, 069	253
343, 069	107	F	247, 767	103	13, 661	264
340, 074	106	M	270, 027	113	12, 741	246
325, 409	101	A	258, 477	108	7, 246	140
289, 952	90	M	256, 323	107	1, 959	38
281, 917	88	J	233, 487	97	2, 655	51
364, 386	113	J	233, 444	97	1, 687	33
344, 074	107	A	192, 048	80	1, 055	20
271, 497	84	S	180, 760	75	186	4
272, 663	85	O	205, 409	86	2, 808	54
358, 158	111	N	267, 755	112	2, 829	55
349, 270	109	D	271, 495	113	2, 182	42
290, 028	90					

TABLE 1.—GRAIN MOVEMENTS AND CAR SUPPLY—Continued

[1974 period average = 100]

Rail originations [1]		Inspection for exports [2]				
Bushels (thousands)	4-week index		Bushels (thousands)	Monthly index	Peak daily [3] C/H shortages	Monthly index
		1974				
312,196	97	J	294,255	123	2,830	55
288,557	90	F	246,750	103	1,494	29
285,910	89	M	244,621	102	614	12
259,093	81	A	216,162	90	148	3
199,560	62	M	166,577	69	20	0
207,801	65	J	190,217	79	1,761	34
334,606	104	J	239,794	100	2,288	44
343,985	107	A	243,866	102	2,158	42
352,335	110	S	255,589	106	3,033	59
372,104	116	O	368,375	153	8,862	171
412,509	128	N	365,920	152	9,216	178
328,241	102	D	328,205	137	323	6
275,139	86					
		1975				
293,390	91	J	298,697	124	523	10
304,319	95	F	298,296	118	1,778	34
305,652	95	M	292,695	122	2,909	56
260,824	81	A	296,867	124	2,585	50
243,769	76	M	273,561	114	771	15
294,940	92	J	294,794	123	4,304	83
373,730	116	J	280,634	117	5,445	105
358,149	111	A	281,945	117	4,419	85
340,134	106	S	270,939	113	4,258	82
308,247	96	O	363,637	152	9,365	181
364,036	113	N	353,341	147	7,633	148
321,949	100	D	273,649	114	1,387	27
241,735	75					
		1976				
272,275	85	J	257,862	107	8,870	171
303,081	94	F	260,365	108	13,283	257
305,945	95	M	299,540	125	12,061	233
277,046	86	A	300,843	125	8,321	161
250,011	78	M	278,294	116	1,236	24
270,956	84	J	245,682	102	1,473	28
296,908	92	J	257,031	107	2,206	43
318,890	99	A	267,628	112	1,299	25
276,933	86	S	298,649	124	2,820	55
302,106	94	O	264,230	110	8,695	168
336,648	105	N	320,234	133	9,830	190
318,282	99	D	313,224	131	7,301	141
275,184	86					
		1977				
258,069	80	J	267,674	112	12,280	237
260,537	81	F	301,507	126	21,410	414
281,547	88	M	333,722	139	30,149	583
287,609	89	A	363,554	151	37,201	719
298,240	93	M	415,071	173	31,991	618
328,593	102	J	400,067	167	27,260	527
353,190	110	J	337,930	141	20,202	391
345,349	107	A	378,993	158	12,421	240
343,863	107	S	330,714	138	9,293	180
302,917	94	O				
		1978				

[1] Bushel equivalent calculated from grain carloading statistics of the Association of American Railroads.
[2] Grain Market News, AMS, USDA.
[3] Covered Hopper shortages developed from Association of American Railroads statistics.

Beginning this past October, the soybean and corn harvest began to gradually escalate the shortages once again. The historic seasonal demand has moderated considerably. Car demand has remained high even in normally slack periods. Except for isolated instances, there have been no rail grain car surpluses since the fall of 1977.

Railcar supply

The nature of rail grain movements has changed considerably over the last 15 years with the introduction and rapidly expanding use of the jumbo covered hopper car. The 40-foot, narrow-door boxcar, which handled 62 percent of grain movements in 1970, is gradually becoming extinct. In 1977, 87.5 percent of the total grain volume moved in covered hopper, most of which was in jumbo-sized hoppers. The following table reflects the changing nature of car utilization in grain movements:

PERCENT OF GRAIN HAULED AND VOLUME BY CAR TYPE

Year	Grain car loading		Volume	
	Covered hopper	ND boxcar	Covered hopper	ND boxcar
1972	51.9	48.1	61.8	38.2
1973	48.7	51.3	58.7	41.3
1974	62.7	37.3	74.1	25.9
1975	73.6	26.4	82.6	17.4
1976	78.6	21.4	86.2	13.8
1977	80.5	19.5	87.5	12.5
1978 (9 mo)	77.5	22.9	85.1	14.9

Source: AAR.

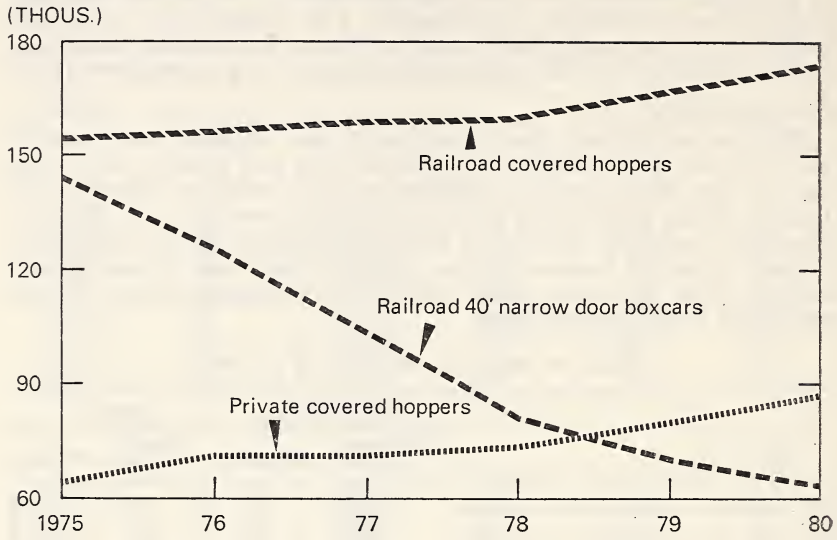
Although use of the boxcar is declining, it is still relied upon in times of acute car shortages as a backup to the covered hopper. During the heavy Russian grain movement of 1973, and again in 1978, use of 40-foot boxcars increased, rather than showing the characteristic yearly decrease.

As of September 1, 1978, 40-foot, narrow-door boxcar ownership was at 69,000—compared to 82,000 at the beginning of 1978 and 143,000 at the beginning of 1975. (See chart 2.) The rapid decline in available equipment forces adjustments for individual shippers. There are a number of shippers who can load only boxcars; and there are numerous rail tracks that cannot handle the weight of loaded jumbo hoppers, but can accommodate boxcars.

Since most of the rail-hauled grain moves in covered hopper cars, any long-range improvement in car supply will have to involve increased ownership and/or increased utilization of this type car. Nationally, in 1972, all covered hoppers averaged 17.6 trips per year.

GRAIN CAR OWNERSHIP

CHART II



1979 projected.

By 1977, the average had dropped to 15.2 trips. Average trips per year is only one measure of utilization, and a decline does not conclusively demonstrate reduced efficiency. The general consensus, however, is that the trend in utilization is downhill.

Conclusion

Rail transportation shortages of 1978 for grain shippers were severe. Some corrective actions have been initiated. The long-range outlook appears brighter. However, capital is scarce, repair and construction of equipment takes time, old operational practices are difficult to change, and there is no substantial lessening of demand in sight. It appears that the transportation system will fall behind in meeting the needs of shippers in coming months.

FRESH FRUITS AND VEGETABLES

Total tonnage of fresh fruits and vegetables transported in 1979 will be slightly above the 1978 level, continuing the gradual increase during the past 5 years. The amount of refrigerated transport equipment, total truck and rail, should remain about the same. The rail share of tonnage transported will continue to decline to about 8 percent in 1979. On a yearly basis, more than adequate rail refrigerated equipment will be available during 1979; however, spot shortages may be experienced during heavy harvesting when motor equipment is in short supply. The truck share of tonnage transported will continue to grow, reaching about 92 percent in 1979. Based on 1978 experience, no serious truck shortages are expected, except during heavy harvest times, or in the event a truck strike should occur. To the extent ship-

pers buy or lease rail refrigerated piggyback trailers, additional capacity will be added to the perishable transport fleet.

Demand

Fresh fruit and vegetable unloads at 41 cities, approximately 65 percent of the fresh traffic handled, increased 5 percent between 1973 and 1978; and a further increase of 1 percent is projected in 1979. (Table 2.) During this same period the total consumption of fresh fruits and vegetables has increased 6.8 million pounds and is projected to increase an additional 1.3 million pounds in 1979.

TABLE 2.—FRESH FRUIT AND VEGETABLE CONSUMPTION AND TRANSPORTATION, 1973–79

Year	Total [1] consumption (million pounds)	Total unloads [2] 41 cities rail and truck	Trend index (1973=100)	Rail [2] unloads 41 cities	Trend index (1973=100)	Truck [2] unloads 41 cities	Trend index (1973=100)	Modal percent rail	Share percent truck
1973	68,003	732,281	100	172,720	100	559,561	100	24	76
1974	68,192	737,637	101	159,508	92	578,129	103	22	78
1975	71,564	752,183	103	123,774	72	628,409	112	16	84
1976	71,952	757,805	103	96,919	56	660,886	118	13	87
1977	[3] 73,362	761,635	104	84,867	49	676,768	121	11	89
1978	[4] 74,803	[4] 768,895	105	[4] 69,201	40	[4] 699,694	125	9	91
1979	[4] 76,163	[4] 776,218	106	[4] 62,097	36	[4] 714,121	128	8	92

[1] Economics, Statistics, and Cooperatives Service.
[2] Agricultural Marketing Service, Fruit and Vegetable Division. Truck data are in railcar lot equivalents.
[3] Estimated by Economics, Statistics, and Cooperatives Service.
[4] Projected.

While the tonnage of fresh fruits and vegetables transported has shown a gradual increase of about 1 percent a year since 1973, the shift taking place between transportation modes has been much more dramatic. The railroads' share of fresh fruits and vegetables traffic has dropped from 24 percent in 1973 to 11 percent in 1977, and a further drop to 8 percent in 1979 is projected. The truck share during this same period has increased from 76 percent to 89 percent, and is projected to increase to 92 percent in 1979.

This dramatic shift of fresh fruit and vegetable traffic from rail to truck has occurred for several reasons. The railroads have not maintained a fleet of refrigerator cars of the size required by the fresh fruit and vegetable industry to accommodate the movement of perishable commodities. The available refrigerator car fleet has declined from 46,157 cars in 1973 to 24,776 cars in 1978, a drop of almost half. This drop in available cars, together with deteriorating quality of service offered by the railroads, influenced many shippers of perishable commodities to seek alternative means of moving their products. In addition, rail rates have been increasing rapidly since 1973, and a further substantial increase on fresh fruits and vegetables has been proposed for late 1978.

Supply

The present level of rail equipment for moving perishables appears more than adequate for 1979 and the foreseeable future. However, some spot shortages will probably occur during peak harvest time when motor equipment is in short supply. On a yearly basis there will be excess rail equipment capacity.

While attempting to forecast total supply of refrigerated motor equipment is difficult, no major shortages are anticipated through 1979. This is based on the fact that, thus far in 1978, only minimal spot shortages have occurred, and then only during peak shipping season. Also, an examination of the rates charged for moving fresh fruits and vegetables by truck during 1978 reveals that the rates were generally about the same as the rates charges for comparable movements during 1977.

Finally, during the past year there have been many instances of shippers, or groups of shippers, acting together to purchase and/or lease refrigerated rail piggyback trailers to move their perishable products to market. If this trend continues, it will add additional total transport capacity for the movement of perishable commodities.

FRESH MEAT TRANSPORTATION SITUATION

A primary topic of conversation among meat industry transportation people is the shortage of available truck equipment. The total supply of transportation equipment available to the meat shipper has decreased significantly the past 3 or 4 years because of a rapid decline in rail equipment.

Railroad and car company-owned trailers equipped to haul fresh suspended meat have declined from a total 3,900 trailers in 1973 to 1,300 trailers in 1978, according to the latest AAR figures. Also, railroad-owned refrigerated cars equipped to handle suspended meat have declined from a 1973 total of 7,700 to fewer than 500 in 1978.

Meat is now transported almost exclusively by regulated, for-hire motor carriers. At the urging of some midwestern meat packers and because of a heavier than normal request for emergency temporary authority, the ICC has issued general temporary order No. 14. The order allows a more flexible and expeditious system for handling emergency applications for the transportation of meat by motor vehicle. This will help for-hire carriers who do not presently have authority to transport fresh meat and, thus, ultimately help the packer. This is just a temporary solution. As long as meat transport by truck is regulated, the problem will remain until sufficient operating authority is granted to meet the demand.

FERTILIZER OUTLOOK

All fertilizer mixtures and direct application materials are expected to total about 45 million metric tons during the period July 1, 1978, through June 30, 1979. This is almost a 1-million-metric-ton increase over 1977–78 applications which resulted in record corn and soybean production. By 1985, total fertilizer usage is projected at 55 million metric tons—up about 22 percent over 1977–78.

Much fertilizer moves in bulk form to retailers, hence railroad or barge lines are preferable modes for transportation. About 50 percent of fertilizer sales occurred during the months of March through May. Grain exports are often heavy during this time, placing a heavy demand on rail transportation.

Covered-hopper shortages averaged over 30,000 cars per day from March through May 1978. Fertilizer shippers compete for the same covered hoppers as grain shippers. Some additional fertilizer storage at retail levels has been constructed recently. However, the additional storage facilities are not large enough to offset the great demand for covered hoppers prior to planting seasons.

Currently, locomotive shortages are slowing the phosphate movement from Florida; and car shortages are restricting the potash movements from Canada. It looks like covered hopper car shortages for fertilizer movements again will be unusually high come March 1979. Farmers may not have as much fertilizer available as they would like for spring planting season because of transportation shortages, unless they provide storage onfarm in anticipation of their needs.

AGRICULTURAL TRANSPORTATION DEMANDS BY 1985

Projections for major agricultural commodity movement for 1985 shows substantial increases in transportation demand. Agricultural commodity movements for selected major commodities will show an increase of more than 25 percent over the average agricultural commodity movement for the years 1973 and 1974. This substantial 90-million-metric-ton increase means that more railcars, barges, and trucks, along with improved transportation productivity, will be required to meet the increasing domestic and foreign demands on agriculture by 1985.

Total movement of major agricultural commodities are projected to show increases by 1985, with exception of cotton, peanuts, and sugar which are expected to decline slightly. Grains, including soybeans, the largest users of agricultural transportation, evidence the greatest increased demand—up over 66 million metric tons to 262 million metric tons in 1985 from the 1973 and 1974 average. The largest contributor to the increase is feed grains—up 39 million metric tons—followed by soybeans and food grains with projected increases of about 15 and 12 million metric tons, respectively.

Other heavy users of transportation are fruits and vegetables, each up more than 7 million metric tons in 1985 over the 2-year average for 1973 and 1974, indicating a greater need for more railroad and motor carrier refrigerated transportation.

Putting heavier demand on refrigerated motor carrier transportation will be additional shipments of milk, poultry, eggs, and meats, with a combined increase expected to total about 10 million metric tons by 1985.

TABLE 3.—MAJOR AGRICULTURAL COMMODITY MOVEMENTS, COMPARISON 1985 TO SELECT YEARS

[In million metric tons]

Commodity [1]	1973 and 1974 average		1978		1985	
	Exports	Total movement	Exports	Total movement	Exports	Total movement
Meat [2]	0.2	17.6	0.3	19.2	0.2	20.7
Cotton	1.1	2.7	1.2	2.6	1.0	2.5
Peanuts [3]	.4	1.6	.4	1.6	.4	1.4
Tobacco [4]	.4	.9	.4	.9	.3	1.1
Poultry and eggs [5]	.1	8.3	.4	9.8	.2	10.7
Milk [6]	.5	53.8	.4	55.8	.2	58.1
Fruit [7]	2.5	22.5	NA	NA	3.3	29.8
Vegetables [8]	1.0	39.4	NA	NA	2.0	46.6
Feed grains [9]	34.2	110.5	54.9	136.0	50.0	149.9
Food grains [9]	29.8	47.9	33.8	52.6	35.6	59.8
Soybeans [9]	14.1	37.7	19.9	47.8	23.2	52.8
Sugar [10]		10.5	.2	10.0	.3	10.3
Total	84.3	353.4			116.7	443.7

[1] Commodity data in respective crop years.
[2] Carcass weight.
[3] Farmers' stock basis.
[4] Farmers' sales basis.
[5] Chickens and turkeys in ready-to-cook weight.
[6] Milk equivalent.
[7] Fresh equivalent includes canned and frozen.
[8] Fresh equivalent includes canned and frozen Irish and sweet potatoes.
[9] Does not include grains or soybeans fed, stored, or otherwise used on farms where grown.
[10] Raw value—equals less than 100,000 tons.

Source: 1985 projections unpublished data compiled in the National Economic Analysis Division, and current year data from "Agricultural Supply and Demand Estimates" and situation reports for respective commodities from Commodity Economics Division, ESCS, U.S. Department of Agriculture.

A look at agricultural exports for all the major commodities shows a total of 117 million metric tons by 1985, up about 32 million metric tons over the average movement for 1973 and 1974. Grains and soybean export account for much of this increased transportation demand, totaling 109 million metric tons in 1985 with a 31 million metric ton increase over the 1973 and 1974 average.

GRAIN STORAGE

Adequate grain storage and drying facilities afford marketing flexibility. Storage permits farmers to hold grain until prices rise, thus giving some stability to the market. It is also a necessary, though by no means sufficient, condition for seasonal pricing of transport services to be potentially effective in smoothing out seasonal peaks in the demand for transportation. And, of course, storage is necessary for a reserve program.

Last year, as a result of record supplies of grains and soybeans, shortages of storage capacity were reported in several producing areas. USDA's Agricultural Stabilization and Conservation Service conducted a comprehensive survey through its network of county offices to discover the amount of existing storage, both on farm and off farm. The survey was made in response to growing concerns over the adequacy of available storage to handle this year's crop. The survey indicated that as of April 1, 1978, more than 16.9 billion bushels of grain storage capacity existed in the United States, including 9.9 billion bushels on farm and almost 7 billion bushels off-farm commercial storage.

The amount of on-farm storage put in place during the past year exceeded all expectations. The building boom has been partly in

response to prior shortages, but also in significant measure to the farmer-owned reserve program. The 25-cent-per-bushel storage fee which the farmer earns by committing grain to 3 years in reserve has provided considerable incentive to build on-farm storage.

The rate at which investment in on-farm storage is being made currently is not known with certainty. However, USDA estimates that a large majority is financed under the farm facility loan program administered by ASCS. During the 12 months ending September 30, 1978, farm facility loans representing 753.7 million bushels of capacity were made. Based on loan data, the Department estimates that during the past year and a half on-farm storage capacity increased by approximately 10 percent. In the 6 months following the April 1 survey date, on-farm capacity increased by 330.4 million bushels (again based on loan data), bringing the estimate of total on-farm capacity as of October 1 up to 10.2 billion bushels.

Capacity shortages

Overall, sufficient storage is available. However, with harvests in full swing, spot shortages occur as new crop grain overloads facilities in producing regions faster than it can be dispersed to available storage.

To make available more on-farm storage for the 1978 crop, the Commodity Credit Corporation authorized early forfeiture of 1977 crop corn loans to expedite movement of CCC acquired corn before the harvest. The CCC has acquired more than 22 million bushels of corn under the early forfeiture option. This action was taken to free on-farm storage capacity for the 1978 crop and to reduce the amount of corn that CCC will be forced to move during harvest. During the first 10 months of 1978, CCC loaded approximately 73 million bushels of grain for shipment out of country locations, freeing that much space for the new crop.

The storage outlook is for continued expansion in on-farm facilities, though probably at a declining rate. Spot shortages will exist throughout harvest with some locally severe impacts, but the national crisis in storage which was feared several months ago has not materialized and is not forecast.

CURRENT ISSUES

Railcar shortages

Grain, fertilizer, and cotton shippers today are faced with the worst car shortage in history. Currently, the Nation's railroads daily have unfilled orders for almost 15,000 covered hopper cars. At its height, the shortage was double that experienced during the 1972–73 Russian grain sales.

In April, Secretary Bergland ordered an all-out effort within USDA to assist in easing the railcar shortage. We are working with the Interstate Commerce Commission in analyzing export sales reports, crop reports, estimated commercial fertilizer demand, and other information to maximize the utilization of available railcars and determine future railcar needs. We also established a "hot line" desk at USDA, so that shippers may contact the Department about specific problems, or alert us to serious shortage situations. We are also working closely with trade associations and shipper groups to coordinate the activities and the flow of information, seeking to facilitate quick and effective action on the shortage problem.

However, we are not optimistic that the car shortage will ease substantially in the near future. The shortage of grain cars may extend well into the 1979 crop year.

One of the major problems facing the cotton industry is an inadequate number of suitable railcars. During 1977, the 40-foot narrow-door boxcar, which is preferred by the cotton industry, declined in ownership from 107,269 to 86,081, a loss of over 21,000 cars. Since 1972, there has been a net decline of over 103,000 of these boxcars. The 40-foot, wide-door car declined in 1977 from 27,502 to 23,371. The 50- to 60-foot plain boxcar increased, but only from 155,042 to 155,792. As can be seen from these figures, the favored 40-foot boxcar is rapidly declining in numbers and new 50-foot equipment is slow coming online.

One problem area is the large number of cars which are out of service because of disrepair. According to ICC figures approximately 13 percent of the railroad-owned fleet of 40-foot boxcars are unserviceable.

Not all the unserviceable cars are economically repairable. However, if even a portion of those cars were serviceable, they would provide a significant stand-by capacity for peak-load shipments of grain. USDA recommended to the ICC that it take a close look at any railroad which permits its bad-order ratio to exceed 5 percent. The Commission now has this matter under investigation.

Another area in which we believe the Commission might concentrate some resources advantageously is equipment charges—per diem and demurrage. These are not new problem areas. Many transportation specialists and economists have long felt that the rail industry has never been able to work out a system of charges which reasonably reflect the true ownership cost and/or opportunity cost of the equipment. The natural, economic incentive to improve utilization will come only with equipment charges which do reflect costs.

The equipment charges problem is related to the car repair problem. Many of the now unserviceable cars are relatively old. The current schedule of per diem rates on boxcars is graduated according to the age of the car. The per diem on the older boxcars is so low there is no economic incentive to repair them.

Rail abandonment and rural roads

The Department recognizes and is concerned about the impact that abondoned rail lines have on agriculture and rural areas. While unprofitable lines can be important to the economic life of rural communities, they also pose a threat to the financial viability of the railroad industry and its ability to meet the increasing demand of agriculture and rural industry for adequate and efficient transportation.

More than 10 percent of the rail mileage in the United States is currently classified according to ICC criteria as potentially subject to abandonment within 3 years, under study for abandonment, or subject to a pending abandonment application. Agriculture has a greater stake than any other industry in the future of that 10 percent. The lines which are unprofitable and candidates for abandonment are generally nonindustrial, light density, and rural.

However, where rail lines are abandoned it will mean that more grains and other farm goods will move over the highways and roads.

There are indications that some rural roads and bridges have not been maintained adequately to permit substantially greater levels of economic activity.

Prior to passage of the Railroad Revitalization and Regulatory Reform Act (4R Act), the line abandonment process was significantly different. The ICC could require the railroad to provide service even at a loss where a line was found essential to the public interest. In so doing, the Federal Government forced upon the railroad industry internal cross subsidies in which profits on some traffic had to pay deficits on other traffic. Cross subsidies forced an erosion of railroads' competitive position where rates were higher than they would otherwise have to be.

The 4R Act created a joint Federal-State subsidy program to shift the burden of supporting publicly needed deficit lines to the public sector. The law permits railroads to abandon lines which are unprofitable after a finding that such abandonment is consistent with the public convenience and necessity. Abandonment may take place unless a subsidy is offered to bring the line up to a break-even point (including a nominal profit). To be eligible to receive funds from the Department of Transportation for local rail service subsidy, a line must be included in a State rail plan.

The primary responsibility for identifying lines which should receive public support thus rests at the State level in the formation of these State plans. The problem is to ensure that rail lines essential to the needs of agriculture and rural communities are identified and included in State plans. The Department of Agriculture has developed a program to assist in this important effort. Our effort will be to demonstrate how USDA-related personnel in the States can help the States develop a methodology that ensures the needs of agriculture and rural communities are adequately considered in developing State transportation plans.

We believe we can work closely and cooperatively with the States in this area, beginning with demonstration projects in several States, using our unique network of USDA-related resources at State and local levels—land grant universities, State and county extension staffs, and other county level resources of the Department.

Regulatory issues—rail

The spotlight this year has been on the ICC in its handling of Ex Parte 346, Rail General Exemption Authority, the rulemaking proceeding for establishing procedures for implementing section 12(1)(b) of the Interstate Commerce Act. The new provision, added by the 4R Act in 1976, gives the Commission the authority to exempt selected traffic by rail from some, or all, regulatory requirements.

Historically, the Department of Agriculture has been a staunch defender of regulatory control over the rail industry as necessary in the public interest—particularly for those large segments of agricultural traffic which are economically captive to the rail mode. However, the Department is certainly aware of the changing economic environment in transportation and the plight of many railroads today.

USDA is supporting in principle an experiment in partial deregulation of fresh fruit and vegetable traffic by rail. As yet, no specific proposals are under consideration by the ICC.

Fresh fruits and vegetables offer an ideal opportunity to observe the rail industry at work in an environment almost free of regulatory constraints. The carriage of fresh fruits and vegetables by truck is exempt from interstate regulation. This traffic is carried now predominately by motor carriage, so the question of monopoly power by the railroads is moot in this instance. Also, the question of whether the railroads have the willingness and ability to regain a larger market share under less regulated conditions can be given a market test.

The coming year—certainly the next few years—should see major changes take shape in the area of regulatory relaxation of railroads as the industry, the ICC, and the public adjust to, and define, the radical statutory changes of recent years.

Regulatory issues—motor

Different types of motor carrier operations serve agriculture. For meat, frozen fruits and vegetables, canned goods and other manufactured products of agriculture, much of the trucking is provided by independent owner-operators under lease to regulated carriers holding authority from the ICC.

Another type of trucking operation serving agriculture is that of the agricultural cooperative. These cooperatives may haul traffic for members, unmanufactured products of agriculture, and traffic for other farmers and cooperatives without economic regulation, but all other traffic is restricted to 15 percent of their tonnage.

Truck movement of unmanufactured products of agriculture, such as fresh fruits and vegetables, move unhampered by the rate, route, service, and entry restrictions of the Interstate Commerce Act that apply on other trucking. Unmanufactured products of agriculture, by law, court, and ICC rulings, include frozen poultry, but not frozen fruit; cut-up, cooked, breaded poultry but not meat; cooked fish, but not cooked vegetables; and so forth. Any motor vehicle, whether operated by a private, regulated, or other carrier, can haul these and other unmanufactured products of agriculture free from Federal economic regulation as long as "nonexempt" commodities are not moved in the same vehicle at the same time.

Agriculture thus has had substantial experience with for-hire transportation free of Government economic regulation where prices and services were set by market forces. It has worked very well. Agricultural interests have been firm ever since the Motor Carrier Act was first passed in 1935 in their support of the exemptions. Studies done by, or for, the U.S. Department of Agriculture have yielded findings that such trucking provides efficient and adequate service at reasonable rates.

The stated goals of the Carter administration reflect the current mood of the country for relaxation of economic regulations. Agriculture's experience with unregulated trucking will be given careful consideration in working toward needed reforms.

USDA favors a deregulation of backhaul traffic for all truck movements subsequent to an exempt movement of agricultural commodities. This would give truckers the opportunity to haul, free of regulation, commodities which are fully regulated currently in any circumstance in which they are presently permitted to trip-lease to a regulated carrier. This change in the law is necessary to enable the hauler of agricultural

commodities to operate round trip completely free of regulation—creating for the first time since 1935 a truly exempt sector of the trucking industry.

A second reform USDA favors is an expansion of the current exemption to include farm input items and all processed foods.

A third reform is to increase the present 15-percent restriction on cooperative trucking for nonfarm, nonmember business to the standard 50-percent test which applies on nonmember business for all other types of cooperatives, and to eliminate the restriction that such nonfarm, nonmember business be incidental to the cooperatives primary transportation operation and necessary for its effective performance.

RURAL TRANSPORTATION ADVISORY TASK FORCE

The 95th Congress has passed, and President Carter has just signed, legislation which is potentially of profound significance to the administration of transportation policy, and which is of great interest to agricultural shippers. Public Law 95–580, introduced in the Senate as S. 1835 and in the House as H.R. 12917, establishes a Rural Transportation Advisory Task Force jointly chaired by the Secretaries of Agriculture and Transportation. The task force will have 16 members selected from both the public and private sectors, representing agricultural shippers, the transportation industries, and academia, as well as legislative and executive branches of Government.

The task force is authorized to publish an initial report including recommendations for approaches for determining the continuing transportation needs of agriculture, for establishing a national agricultural transportation policy, and for identifying impediments to a railroad transportation system adequate for the needs of agriculture. After holding public hearings, the task force is required to compile, within 420 days of enactment, a final report which addresses the same issues provided for in the initial report and which contains specific recommendations for a railroad transportation system adequate to meet the essential needs of the agriculture industry. The task force is dissolved 45 days after publication of the final report.

The job which the Rural Transportation Advisory Task Force is directed to do is not easy. But it is a challenge which USDA is enthusiastic about accepting. It affords a unique opportunity for the Departments of Agriculture and Transportation to join forces with users and suppliers of transportation to address problems of mutual interest. We at USDA are looking forward to the coming year.