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OUTLOOK '87

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ANNUAL AGRICULTURAL OUTLOOK CONFERENCE

United States Department of Agriculture
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Outlook '87, Session #27

Wednesday, December 3, 1986

THE OUTLOOK FOR TRANSPORTATION

Mr. James A. Hagen, Executive Vice President, Sales and Marketing
CSX Distribution Services

GOOD AFTERNOON. I HOPE I AM CORRECT IN ASSUMING THAT ANYONE WHO'S STILL HERE FOR THE LAST SESSION IS REALLY INTERESTED IN DISCUSSING THE SUBJECT AT HAND -- TRANSPORTATION. BEFORE WE MOVE ON TO THAT, I'D LIKE TO SHARE A BRIEF STORY I HEARD THE OTHER DAY. I TRUST THAT MS. FERGUSON -- AND THE REST OF YOU -- WILL APPRECIATE IT.

ONE DAY, A COUNTY AGENT WAS DRIVING ALONG, MINDING HIS OWN BUSINESS, WHEN HE SAW A THREE-LEGGED CHICKEN A FEW YARDS AHEAD. SO HE STEPPED ON THE GAS TO CATCH UP WITH IT. BUT THE FASTER HE DROVE, THE FASTER THE CHICKEN RAN. A MILE OR SO DOWN THE ROAD, THE CHICKEN TURNED INTO A FARMER'S FRONT YARD AND DISAPPEARED. THE FARMER APPEARED WHEN THE AGENT DROVE IN.

THE AGENT ASKED THE FARMER IF HE'D SEEN A THREE-LEGGED CHICKEN. THE FARMER SAID HELL YES, I BRED THE THING BECAUSE I WANTED TO GIVE MY FAMILY SOME MORE PROTEIN AND I THOUGHT THE EXTRA DRUMSTICK WOULD DO THE TRICK.

SO THE AGENT SAID " HOW DOES IT TASTE?" "I DON'T KNOW," THE FARMER ANSWERED. "I HAVEN'T CAUGHT UP WITH THE DARN THING EITHER."

FRIENDS, I AM SURE WE ALL FEEL LIKE THAT FARMER AND THAT AGENT SOMETIMES IN THESE DAYS OF TURMOIL, CONSTANT CHALLENGE AND NEVER-ENDING CHANGE.

MY REMARKS TODAY MAY NOT PRODUCE THE SOLUTION TO CATCHING THAT THREE-LEGGED CHICKEN. BUT I HOPE THAT COMMENTS ABOUT RECENT CHANGES AT CSX AND IN TRANSPORTATION AS A WHOLE WILL DIRECT US TOWARD SOME ANSWERS OR AT LEAST SHED SOME LIGHT ON OUR MUTUAL CONCERNS.

BY RELATING CHANGES IN OUR BUSINESS TO YOURS, I HOPE WE CAN IDENTIFY WAYS TO ENHANCE OUR RELATIONSHIP AND OFFER SOME STABILITY IN THESE TURBULENT TIMES.

JUST SIX YEARS AGO, TWO EVENTS THAT CONCERN US TODAY OCCURRED SEVERAL DAYS APART. THE FIRST, THE STAGGERS RAIL ACT OF 1980, REDUCED REGULATION OF THE INDUSTRY. I'D LIKE TO RETURN TO THAT SUBJECT LATER.

THE OTHER EVENT, ON NOVEMBER 1, 1980, WAS THE CREATION OF CSX CORPORATION THROUGH A MERGER. THAT COMBINATION CREATED A COMPANY THAT OWNED THE CHESSIE SYSTEM RAILROADS AND THE FAMILY LINES, ANOTHER LARGE RAIL SYSTEM.

THE TWO RAIL SYSTEMS WERE GENERALLY OPERATED SEPARATELY UNTIL DECEMBER OF LAST YEAR. AT THAT TIME, CSX CORPORATION ANNOUNCED ITS INTENTION TO RESHAPE THE TWO RAILROADS INTO BUSINESS GROUPS BASED ON FUNCTIONS TRANSPORTATION COMPANIES PERFORM.

THERE WERE SEVERAL REASONS FOR THIS NEW STRUCTURE. MOST IMPORTANT FROM YOUR VIEWPOINT WAS ESTABLISHING A SINGLE CUSTOMER CONTACT POINT FOR CUSTOMERS. WE WANTED TO DELIVER CONSISTENT INFORMATION AND TO IMPROVE RESPONSIVENESS TO CUSTOMER NEEDS.

NOT INCIDENTALLY, THE NEW APPROACH WAS DESIGNED TO MAKE OUR APPROACH MORE EFFICIENT AND IMPROVE RETURN ON INVESTED CAPITAL. WE DETERMINED THAT INCREASED DOMESTIC TRANSPORT COMPETITION, DECLINE IN SO-CALLED SMOKESTACK INDUSTRIES LIKE STEEL AND INCREASING GLOBALIZATION OF THE U.S. ECONOMY MADE THE CHANGE IMPERATIVE.

CSX CENTRALIZED CUSTOMER CONTACT BY CREATING THE DISTRIBUTION SERVICES BUSINESS GROUP COMPOSED OF SALES AND MARKETING AND OTHER CUSTOMER-RELATED FUNCTIONS. ITS EMPLOYEES CREATE INDIVIDUALIZED TRANSPORTATION PACKAGES AND PERFORM RELATED FUNCTIONS LIKE CAR TRACING AND ACCOUNTING AND BILLING.

TWO OTHER BUSINESS GROUPS -- KNOWN AS RAIL TRANSPORT AND EQUIPMENT -- WERE FOCUSED ON SERVICE AND PRODUCTIVITY IMPROVEMENTS. THE RAIL TRANSPORT BUSINESS GROUP PROVIDES TRAIN SERVICE AND THE EQUIPMENT BUSINESS GROUP MANAGES AND CONTROLS FREIGHT CAR EQUIPMENT SUPPLY AND MAINTENANCE.

ALTOGETHER, THE NEW OPERATION IS KNOWN AS CSX TRANSPORTATION. ALSO INCLUDED IN CSX TRANSPORTATION IS THE INLAND WATERWAYS OPERATION OF AMERICAN COMMERCIAL BARGE LINE.

EARLIER THIS YEAR, CSX ACQUIRED SEA-LAND CORP., AN INTERNATIONAL CONTAINER SHIPPING COMPANY. OUR JOINT APPLICATION TO CONTROL SEA-LAND IS PENDING BEFORE THE INTERSTATE COMMERCE COMMISSION. HOPEFULLY, WE WILL RECEIVE APPROVAL TO OPERATE VERY SOON.

ALL OF THESE ACTIVITIES ENHANCED CSX'S CONCEPT OF ONE-STOP SHIPPING. SIMPLY PUT, THAT MEANS WE WANT TO PROVIDE ALL TRANSPORTATION SERVICES A CUSTOMER NEEDS BETWEEN ORIGIN AND DESTINATION. WE BELIEVE THAT A SINGLE CONTROL AND MANAGEMENT SOURCE GIVES THE BEST SERVICE IN EACH STEP OF THE DISTRIBUTION PROCESS.

I AM SURE YOU ARE WONDERING HOW THIS AFFECTS YOU -- THE AGRICULTURAL SHIPPER.

WE ALL KNOW THAT GROWTH OPPORTUNITIES IN AGRICULTURE ARE AS ELUSIVE AS THAT THREE-LEGGED CHICKEN. THAT MAKES IDENTIFICATION OF AND EXPANSION INTO NEW MARKETS CRUCIAL TO SURVIVAL. CONSEQUENTLY, TRANSPORT COMPANIES CAN BE EXPECTED TO POSITION THEMSELVES TO HELP CUSTOMERS PENETRATE MARKETS.

CSX TRANSPORTATION IS COMMITTED TO OPENING AND SERVING MULTI-MARKETS FOR OUR CUSTOMERS. AND WE ARE COMMITTED TO LINKING PRODUCER AND CONSUMER IN THOSE MULTI-MARKETS. WE ACCOMPLISH THAT BY DISSEMINATING INFORMATION ABOUT OUR SERVICE BY ENCOURAGING PRODUCER AND CONSUMER TO GET TO KNOW EACH OTHER BETTER. THAT LINKAGE IS CEMENTED BY CREATING AND EXECUTING INNOVATIVE TRANSPORT PACKAGES.

THE 268,000 CARLOADS OF GRAIN WE MOVED LAST YEAR MADE CSX ONE OF THE LARGEST GRAIN-HAULING RAILROADS IN THE COUNTRY AND PROVIDED TANGIBLE EVIDENCE OF OUR COMMITMENT.

THE HAY TRAINS PIONEERED BY CSX TO HELP DROUGHT-RAVAGED SOUTHEAST FARMERS ARE ANOTHER EXAMPLE. A LESS-PUBLICIZED, BUT EQUALLY IMPORTANT EVENT WAS A TWO-DAY CSX-SPONSORED SYMPOSIUM TO MAKE PRODUCERS AWARE OF NEW, PROFITABLE OPPORTUNITIES TO SELL THEIR PRODUCTS.

TO BACK UP THAT ACTIVITY, WE ENCOURAGED NEW TRAFFIC BETWEEN PRODUCERS IN ILLINOIS, MICHIGAN, OHIO AND INDIANA AND CONSUMERS IN THE SOUTHEAST. THOSE 15-CAR UNIT MOVEMENTS, PRIMARILY TARGETED FEED MILLS THAT BENEFIT FROM THE LOWER DELIVERED COST OF MIDWESTERN GRAIN. THE 15 CAR UNIT, IN ADDITION TO SUITING THE RAIL PLANT CAPABILITIES OF PRODUCER AND CONSUMER, ALSO MATCHES THE CAPACITY OF A BARGE.

THAT'S NOT A COINCIDENCE. ANOTHER IMPORTANT TRANSPORT TREND IS AN INCREASE IN RAIL-BARGE SHIPMENTS. CSX HAS EXPANDED ITS INTERFACE WITH BARGE OPERATORS ON THE OHIO RIVER SYSTEM. WE EXPECT FAR MORE GROWTH.

FOR CSX, THAT KIND OF SHIPMENT IS ATTRACTIVE BECAUSE WE UTILIZE TWO PARTS OF CSX TRANSPORTATION -- THE RAIL SYSTEM AND AMERICAN COMMERCIAL BARGE LINES. BUT WE ALSO ARE READY, WILLING AND ABLE TO WORK WITH OTHER WATERWAY CARRIERS.

LIKE ALL-RAIL SERVICE, THE INTENT IS TO EXPAND OUR CUSTOMERS' MARKET COVERAGE AND ADD VALUE TO THEIR PRODUCTS. CSX IS IN A STRONG POSITION TO DO THAT BECAUSE WE REACH MARKETS FROM THE ATLANTIC TO THE MISSISSIPPI AND FROM THE GREAT LAKES TO THE GULF.

I BELIEVE WE ALSO CAN EXPECT THAT AGRICULTURAL CUSTOMERS AND CARRIERS WILL PAY MORE ATTENTION TO CAR ISSUES IN THE FUTURE. FRANKLY, WE DON'T FORESEE SIGNIFICANT CAR SHORTAGES, GIVEN THE AMPLE INVENTORY CSX AND OTHER RAILROADS POSSESS. BUT THERE MAY BE OCCASIONAL SUPPLY SQUEEZES CAUSED BY THE EBB AND FLOW OF TRAFFIC IN A PARTICULAR AREA.

ON THE OTHER HAND, THE ONGOING BROUHAHA OVER ALLOCATION OF CARRIER AND SHIPPER-OWNED CARS MAY HEAT UP SOME MORE. CSX ISN'T ACTIVELY INVOLVED IN LEGAL PROCEEDINGS CONCERNING THAT ISSUE KNOWN IN THE TRANSPORT BUSINESS AS OT-5 FOR THE INDUSTRY RULES COVERING THAT SUBJECT.

FURTHER USE OF UNIT TRAINS IN EITHER 65 OR 130 CAR SIZES CAN BE EXPECTED.

CSX EQUIPMENT HAS DEVELOPED MARKETING STRATEGIES FOR AGRICULTURAL CARS. THE OPTIONS BEING EXPLORED INCLUDE LEASING, AND MAKING TEMPORARY USE OF COVERED HOPPER CARS FOR GRAIN MOVEMENTS BY USING FIBERGLASS COVERS. THE OVERRIDING POINT, HOWEVER, IS THAT WE WANT TO SUIT THE SHIPPER'S NEEDS AND MANAGE THE CAR SUPPLY FOR MUTUAL BENEFIT.

OTHER U.S. RAILROADS HAVE EMBARKED ON SIMILAR -- AND DIFFERENT -- COURSES. BUT WE ALL FACE A SOBERING REALITY AS WE CONSIDER TRANSPORTATION OF AGRICULTURAL PRODUCTS.

WE ALL KNOW THAT REALITY: LOW PRICES AND OVERSUPPLY FEED ON EACH OTHER AND GENERATE THE CONTINUING CRISIS STATE SO MANY PERCEIVE IN AGRICULTURE. CHANGES IN GOVERNMENT PROGRAMS AND THE UNCERTAIN NATURE OF FUTURE FEDERAL FARM POLICY ADDS TO YOUR CONCERN -- AND CONSEQUENTLY TO OURS.

LIKE MANY OTHERS, WE BELIEVE THE OUTLOOK FOR EXPORT GRAIN IS POOR. LIKE YOU, WE WOULD WELCOME A RETURN TO THOSE THRILLING DAYS OF YESTERYEAR WHEN EXPORT GRAIN SEEMED TO FLOW LIKE WATER. OUR HOPES FOR DOMESTIC TRAFFIC GROWTH ARE MODEST AS WELL. DESPITE AN INDUSTRY-WIDE SLUMP, CSX GRAIN MOVEMENTS HAVE REMAINED STEADY OVER THE LAST FEW YEARS AFTER DECLINING FROM THE PLATEAUS REACHED WHEN EXPORTS WERE BOOMING.

AS WE TRY TO DISCERN SOME PATTERNS IN YOUR BUSINESS, THERE ARE SOME CLEAR, AND I BELIEVE, HOPEFUL SIGNS ON THE TRANSPORTATION FRONT. BOTH RATES AND SERVICE APPEAR TO BE HEADED IN A GENERALLY FAVORABLE DIRECTION. THE KEY WORDS SEEM TO BE FLEXIBILITY AND CHANGE DURING A PERIOD OF ADJUSTMENT.

ON THE RATE SIDE, IT IS CLEAR THAT THE STAGGERS RAIL ACT OF 1980 BENEFITED AGRICULTURAL SHIPPERS. NOT ENOUGH PEOPLE KNOW THAT TRANSPORTATION RATES FOR AGRICULTURAL PRODUCTS DECREASED 22 PERCENT SINCE 1980.

A KEY REASON FOR THAT IS THE PROVISION IN THE STAGGERS ACT PERMITTING RAILROADS TO SIGN CONTRACTS, AS MANY OF YOU WELL KNOW. CONTRACTS TODAY COVER PERHAPS 60 PERCENT OF RAIL INDUSTRY SHIPMENTS OF GRAIN AND RELATED PRODUCTS.

ALTHOUGH THOSE CONTRACTS BENEFIT BOTH CARRIER AND SHIPPER, THERE HAS BEEN CONSIDERABLE DISCUSSION ABOUT THEM. THE QUESTION OF DISCLOSURE OF SOME CONTRACT TERMS CLEARLY IS A SENSITIVE ISSUE. LAST YEAR'S AGREEMENT BETWEEN THE NATIONAL GRAIN AND FEED ASSOCIATION AND THE RAILROADS WAS A CONSTRUCTIVE EFFORT TO ADDRESS THOSE CONCERNS.

QUITE FRANKLY, MANY OF US AT CSX FELT THAT THE COMPROMISE AGREEMENT WAS HEADING IN THE WRONG DIRECTION AND CONCEDED TOO MUCH IN THE AREA OF CONTRACT DISCLOSURE. WE FELT AND STILL DO FEEL THAT COMPLETE CONFIDENTIALITY OF CONTRACTS IN THE GRAIN AREA IS WORKABLE AND SHOULD BE OUR LONG-TERM GOAL. AFTER ALL, THAT SORT OF SYSTEM IS WORKING FOR SHIPPERS, RECEIVERS AND CARRIERS IN EVERY OTHER COMMODITY AREA. IT IS ALSO WORKING FOR GRAIN IN EVERY OTHER MODE. WE KNOW - WE HAPPEN TO OWN A BARGE LINE AND A TRUCKING COMPANY. IN ADDITION, CONSIDER THIS EXAMPLE. WHO WOULD DREAM OF HAVING TO DISCLOSE THE ELEMENTS OF A CONTRACT FOR COMPUTER SYSTEMS -- OR SOME OTHER PRODUCT -- TO YOUR COMPETITORS? THAT'S WHAT WE MAY BE ASKED TO DO.

IN THE END, WE DID SUPPORT THE NATIONAL GRAIN AND FEED COMPROMISE POSITION BECAUSE WE FELT WE COULD LIVE WITH ITS PROVISIONS IN THE SHORT TERM, BUT, MORE IMPORTANTLY, BECAUSE WE FELT IT WOULD ALLOW US TO KEEP IMPROVING THE PRODUCTIVITY OF TWO INDUSTRIES AND KEEP US MOVING TOWARD A GOAL OF TOTAL CONFIDENTIALITY IN THE LONGER TERM.

UNFORTUNATELY, WE ARE NOW FACED WITH THE POSSIBILITY THAT WE WILL BE SADDLED WITH ONEROUS DISCLOSURE REQUIREMENTS AS A RESULT OF A RIDER THAT WAS ADDED TO THE CONRAIL PRIVATIZATION BILL. LIKE YOU, WE ARE AWAITING THE INTERIM RULES FROM THE INTERSTATE COMMERCE COMMISSION LATER THIS MONTH. SPEAKING FOR CSX AND I BELIEVE OTHERS IN THE RAILROAD INDUSTRY, I DO NOT THINK WE CAN LIVE WITH SUBSTANTIALLY RELAXED DISCLOSURE AND DISCOVERY REQUIREMENTS OF CONFIDENTIAL CONTRACT TERMS. I ALSO DO NOT BELIEVE IT WILL BE A HEALTHY DEVELOPMENT FOR U.S. AGRICULTURE.

WE HOPE ALL SIDES RECOGNIZE THE IMPORTANT ROLE THOSE CONTRACTS PLAY IN STABILIZING AND DEVELOPING OUR BUSINESS RELATIONS. I WONDER WHETHER THE DISCLOSURE OF TERMS WILL FOSTER A SHYNESS -- ESPECIALLY AMONG SHIPPERS -- TO ENTER INTO NEW CONTRACTS FOR FEAR YOUR RATES WILL BE DISCLOSED TO COMPETITORS.

IF THAT HAPPENS, THE STABILITY AND MUTUAL BENEFITS CONTRACTS PROVIDE MAY BE DIMINISHED. THE RESULT COULD WELL BE HIGHER RATES AND LESS DEPENDABLE SERVICE. I DOUBT THAT YOU WANT THAT TO HAPPEN.

THE STRUCTURE OF OUR INDUSTRY WILL CONTINUE TO CHANGE. YOU SHOULD EXPECT A WHOLESALE EFFORT BY THE RAILROAD INDUSTRY TO CUT COSTS. THAT MEANS EFFORTS TO REDUCE LABOR COSTS IN FUTURE LABOR NEGOTIATIONS.

OF MORE IMMEDIATE CONCERN FOR YOU IS THE IMMINENT TRANSFER OF LITTLE-USED RAIL LINES THAT ARE marginally PROFITABLE AT BEST FOR US. THOSE LINES WILL BE TRANSFERRED TO NEW, LOWER-COST OPERATORS.

THERE IS LESS REASON TO WORRY TODAY ABOUT ABANDONMENT THAN THERE WAS IN THE PAST. THE LEAST PRODUCTIVE RAILROAD LINES WERE ELIMINATED IN THE 70'S AS A RESULT OF BANKRUPTCY PROCEEDINGS LIKE THE CHICAGO, ROCK ISLAND AND PACIFIC CASE. INSTEAD, WE SHOULD FOCUS ON AN ORDERLY, PRODUCTIVE TRANSFER PROCESS THAT ASSURES FUTURE SERVICE.

RAIL LINES IN RURAL AREAS OFTEN ARE LEADING CANDIDATES FOR ABANDONMENT OR SALE BECAUSE THEIR SINGLE SOURCE OF BUSINESS -- AGRICULTURE -- IS GIVEN TO WIDE SWINGS IN VOLUME. SEVERAL YEARS OF POOR CROPS OR LOW PRICES CAN DEVASTATE ANY TRANSPORTATION COMPANY, JUST LIKE IT DEVASTATES FARMERS.

UNLESS AN ELEVATOR OR SIMILAR FACILITY IS LOCATED ON A MAIN RAIL LINE CARRYING SIGNIFICANT VOLUMES OF OTHER FREIGHT, SALE OR ABANDONMENT IS A POSSIBILITY IN THE NOT TOO DISTANT FUTURE.

I CANNOT THINK OF A BETTER WAY TO ILLUSTRATE THE DIRECTION OF RURAL RAIL TRANSPORTATION THAN TO CONSIDER MY HOME TOWN OF FOREST CITY, IOWA.

WHEN I WAS GROWING UP, TWO RAILROADS -- THE MINNEAPOLIS AND ST. LOUIS AND THE CHICAGO, ROCK ISLAND AND PACIFIC -- SERVED FOREST CITY. NEITHER ONE EXISTS TODAY. RAIL SERVICE IS PROVIDED BY THE CHICAGO AND NORTH WESTERN, WHICH BOUGHT THE REMNANTS OF THE MINNEAPOLIS AND ST. LOUIS.

BUT THE STORY DOESN'T END THERE. THE NORTH WESTERN'S LINE THROUGH FOREST CITY IS ON A SORT OF ENDANGERED SPECIES LIST. THE RAILROAD'S MANAGEMENT HAS SAID PUBLICLY THAT IT WANTS TO REDUCE ITS PLANT SIZE. THAT STATEMENT WAS BACKED UP BY THE RECENT SALE OF AN 800 MILE LINE CENTERED IN MINNESOTA AND SOUTH DAKOTA. A SIMILAR DISPOSITION MIGHT NOT BE TOO FAR AWAY FOR THE LINE THROUGH FOREST CITY.

ELSEWHERE IN IOWA, ENTREPRENEURS HAVE PURCHASED MARGINAL LINES LIKE THE ONE THROUGH FOREST CITY AND INCREASED SERVICE WHILE LOWERING COSTS.

THE SCENARIO IN IOWA IS BEING REPEATED ELSEWHERE AS THE RAILROAD INDUSTRY TRIMS DOWN FOR THE LONG PULL. AS MUCH AS 8,000 MILES OF THE U.S. RAIL SYSTEM, OR ABOUT 6 PERCENT OF THE TOTAL ROUTE MILES, HAS FOUND NEW OWNERS IN THE PAST FEW YEARS. PREDICTING FUTURE TRENDS IN THIS AREA IS DIFFICULT, BUT ADDITIONAL TRANSFERS TOTALING TWO OR THREE TIMES THE PRESENT FIGURES AREN'T INCONCEIVABLE ON A NATIONWIDE BASIS.

WE AT CSX -- LIKE MANY OTHER RAILROADS -- ARE REVIEWING NUMEROUS OPTIONS. I AM SURE MANY OF YOU ARE WONDERING WHAT THIS WILL MEAN TO AGRICULTURE. THE SHORT ANSWER IS THAT YOU SHOULD BE PREPARED FOR A PERIOD OF ADJUSTMENT. THAT ADJUSTMENT CAN BE EITHER SMOOTH OR QUITE PAINFUL, DEPENDING ON SEVERAL FACTORS.

THE AGRICULTURAL INDUSTRY CAN HELP BY TAKING AN ACTIVE, SUPPORTING ROLE IN EFFORTS TO SAVE RAIL SERVICE. YOU MAY BE ASKED TO OFFER MORE THAN MORAL SUPPORT AT SOME POINT IN THE PROCESS. SOME OF THESE NEW RAIL VENTURES HAVE BEEN UNDERWRITTEN IN PART BY SHIPPERS, THOUGH MANY OTHERS HAVE DIFFERENT EQUITY SOURCES.

ANOTHER PRESSING QUESTION INVOLVES THE EFFORTS BY LABOR INTERESTS TO HALT THIS TREND. WHEN UNION WORKERS ARE SEPARATED BY LARGE RAILROADS, THE CARRIERS ASSUME LABOR PROTECTION COSTS. THOSE COSTS RANGE FROM ONE YEAR'S SALARY UP TO \$200,000 PER PERSON IN MERGER AND ACQUISITION CASES.

THOSE PAYMENTS, MANY OF WHICH ARE REQUIRED UNDER OUTMODED RAIL LABOR LAW, FAR EXCEED UNEMPLOYMENT BENEFITS TO OTHER DISPLACED WORKERS. RAIL LABOR INTERESTS ARE TRYING TO HAVE THOSE SO-CALLED PROTECTION PAYMENTS EXTENDED TO NEW OPERATIONS LIKE THOSE IN IOWA AND ELSEWHERE. IF LABOR SUCCEEDS, THEY MAY WELL DOOM THE ENTERPRISES BY PRODUCING ABANDONMENTS INSTEAD OF SALES. THOSE LABOR PROTECTION CONDITIONS COULD COST SOMEONE MILLIONS OF DOLLARS THAT COULD HAVE BEEN BETTER SPENT ON OTHER PROJECTS.

THE IRONY IS THAT A VERY HIGH PERCENTAGE OF THOSE PEOPLE FOR WHOM LABOR WANTS PROTECTION BENEFITS OFTEN WIND UP WORKING FOR THE NEW RAILROADS. THUS, ADDING PROTECTION BENEFITS WILL EITHER SINK NEW VENTURES BEFORE THEY FLOAT OR INCREASE COSTS FOR THE NEW OPERATOR OR THE PREVIOUS OWNER.

ANY HELP THAT YOU AS POTENTIAL USERS CAN GIVE US IN THIS AREA AS THESE PROTECTION BATTLES ARE FOUGHT IN 1987 AND BEYOND CERTAINLY WILL HELP US BOTH.

THE OTHER HIGHLY IMPORTANT NEED ALL PARTIES MUST ADDRESS IS TO IDENTIFY AND ENCOURAGE RESPONSIBLE BUYERS FOR THOSE RAIL LINES WORTH SAVING. AT THE SAME TIME, YOU IN AGRICULTURE -- AS THE FUTURE CUSTOMER -- SHOULD BE PREPARED TO FOCUS EFFORTS ON THE LINES WORTH SAVING INSTEAD OF PRESSURING THE RAILROAD OR PUBLIC AGENCY TO PRESERVE A LINE WITH LITTLE CHANCE OF SUCCESS.

I CANNOT EMPHASIZE ENOUGH THE NEED TO SCRUTINIZE A POTENTIAL BUYER'S FINANCES CLOSELY. COUNTERBALANCED AGAINST SUCCESSES LIKE THE CHICAGO, CENTRAL AND PACIFIC OR THE IOWA NORTHERN RAILWAY IN IOWA ARE DISMAL FAILURES THAT LEAD TO ENDLESS LAWSUITS AND AN END TO RAIL SHIPMENTS. THE RESULT? SUFFERING FOR THE SHIPPER, RECEIVER AND THE CARRIER THAT WELCOMED SOME REVENUE FROM FORWARDING THE FLEDGLING CARRIER'S FREIGHT.

ON THE OTHER HAND, WHEN VENTURES DO SUCCEED, THE SHIPPER OFTEN RECEIVES BETTER SERVICE BECAUSE THE NEW OPERATOR'S LOWER-COST PROFILE AND LOCAL FOCUS ENHANCE BOTH BUSINESSES.

AS VIABLE NEW RAIL VENTURES EMERGE, OTHER CHANGES ARE LIKELY, TOO. WE ANTICIPATE SUBSTANTIAL GROWTH IN RAIL-BARGE SHIPMENTS THROUGHOUT THE INLAND WATERWAY SYSTEM. SHORT-DISTANCE MOVEMENTS BY LOWER-COST RAIL OPERATORS TO RIVER TERMINALS FOR LONG-HAUL WATER TRANSPORT WILL BE MORE COMPETITIVE IN THE FUTURE.

FOR THE LARGE RAIL SYSTEMS, THERE WILL BE CONTINUED EFFORTS TO FOCUS BUSINESS ON HIGH-DENSITY LINES THAT CARRY A WIDE VARIETY OF FREIGHT. AT THE SAME TIME A HARMONIOUS WORKING RELATIONSHIP BETWEEN NEW OPERATORS AND ESTABLISHED LARGE RAIL SYSTEMS MUST EMERGE.

IN SOME WAYS, IT SEEMS LIKELY THAT WE ALL WILL HAVE TO RUN EVEN FASTER IN THE FUTURE TO CAPTURE THAT THREE-LEGGED CHICKEN. RUNNING FASTER ACTUALLY MEANS WE MUST TRY HARDER TO IMPROVE OUR UNDERSTANDING OF EACH OTHER'S NEEDS. THE COMMUNICATIONS LINES MUST BE KEPT OPEN AND HUMMING.

WE MUST APPRECIATE INTERDEPENDENCE BETWEEN TRANSPORTATION COMPANIES AND AGRICULTURAL SHIPPERS AND RECEIVERS. WE MUST BE CREATIVE AND FLEXIBLE BOTH IN NEGOTIATIONS AND IN SEEKING ANSWERS TO THE OUR COMMON PROBLEMS. I WELCOME ANY SUGGESTIONS YOU MIGHT HAVE -- ON CATCHING THAT THREE-LEGGED CHICKEN OR ON ANY OTHER SUBJECT OF MUTUAL CONCERN. THANK YOU VERY MUCH.

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