The Impact of the Staggers Rail Act on Grain Transportation in the Northern and Central Great Plains

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THE IMPACT OF THE STAGGERS RAIL ACT ON GRAIN TRANSPORTATION IN THE NORTHERN AND CENTRAL GREAT PLAINS

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PREFACE

This report is an assessment of the impact that rail deregulation has had on the transportation of agricultural commodities. Specifically the Staggers Rail Act of 1980 is addressed in this report. The report consists of the following six sections:

The method of assessment includes both objective and subjective analysis. The objective analysis consists of reviewing changes in freight rates on wheat and barley which occurred from one year prior to passage of the Staggers Act to one year or more after the passage of the Act. The subjective analysis consists of interviews with management personnel that deal with effects of the implementation of the Staggers Act.

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SECTION 1

RATES

Nine different rate structures on wheat and barley were analyzed. The analysis was for a time period from one year preceeding the Staggers Act, October 1, 1979, up to April 19, 1982. The changes in the rates and probable causes of those changes were developed. The rates were single line, single factor rates for three different railroads, the Soo Line, Burlington Northern, and Union Pacific. The geographic area to which the rates applied consisted of North Dakota, Montanta, Minnesota, South Dakota, Wyoming, Nebraska and Colorado. The analysis of the rate structures was organized by direction of movement, competing rail carriers and geographic competition.

Wheat to the Pacific Norhtwest

A significant amount of hard red spring and hard red winter wheat moves to the Pacific Northwest primarily for export. The wheat originates from both the northern great plains and the central plains regions. Wheat is originated by two modes in the upper great plains states destined to the Pacific Northwest, truck and rail. Much of the truck originated grain is transshipped by barge on the Columbia-Snake River. Rail movement from the upper great plains to the Pacific Northwest is accomplished by two carriers, the Burlington Northern and the Soo Line. The Burlington is the only carrier of the two that has a single line route to the Pacific Northwest. The Soo Line must interline with the Burlington or the Canadian Pacific to provide Pacific Northwest service to its customers.

There are at least three points of interst in the Burlington Northern rate structure on wheat from North Dakota and Montana to the Pacific Northwest. These points, as depicted in Table 1, are the change in the nature of the rate structure; the overall change in the level of the rates; and, the change in the spreads for the different types of service. Also of interest is a comparison of Burlington rates in the upper great plains with Burlington and Union Pacific rates in the central plains states.

The rate to the PNW in effect in October 1, 1979 was a single car rate at the X-368 level and varied from 140 cents/cwt. at Shelby, Montana to 216½ cents/cwt. over much of North Dakota. Rates were increased in July 12, 1980, as a result of a general rate increase, X-375-C. On December 1, 1980, Burlington Northern reduced the single car rate from between ten and 38 cents/cwt. and introduced multiple car rates for the first time on wheat to the PNW from North Dakota and Montana. Furthermore, they did not apply the 5 percent X-386 general increase that was granted by the ICC effective December 31, 1980.

Several reasons can be cited for the development of the westbound multiple car rates and the reduced single car rates. Truck competition and reduced rates from competing producing regions were the predominant reasons. Burlington Northern was faced with ever increasing truck competition in the movement of wheat from Montana and extreme western North Dakota to the Pacific Northwest during roughly the past fifteen years (1965-1980). This competition was met by single car rate reductions on one or more occasions in Montana. However, in 1980 the truck

TABLE 1. BURLINGTON NORTHERN WHEAT RATES TO THE PACIFIC NORTHWEST FROM SELECTED ORIGINS IN NORTH DAKOTA AND MONTANA.

Rate Change[a]	Loading Req.[b]	Date of Change	Devils Lake ND	Minot ND	Dickinson ND	Williston ND	Glasgow MT	Glendive MT	Havre MT	Shelby MT	Average
Rail Short Line mileage to Portland			1446	1327	1318	1207	1051	1213	898	793	
						(cents/cwt.)					
X-368 effective rate	S.C.	10/ 1/79	216½	216½	217	211½	190	197½	148½	140	192.19
X-375C, gen. inc.	S.C.	7/12/80	246	246	246	240½	216	224½	169	159½	218.44
Reduction and introduction of multiple car rates	S.C.	12/ 1/80	218	218	213	202	182	197	153	148	191.38
	26M		202	202	197	187	167	182	138	133	176.00
	26S		197	197	192	182	162	177	133	128	171.00
	52		192	192	187	177	157	172	128	123	166.00
X001, cost recovery	S.C.	6/ 5/81	224	224	218	208	187	203	157	151	196.50
	26M		208	208	203	192	172	187	141	135	180.75
	26S		203	203	198	187	166	182	136	130	175.63
	52		198	198	192	182	161	177	131	125	170.50
X002, cost recovery	S.C.	7/ 1/81	230	230	224	214	192	201	161	155	200.88
	26M		214	214	209	197	177	192	145	139	185.88
	26S		209	209	204	192	173	187	140	134	181.00
	52		204	204	195	187	166	182	135	129	175.25
X002, cost recovery	S.C.	10/ 1/81	233	233	227	217	195	212	163	157	204.63
	26M		217	217	212	200	179	195	147	141	188.50
	26S		211	211	207	195	175	190	142	136	183.38
	52		206	206	198	190	168	185	137	131	177.63
X082, cost recovery	S.C.	1/ 1/82	244	244	239	227	204	221	172	164	214.38
	26M		227	227	222	209	187	204	154	145	196.88
	26S		221	221	217	204	183	199	149	142	192.00
	52		206	206	198	190	168	185	138	131	177.63
Reduction	S.C.	4/19/82	239	239	233	219	195	210	161	154	206.25
	26M		220	220	215	202	180	194	148	142	190.13
	26S		213	213	207	145	174	187	143	137	177.38
	52		190	190	185	174	155	167	128	122	163.88

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.
[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin

mode accounted for approximately 40% of the modal share of wheat movements from Montana to the Pacific Northwest. During this same time period trucks accounted for 38% of the wheat movement from North Dakota to the same desination.

Following BN's December 1980 adjustments, its rates were increased four times for inflationary reasons before a reduction was implemented on April 19, 1982. The reduction, as illustrated in Table 1, was when for at least two reasons. One reason was to meet continued truck competition and another was to widen the spread between the multiple and single car rates. The point will be addressed in more detail later.

The rate flexibility granted by the Staggers Act did not provide the atmosphere that led to the implementation of multiple car rate concept westbound from Montana and North Dakota. The capability to implement such rates was provided for in the existing Interstate Commerce Act. This is supported by the fact that the reduced rates were formerly docketed in August of 1980, three months prior to the passage of the Staggers Act. The reductions were due in most part to intensive truck-barge competition.

Despite two rate reductions, the overall absolute level of the rates from one year prior to passage of the Staggers Act, October 1, 1979 to April of 1982 increased when rates for comparable service are compared. Using Minot as an example, the single car rate was 216½ cents/cwt. on October 1, 1979 and 239 cents as of April 19, 1982. The present 26 car multiple origin rate is also higher than the pre-Staggers rate at 220 cents. The 26 car single origin and 52 car rate are, however, lower than the single car rate in effect one year prior to the Staggers Act. Rather than reducing the single car rate over time, BN has simply not taken all of the inflationary increases available to them by the ICC.

The absolute difference between the rates for different types of service has changed dramatically since the multiple car rates were first introduced on December 1, 1980. Again, using Minot as an example, the original spreads were as follows:

Between single car and 26 car multiple origin -	16¢
Between 26 car multiple origin and 26 single origin -	5¢
Between 26 car single origin and 52 car -	5¢

Thus, there was a total difference of 26¢ between the single car and 52 car rate. Following the reductions implemented on April 19, 1982 the spreads for the same station were as follows:

Between single car and 26 car multiple origin -	19¢
Between 26 car multiple origin and 26 car single origin -	7¢
Between 26 car single origin and 52 car -	23¢

A 49¢ spread existed between the single car and the 52 car rate. It should also be noted that the BN "flagged out" of the X-082 cost recovery increase on 52 car rates while taking them on the other rate structures thereby increasing the spread between October 1, 1981 and January 1, 1982.

Wheat to the Pacific Northwest also originates in the central plains states. The two dominate carriers involved in this movement are the Burlington Northern and Union Pacific. One year prior to the Staggers Act (October 1, 1979) the Union Pacific's rail rate structure from Kansas, Nebraska, Wyoming and Colorado to the Pacific Northwest

TABLE 2. UNION PACIFIC WHEAT RATES TO THE PACIFIC NORTHWEST FROM SELECTED ORIGINS IN NEBRASKA, COLORADO AND WYOMING.

Rate Change[a]	Loading[b] Req.	Date of Change	Columbus NB	Kearny NB	North Platte NB	Kimball NB	Sidney NB	Cheyenne Wells CO	Fort Morgan CO	Cheyenne WY	Average
Rail short line mileage to Portland			1689	1585	1490	1329	1366	1364	1508	1264	
						(cents/cwt.)					
X-363, effective rate	S.C.	10/ 1/79	194½	188	159	159	159	159	147½	151	164.6
Reduction and introduction of multiple car rates	S.C.	12/31/79	165	161	157	149	153	153	145	141	153.0
	25M		160	156	152	144	148	148	140	136	148.0
	25S		155	151	147	139	143	143	135	131	143.0
	50		150	146	142	134	138	138	130	126	138.0
X-375, general increase	S.C.	7/12/80	187½	183	178½	169½	174	174	165	160½	174.0
	25M		182	177½	173	163½	168½	168½	159	154½	168.3
	25S		176	171½	167	158	162½	162½	153½	149	162.5
	50		170½	166	161½	155½	157	157	148	143½	157.4
X-386, general increase	S.C.	12/31/80	194½	190	185½	176	180½	180½	171	168½	180.8
	25M		189	184	179½	170	174½	174½	165	162	174.8
	25S		183	178	173½	164	168½	168½	159	156½	168.9
	50		177	172½	167½	158	163	163	153	150½	163.1
Reduction	S.C.	3/20/81	188	184	180	171½	176	176	167½	163½	175.8
	25M		182	178	173½	165½	169½	169½	161½	157	169.6
	25S		178	172½	167½	159	163½	163½	155	151	163.8
	50		171½	167½	163½	155	159	159	151	147	159.2
X001, cost recovery	S.C.	6/ 5/81	189	185	181	173	177	177	168	164	176.8
	25M		182	179	175	166	171	171	162	158	170.5
	25S		176	173	168	160	163	163	156	152	163.9
	50		173	168	164	156	160	160	152	148	160.1
X002, cost recovery	S.C.	7/ 1/81	194	190	186	178	182	182	173	169	181.8
	25M		187	184	180	171	176	176	167	162	175.4
	25S		181	178	173	165	168	168	160	156	168.6
	50		178	173	169	160	164	164	156	152	164.5
Reduction	S.C.	8/28/81	181	177	173	173	173	177	173	173	175.0
	25M		166	162	158	158	158	162	158	158	160.0
	25S		158	154	150	150	150	154	150	150	152.0
	50		150	146	142	142	142	146	142	142	144.0
X003, cost recovery	S.C.	10/ 1/81	184	179	175	175	175	179	175	175	177.1
	25M		168	164	160	160	160	164	160	160	152.0
	25S		160	156	152	152	152	156	152	152	154.0
	50		152	148	144	144	144	148	144	144	146.0
X082, cost recovery	S.C.	1/ 1/82	193	187	183	183	183	187	183	183	185.3
	25M		176	172	168	168	168	172	168	168	170.0
	25S		168	163	159	159	159	163	159	159	161.1
	50		159	155	151	151	151	155	151	151	153.0

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

was single car in nature (Table 2). On December 31, 1979, the Union Pacific Railroad introduced reduced single car rates on wheat to the Pacific Northwest and simultaneously introduced 25 and 50 multiple car rates. The reason for the development of such a rate structure is somewhat speculative. There seems to be however, economic justification for such a rate. The Union Pacific terminates on the east end of its system at Omaha and Kansas City. Thus, wheat movements out of Nebraska and Kansas to these markets are typified by a short haul, truck competition, low rates, and poor equipment control. On the other hand, if the same wheat moves to the Pacific Northwest the Union Pacific gains car control becuase it is a single line export move and the haul is much longer. Reductions were also made on March 20, 1981 and August 28, 1981.

As Table 2 illustrates, increases by the Union Pacific were applied for cost recovery on as a result of general increases on six separate occasions during the time period under study.

Burlington Northern, which competes with the Union Pacific for winter wheat from the central plains regions destined for the Pacific Northwest, was slow to meet the UP's reduced rates and multiple car rate structure in the central plains states. On April 14, 1980 the Burlington reduced its single car rates. They were however, still 33¢ higher than the lowest Union Pacific rate (Kimball compared to Northport, Tables 2 and 3). BN first introduced multiple car rates from the central plains to the Pacific Northwest on March 2, 1981, fourteen months after the Union Pacific introduced such rates. Following this reduction the Union Pacific further reduced its rates on March 20,

TABLE 3. BURLINGTON NORTHERN WHEAT RATES TO THE PACIFIC NORTHWEST FROM SELECTED ORIGINS IN NEBRASKA, COLORADO AND WYOMING.

Rate Change [a]	Loading Req. [b]	Date of Change	Alliance NB	Broken Bow NB	Lincoln NB	Northport NB	Oxford Jct. NB	Scotts Bluff NB	Brush CO	Cheyenne WY	Wendover WY	Average
Rail Short Line Mileage to Portland			1464	1654	1825	1489	1820	1458	1605	1486	1386	
			(cents/cwt.)									
X-368 Effective Rate	S.C.	10/ 1/79	162	194½	NA	162	194½	162	162	162	162	170.1
Selective rate increase	S.C.	3/21/80	181½	208	NA	181½	208	181½	181½	181½	181½	188.1
Rate reduction	S.C.	4/14/80	167	200	NA	167	200	167	167	167	167	175.3
X-375C. general increase	S.C.	7/12/80	184	214	NA	184	214	184	184	184	184	191.5
X-386, general increase	S.C.	12/31/80	193	224½	NA	193	224½	193	193	193	193	200.9
Reduction and introduction of multiple car rates	S.C.	3/ 2/81	181	193½	197½	185	193½	181	185	172½	172½	184.6
	27M		165½	178	182	169½	178	165½	169½	157	157	169.1
	27S		159	171½	176	163½	171½	159	163½	151	151	162.9
	54		155	167½	171½	159	167½	155	159½	147	147	158.8
X001, cost recovery	S.C.	6/ 5/81	182	194	199	186	194	182	186	174	174	185.7
	27M		166	179	183	171	179	166	171	158	158	170.1
	27S		160	173	177	164	173	160	164	152	152	163.9
	54		156	168	173	160	168	156	160	148	148	159.7
X002, cost recovery	S.C.	7/ 1/81	187	199	205	191	199	187	191	179	179	190.8
	27M		171	184	188	176	184	171	176	162	162	174.9
	27S		164	178	182	169	178	164	169	156	156	168.4
	54		160	173	178	164	173	160	164	152	152	164.0
X003, cost recovery	S.C.	10/ 1/81	190	203	207	194	203	190	194	181	181	193.7
	27M		173	186	191	178	186	173	178	165	165	177.2
	27S		167	180	184	171	180	167	171	158	158	170.7
	54		163	176	180	167	176	163	167	154	154	166.7
X082, cost recovery	S.C.	1/ 1/82	199	213	217	203	213	199	203	190	190	203.0
	27M		181	195	200	186	195	181	186	173	173	185.6
	27S		175	188	193	179	188	175	179	165	165	178.6
	54		171	184	188	175	184	171	175	161	151	173.3
Reduction	S.C.	2/20/82	185	187	192	183	187	183	183	183	183	185.1
	27M		170	172	176	168	172	168	168	168	168	170.0
	27S		161	163	168	159	163	159	159	159	159	161.1
	54		153	155	159	151	155	151	151	151	151	153.0

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

1981. As an example, the rates from Northport on the BN are exactly the same as the rates from Kimball on the Union Pacific.

The absolute level of the BN and UP rates from the central plains winter wheat producing states to the Pacific Northwest are lower than Burlington Northern rates on wheat from the northern plains states to the same destination as of February, 1982. Fifty-two car rates from the central plains states to the PNW are approximately 155 cents as compared to 52 car rates of approximately 180 cents from North Dakota origins.

If the two wheats are not substitutable this would be of little concern in the short run. However, it is thought by some that the two wheats are to some degree substitutes if not perfect substitutes in some cases. In addition, such a competitive disadvantage raises long run concerns about participation in future growth that might take place in the Pacific Northwest export market. The Burlington Northern at this time has not made a decision to competitively equalize the two geographic territories.

Wheat to Minneapolis-St. Paul

Wheat from North Dakota, South Dakota, Minnesota and occasionally Montana moves to Minneapolis-St. Paul and Duluth-Superior for domestic and export use. Only the rate structure to Minneapolis was examined since the rates to Duluth are very similar if not exactly the same in many cases. Two railroads, the Soo Line and Burlington Northern provide the majority of the service to the northern plains origin territory for this movement. Only single car rates were available one year prior to passage of the Staggers Act (Table 4 and 5). In the spring of 1980 both the Burlington Northern and Soo offered temporary spring specials, resulting from the surplus of equipment, to encourage movement. The BN reduced its rates on May 24, 1980 to encourage movement and the Soo offered coupons for free cars after a certain number of paid loads.

On July 1, 1981, BN reduced rates to Minneapolis-St. Paul and introduced multiple car eastbound rates. This was done to meet truck competition and to offer the same type of transportation to the eastern markets as they had implemented going west. Trucks had captured as much as 50 and 60 percent of the wheat movement east from eastern North Dakota and Minnesota in the late seventies and early eighties. This traffic had been diverted from the rail mode and the Burlington reduced prices in an effort to divert it back. The Minneapolis market interests had also requested similar rate structures and concessions that the Burlington had introduced for wheat westbound from the north central plains states.

On July 27, 1981, the Soo Line followed with the introduction of 3 car rates as well as 26 car and 52 car rates.

Prior to this time service competition did exist. Price competition was, however, inhibited by the institution of rate bureaus. The following succession of events describes the price competition which took place in the ensuing time period after multiple car rates on wheat east bound were introduced:

TABLE 4. BURLINGTON NORTHERN WHEAT RATES TO MINNEAPOLIS AND ST. PAUL FROM SELECTED ORIGINS IN NORTH DAKOTA, MINNESOTA, MONTANA AND SOUTH DAKOTA - RESTRICTED SERVICE.

Rate Change [a]	Loading[b] Req.	Date of Change	Crookston MN	Jamestown ND	Bismarck ND	Dickinson ND	Devils Lake ND	Minot ND	Williston ND	Glascow MT	Glendive MT	Aberdeen SD	Average
Rail Short Mileage to Minneapolis			279	323	425	531	374	465	585	742	636	307	
							(cents/cwt.)						
X-368, effective rate	S.C.	10/ 1/79	68½	75½	94	113	81	105	130	158½	135	73	103.4
X-375 C, gen. incr.	S.C.	7/12/80	78	85	108½	128½	92	119½	148	180	153½	83	117.6
X-386, gen. incr.	S.C.	12/31/80	82	90	112	135	97	125	155	189	161	87	123.3
Spring Shoppers Special	S.C.	5/23/80	85	94	113½	141½	102	130½	161	197	168	90	128.3
	S.C.	5/24/80	62	69	97½	122½	86½	107	141	190½	153	66	109.5
	S.C.	7/ 1/12	86	95	118	143	103	132	163	199	170	91	130.0
X001, cost recovery	S.C.	6/ 5/81	84	92	115	139	100	128	159	194	165	89	126.5
X002, cost recovery	S.C.	7/ 1/81	86	95	118	143	103	132	163	199	170	91	130.0
Introduction of multiple car rates	26M	7/13/81	71	79	103	126	86	116	148	184	154	76	114.3
	26S		65	74	98	121	81	111	142	179	149	71	109.1
	52		60	68	91	115	76	106	137	173	143	65	103.4
X003, cost recovery	S.C.	10/ 1/81	87	96	120	145	104	134	165	202	172	92	131.7
	26M		72	80	104	128	87	118	150	187	156	77	115.9
	26S		66	75	99	123	82	113	144	182	151	72	110.7
	52		61	69	92	117	77	107	139	175	145	66	104.8
Reduction	S.C.	10/15/81	77	86	109	133	93	124	155	192	162	82	121.3
	26M		66	75	99	122	82	113	144	181	151	72	110.5
	26S		61	69	93	117	77	107	139	176	145	66	105.0
	52		55	64	88	112	72	102	133	170	140	61	99.7
X082, cost recovery	S.C.	1/ 1/82	81	90	114	139	97	130	162	201	170	86	127.0
	26M		69	79	104	128	86	118	151	190	158	75	115.8
	26S		64	72	97	122	81	112	146	184	152	69	109.9
	52		58	67	92	117	75	107	139	178	146	64	104.3
Reduction	S.C.	1/18/82	73	83	107	132	90	122	155	194	162	79	119.7
	26M		69	79	194	128	86	118	151	190	158	75	115.8
	26S		61	69	93	117	77	107	139	176	145	66	105.0
	52		55	64	88	112	72	102	133	170	140	61	99.7
3 car rate - replaced 26 car multiple origin rate		2/16/82	69	79	104	128	86	118	151	190	158	75	115.8

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

TABLE 5. SOO LINE WHEAT RATES TO MINNEAPOLIS AND ST. PAUL FROM SELECTED ORIGINS IN NORTH DAKOTA, MINNESOTA, MONTANA AND SOUTH DAKOTA - RESTRICTED SERVICE.

Rate Change[a]	Loading Requirements[b]	Date of Change	Carrington N.D.	Enderlin N.D.	Forest River N.D.	Minot N.D.	Average
Rail Short Line Mileage to Minneapolis			356	261	375	473	
			(cents/cwt.)				
X - 368, effective rate	S.C.	10/ 1/79	83	67	68½	105	80.9
X - 375C, gen. inc.	S.C.	7/12/80	94½	76½	78	119½	92.1
X - 386, gen. inc.	S.C.	12/31/80	99	80	82	125	96.5
X 001, cost recovery	S.C.	6/ 5/81	103	83	84	128	99.5
X 001, cost recovery	S.C.	7/ 1/81	105	85	86	132	102.
Introduction of multiple car rates	3	7/27/81	94	74	76	122	91.5
	26s		N.A.	N.A.	N.A.	111	
	52		N.A.	N.A.	N.A.	106	
24 car rate replaced 26 car rate	24s	8/28/81	83	63	N.A.	111	
X 003, cost recovery	S.C.	10/ 1/81	106	86	87	134	103.2
	3		95	75	77	124	92.8
	24s		85	64	N.A.	113	
	52		N.A.	N.A.	N.A.	107	
Reduction	3	10/23/81	90	69	72	118	87.2
	24		79	59	N.A.	107	
	52		N.A.	N.A.	N.A.	102	
X 082, cost recovery	1	1/ 1/82	111	90	91	140	108.0
	3		94	72	75	124	91.2
	24		83	62	N.A.	112	
	52		N.A.	N.A.	N.A.	107	
Reduction	1	2/ 1/82	92	71	73	122	89.5
	3		90	67	73	118	86.0
	24		90	67	69	107	
	52		N.A.	N.A.	N.A.	102	

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

- July 1, 1981, the Burlington Northern introduced their first multiple car rates on wheat to Minneapolis and Duluth consisting of three different types of service:

  - 26 car multiple origin 15¢ below single car rate
  - 26 car single origin 20¢ below single car rate
  - 52 car single origin 25¢ below single car rate

- July 27, 1981, the Soo Line introduced 3 car rates on wheat 10¢/cwt. below their single car rate in response to an announcement by the Burlington Northern that they were going to implement multi-car rates to Minneapolis and Duluth. 26 and 52 car rates were also established.

- October 1981, the Burlington Northern reduced its single car rate by 10¢/cwt. and further reduced each of its multi-car rates in response to the Soo Line 3 car 10¢ reduction.

- October 1981, the Soo Line in response to the October reductions by the Burlington Northern reduced their 3 car rate and additional 5¢/cwt.

- January 1982, the Burlington Northern in response to Soo Line reductions in October again reduced its single car rate 5-7¢/cwt. and reduced the 26 car single origin and 52 car rate each by 5¢.

- February 1982, the Soo Line reduced its single car rate by 17-20¢/cwt. to meet the Burlington Northern single car rate and reduced its three car, 24 car and 52 car rates by 5¢/cwt.

- February 1982, the Burlington Northern canceled its 26 car multiple origin rate and replaced it with a 3 car rate to meet the Soo Line.

As of February 1982 the rates for both railroads were the same or very similar. (Minot Tables 4 and 5).

<u>Barley to Duluth-Superior</u>

Rates on barley to Duluth increased steadily from one year prior to the Staggers Act until approximately one year after the passage of Staggers as a result of general and cost recovery increases. (Tables 6 and 7).

TABLE 6. SOO LINE BARLEY RATES TO DULUTH AND SUPERIOR FROM SELECTED ORIGINS IN NORTH DAKOTA.

Rate Change[a]	Loading Req.[b]	Date of Change	Carrington ND	Enderlin ND	Forest River ND	Minot ND	Wishek ND	Average
Rail short line mileage to Duluth			437	341	321	521	424	
					(cents/cwt.)			
X-368, effective rate	S.C.	10/ 1/79	83	63	70½	105	81	80.5
X-375C, general increase	S.C.	7/12/80	94½	72	80	119½	92	91.6
X-386, general increase	S.C.	12/31/80	99	76	84	125	97	96.2
X001, cost recovery	S.C.	6/ 5/81	102	78	86	128	99	98.6
X002, cost recovery	S.C.	7/ 1/81	105	80	88	132	102	101.4
Introduction of 3 car rates	3	8/28/81	94	74	76	122	91	91.4
X003, cost recovery and introduction of 24 car rate and 5 car rate	S.C.	10/ 1/81	106	81	89	134	103	102.6
	3		95	75	77	124	92	92.6
	24		85	64	NA	113	NA	
	52		NA	NA	NA	107	NA	
Reduction	3	10/23/81	90	65	72	118	87	86.4
	24		79	59	NA	107	NA	
	52		NA	NA	NA	102	NA	
X082, cost recovery	S.C.	1/ 1/82	111	85	93	140	108	107.4
	3		94	68	75	124	91	90.4
	24		83	61	NA	112	NA	
	52		NA	NA	NA	107	NA	
Reduction	1	2/ 1/82	92	71	73	122	89	89.4
	3		90	67	69	118	85	85.8
	24		79	59	NA	107	NA	
	52		NA	NA	NA	102	NA	

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

TABLE 7. BURLINGTON NORTHERN BARLEY RATES TO DULUTH AND SUPERIOR FROM SELECTED ORIGINS IN NORTH DAKOTA AND MINNESOTA

Rate Change[a]	Loading[b] Req.	Date of Change	Crookston MN	Carrington ND	Devils Lake ND	Grand Forks ND	Minot ND	Average
Rail Short Line Mileage to Duluth			258	387	372	283	486	
					(cents/cwt.)			
X-368, effective rate	S.C.	10/ 1/79	63½	83	83½	70½	108½	81.8
X-375, general increase	S.C.	7/12/80	72½	94½	95	80	123	93.0
X-386, general increase	S.C.	12/31/80	76	99	100	84	130	97.8
X001, cost recovery	S.C.	6/ 5/81	78	102	103	86	134	100.6
X002, cost recovery	S.C.	7/ 1/81	80	105	106	88	138	103.4
Introduction of multiple car rates	26M	9/ 1/81	71	89	87	71	117	87.0
	26S		65	84	81	65	111	81.2
	52		60	79	76	60	106	76.2
X003, cost recovery	S.C.	10/ 1/81	81	106	107	90	140	104.8
	26M		72	90	87	71	117	87.4
	26S		66	84	81	65	111	81.4
	52		61	79	76	60	106	76.4
Reduction	S.C.	10/15/81	77	96	93	77	124	93.4
	26M		66	86	82	66	113	82.6
	26S		61	80	77	61	107	77.2
	52		55	75	72	55	102	71.8
X082, cost recovery	S.C.	1/ 1/82	81	97	94	78	126	95.2
	26M		69	87	83	67	145	90.2
	26S		64	81	78	62	108	78.6
	52		58	76	73	56	103	73.2
Reduction	1	1/18/82	73	93	90	73	122	90.2
	26M		69	90	86	69	118	86.4
	26S		61	80	77	61	107	77.2
	52		55	75	72	55	102	71.8
3 car rate replaced 26 car multiple origin rate	3	2/16/82	69	90	86	69	118	86.4

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

On August 28, 1981 the Soo Line introduced reduced 3 car rates and maintained its single car rates at the existing level.

The Burlington Northern also introduced reduced multiple car rates at about the same time and it also maintained its single car rates at existing levels. In response to BN's multiple car rates, the Soo Line introduced 24 and 52 car rates.

After several reductions the rates for the two railroads settled to the same level. The BN also replaced its 26 car multiple origin rates with a 3 car rate.

Barley to Minneapolis-St. Paul

Rates on barley to Minneapolis-St. Paul also increased steadily from one year prior to the passage of Staggers to one year after the Staggers Act was passed (Tables 8 and 9). These rates were reduced in October of 1981 and presently are about the same level as when the Staggers Act was passed.

TABLE 8. SOO LINE BARLEY RATES TO MINNEAPOLIS FROM SELECTED ORIGINS IN NORTH DAKOTA AND MINNESOTA.

Rate Change[a]	Loading Req.[b]	Date of Change	Carrington ND	Enderlin ND	Forest River ND	Minot ND	Wishek ND	Mahnomen MN	Average
Rail short line mileage to Minneapolis			356	261	375	473	345	254	
			(cents/cwt.)						
X-368, effective rate	S.C.	10/ 1/79	117½	103½	115	139½	123½	96½	115.9
X-375C, general increase	S.C.	7/12/80	133½	118	130½	159	140½	110	131.9
X-386, general increase	S.C.	12/31/80	141	123	137	167	148	115	138.5
X001, cost recovery	S.C.	6/ 5/81	147	126	141	165	152	118	141.5
X002, cost recovery	S.C.	7/ 1/81	149	130	145	170	156	121	145.2
X003, cost recovery	S.C.	10/ 1/81	151	132	147	172	158	123	147.2
Reduction	S.C.	10/30/81	139	126	132	171	157	121	141.0
	3		133	120	127	166	152	116	135.7
X082, cost recovery	S.C.	1/ 1/82	146	132	138	179	164	127	147.7
	3		139	125	133	174	159	121	141.8

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

TABLE 9. BURLINGTON NORTHERN BARLEY RATES TO MINNEAPOLIS FROM SELECTED NORTH DAKOTA AND MINNESOTA ORIGINS.

Rate Change [a]	Loading [b] Req.	Date of Change	Barnsville MN	Crookston MN	Carrington ND	Devils Lake ND	Grand Forks ND	Minot ND	Average
Rail Short Line Mileage to Minneapolis			207	279	367	374	304	465	
					(cents/cwt.)				
X-368, effective rate	S.C.	10/ 1/79	92½	103½	117½	119	105	139½	112.8
X-375C, general increase	S.C.	7/12/80	105	118	133½	135	119½	159	128.3
X-386, general increase	S.C.	12/31/80	110	123	139	142	125	167	134.3
X001, cost recovery	S.C.	6/ 5/81	114	126	143	146	128	172	138.2
X002, cost recovery	S.C.	7/ 1/81	117	130	147	150	132	177	142.2
X003, cost recovery	S.C.	10/ 1/81	119	132	149	152	134	179	144.2
Reduction	S.C.	10/17/81	116	126	139	150	130	171	138.7
	10		105	115	128	139	119	160	127.7
	15		99	108	121	132	113	154	121.2
X082, cost recovery	S.C.	1/ 1/82	121	132	146	157	136	179	145.2
	10		110	120	134	146	125	168	133.8
	15		104	113	127	138	118	161	126.8

[a] Several fuel surcharges were also applied up until X001, however, for convenience they are not shown here.

[b] S.C. - single car; 26M - 26 car multiple origin; 26S - 26 car single origin; 52 - 52 car single origin.

SECTION 2

INTERVIEWS ORGANIZED BY SUBJECT AREA

RATE FLEXIBILITY:

Interview #1

Shipper access to the Interstate Commerce Commission and protection by them was not substantially changed by the Staggers Act but rather it was changed by the interpretation of the act by the commission. There is nothing wrong with the concepts of market dominance and beyond that unreasonableness. Shipper protection and access to the ICC are available if the concepts are interpreted properly. The problem with market dominance and unreasonableness has been with the interpretation by the current Interstate Commerce Commission. The interpretation by the present commission has resulted in vague standards and it is extremely difficult to know what has to be shown to prove unreasonableness or market dominance. The act gives the ICC total discretion in determining standards for market dominance and unreasonableness and their decision cannot be appealed. Congress should have explicitly set the standards for both market dominance and unreasonableness.

The question of unreasonableness is also very difficult to approach because no one really knows to what extent or role revenue adequacy will play in determining what is or isn't unreasonable. The commission can and probably has given the railroads a blank check in this matter.

The Staggers Act provided two standards for protection of the shipper, market dominance and unreasonableness. Congress instructed the commission to establish some definitive criteria for those standards, thus far the commission has not done so and therefore those standards have no meaning at this time.

The shorter notice of rate changes should not impact shippers with today's technology and the degree and ability to communicate. Shippers will have to make a better effort to be informed. The effect will not be determined by big versus small, captive versus non-captive but will be related to sophisticated versus non-sophisticated shippers.

Railroads will take advantage of their ability to raise and lower the absolute level of rates when and where it can. The shipper who is going to feel this the most is the shipper who doesn't have a competitive alternative. The captive shipper is the one who has had the problem in the past and will continue to have a problem in the future. The ICC has provided a false sense of security for the captive shipper.

Interview #2

Railroads will be responsive to changes in demand for transport services which will make our economy more efficient by encouraging movement during periods of slack demand. It will also encourage processors or exporters to accumulate stocks when prices are lower resulting in the movement out of country origins and reducing the volatility of grain movement. This will result in a mitigation of our supply problems during periods of large transport demand.

The problem with raising rates on twenty days notice is that it can result in losses to country merchandisers who have sold grain based on existing rates on a to arrive basis. This would result in financial harm to the country elevator industry, however, it would not hurt the producers, since they have already received their price and they obtained the best possible price they could achieve within the limits of their ability to market his grain.

The elevator system should be able to avoid such problems and disadvantages of rate flexibility by building contingencies into the to arrive contracts. Provisions could be made between buyer and seller which would cover increase in rates after sale has been made but before delivery is accomplished.

Rate flexibility can hurt smaller shippers more than larger shippers because smaller shippers will not be able to make up losses in other areas of business as easily as larger shippers.

Rate flexibility will result in increased rates during periods of increased demand for transportation services. This will be more prevalent in areas which are more distant from market and lack of viable truck competition. Rates may not be as volitale with respect to transportation demand in areas close to terminal markets or where water competition exists.

Domestic shippers and receivers will be impacted less by rate flexibility than exporters because the domestic buyers exist on more of a hand to mouth basis whereas exporters anticipate changes in export demand and take positions to take advantage of such changes. However, if an exporter misreads the market and doesn't build in changes in freight rates which may occur it will be difficult to pass on rate increases, although exporters can bear more risk than domestic processors.

The sporadic shipper will decline as a result of rate flexibility.

If the shipper is the producer there will be no change in his protection by the ICC because he obtains a price based on factors other than transportation rates.

Interview #3

There is almost no protection left or access to the ICC as a result of the Staggers Act or interpretation of same. It appears that the ICC is going to keep the railroads afloat without any concern what so ever for the shipper.

There is no access to the ICC unless the rate is 165 percent of variable cost and then market dominance has to be proven and beyond that a determination of unreasonableness has to be made. We are going to have all kinds of problems achieving any kind of success with such a process. To begin with we don't have any way of knowing what their costs are. Different railroads interpret their costs differently.

Also, Title III, Section 302 of the Act is being ignored. To date the Railroad Accounting Principles Board has not been funded according to the Act. They are supposed to submit a report to Congress by October of 1982. Obviously this is a blatant disregard of the law.

In sum, the ICC is not providing the shipper with the tools he needs to show unreasonableness or to even gain access to the ICC.

Market dominance cannot be proven if the ICC is going to consider market or geographic competition. A shipper in South Dakota, North

Dakota or Montana may be captive and he may also face geographic competition. A railroad can ignore geographic competition if it wants to. Since they threw out the standards for market dominance provided in the 4-R Act we have no way of proving that a shipper is captive.

So far no real harm has been caused by the ability of railroads to raise and lower rates, most rate adjustments have been down thus far because of the surplus of transportation capacity. This will all come to end some day when the barges are at capacity and the hopper cars are used up. Railroads will definitely increase their rates during a shortage.

We will be buying grain on one rate and shipping on another which means that we will be introducing risk into the grain merchandising system and it will become more chaotic. We are going to have to eat a bundle in some cases.

Competition will not resolve these problems in a timely enough matter. In theory competition works but in practice in the transportation business the reaction time is to slow. Railroads will also be guilty of doing the wrong thing at the wrong time because they do not always know what to do. When and if they correct a mistake it will be too late, money will have been lost and businesses ruined.

What we need is an easily understood and applied concept of market dominance.

Railroads run on their own right of way, the least we need is freedom of entry to that right of way.

Short notice of rate change disrupts orderly grain merchandising. We normally had 60 to 90 days notice prior to the Staggers Act. Now many rates are published on one day's notice. We blew our grain position for an entire region as a result of such unpredictability.

Shorter notice is definitely going to hurt the small guy who can't afford to hire transportation expertise.

Rates once published should have to be maintained a minimum of six months.

Interview #4

The access to the Interstate Commerce Commission will not have a material impact on any shipper's level of rates on grain since they are substantially below the threshold level. Circumstances presently will not permit rate increases on grain, however, rate structures will change. Larger and more efficient operations will probably be the way of the future. Rate structures on grain in the future will be those that will allow merchandisers to gain efficiencies. Railroads must develop rate structures that fit the market place, they may be for a small shipper, or they may be for the large shippers. Essentially railroads have to develop rate structures which allow shippers to compete in the market place.

Rate flexibility provides railroads with a better ability to compete with other types of competition and methods of marketing, such as competing with direct marketing by farmers to river terminals.

Short notice of rate changes definitely affect trade practices. The ten day notice on decreases will have a much less impact than the 20 day notice on increases. We as a railroad like to give as much time as possible and try to ensure 90 days, so that the forward trading mechanism can operate and function in an orderly manner.

The short notice will have a greater impact on larger shippers, which are programmed more on forward contracting and larger volume. The more volume you have the more exposure you have to risk. Smaller elevators are much smaller risk takers.

Interview #5

Big shippers will be advantaged as small shippers will be disadvantaged as a result of rate flexibility. There is no effective remedy for discrimination as a result of the Staggers Act. The small shipper or the small town no longer has any protection.

Discrimination can take place in the form of rate reductions which can be offered to preferred shippers and they cannot be challenged if they are above variable cost. Certain shippers, such as large shippers may obtain rate concessions.

Railroads are not required to take the inflationary percentage increases or the six percent. As a result of competition railroads may choose to ignore increases on certain grain traffic and impose the inflations percentage plus a part or all of the six percent in the flexibility zone on other grain traffic resulting in unequal treatment between captive and non-captive shippers.

The short notice required for increases or decreases will make it difficult for all types of shippers to make an assessment of the current situation as well as future considerations of transportation costs. This will result in increased uncertainty for the entire grain trade which is the same as increasing risk. This risk is going to have to be paid for and more than likely it will be the shipper that pays for it. We may very well see the return to the day of the mid-night tariff.

Not only can rates be published on shorter notice, many if not most rates are not docketed with a rate bureau which means even less notice is available post-Staggers than is implied by the 10 and 20 day requirements in the Act. There is also a great deal of difference between providing notice and shippers actually obtaining information regarding rate changes. Small shippers in particular may not become aware of rate changes because they are not large enough to retain or hire professional transportation staff.

Protection of the shipper is almost non existent anymore as a result of the Commission interpretation of market dominance. Because of the evaluation of market dominance on a case by case basis and because of the interpretation of market competition serving as a substitute for intermodal or intramodal competition and because of the shift from quantitative evidence to qualitative evidence it is going to be difficult to prove market dominance exists. Assuming that one can prove market dominance exists, the more difficult question arises of what constitutes an unreasonable rate. The fact that market dominance exists does not mean that the rate is unreasonable. Little shipper protection is left as a result of the Staggers Act, however, to the extent that an effort to show unreasonableness of a rate can be successful a larger shipper probably has an advantage in that he has monetary and professional resources available to him that a smaller shipper does not have.

Interview #6

Shipper protection by the ICC has been severely diminished since the passage of the Staggers Act. The ICC has become an advocate for a high rate of return for railroads and this has resulted in a diminished role of shipper protection by the ICC. It is almost impossible to prove market dominance. A change in emphasis has taken place from shipper protection to an advocate of the railroads financial well being.

The change in time for noticing rate changes has made it much more difficult for grain buyers. We used to always be on top of rate changes, however, that is no longer true.

There seems to be no obvious difference between shippers such as domestic versus export -- the two markets are too interrelated to cause any difference. It will be easier for a larger shipper to stay abreast of changes compared to smaller shippers. Smaller shippers may have to rely on local rail agents who are ineffective in the most part in such matters.

The ability to raise and lower rates has not been tested yet. Since the Staggers Act was passed the rail transportation system has not been taxed such as during the Russian grain deals and the heavy export movements of the late 1970's. Railroads are currently competing for a relatively small amount of movement resulting in a downward pressure on rates. When this trend reverses and we get into a periodic shortage of equipment where we will see railroads use their freedom to raise rates and they will use their freedom aggressively, particularly in areas where there is no effective competition. Effective competition will not exist anywhere when cars are no longer idle and when the railroads are using their system to the maximum possible capacity. Then trucks are no longer effective competition. Trucks are only effective competitors when railroads have an abundance of excess capacity.

Interview #7

With the ICC the way it is the shipper is going to have very little input or impact. The only way to have an impact is to show that they are reaping unreasonable profits.

The ability to lower and raise rates is going to have a tremendous impact on country elevator operator. Grain is marketed forward and increases in rates or short notice will result in smaller margins or losses.

Interview #8

Short notice of rate changes won't have a negative impact on my business. In fact it will probably have a positive effect. Shorter notice of rate changes allows for faster correction of problems and quicker reaction to the marketing changes. All shippers, small and large will have to be more aware of what is going on and what changes are taking place. Smaller shippers may have problems keeping abreast of changes.

Access or protection by the Interstate Commerce Commission really hasn't changed when comparing post-Staggers and pre-Staggers. The small shipper never did have a chance with the Interstate Commerce Commission anyway.

The rate flexibility granted by the Staggers Act has mostly resulted in rate reductions thus far. Problems arising from increases in rates as a result of rate flexibility and as a result of the shorter notice could be overcome by accounting for increases in transportation in a forward contract. Another method would be to sell grain F.O.B. origin and let the buyer deal with the uncertainty.

Interview #9

If there is effective competition we can assume that rates will be reasonable and if there is no effective competition then it is safe to assume that rates won't be reasonable. The Interstate Commerce Commission has not protected the shipper in the past. Effective competition for railroads seems to be water competition. Trucks are not a viable form of competition; because truck costs are so much higher than rail costs.

If competition exists it lessens the need for regulation. There was more protection prior to the Staggers Act, however, it was not implemented. The new commission will be more understanding of our problems.

The short notice requirements is bad particulary for small or captive shippers. Rates can be bounced around to accomplish what the railroads want. With rate flexibility they can cause grass to grow in any elevator driveway they want to. There should be a greater time period for rate changes and the Interstate Commerce Commission should have more control over rate changes.

The question arising from increased rate flexibility is how does one prevent railroads from using such rate changes to discriminately shut down elevators. The issue of what elevators survive and which ones die should not be settled by railroads but should include input from other elevators, industries, etc.

Without effective competition railroads will be able to increase rates and get away with nearly anything they want to.

Interview #10

Protection of rate reasonableness and service by the Interstate Commerce Commission wasn't good prior to deregulation and it appears now that it is going to be even worse.

The farmers will have to pay for increases in rates particularly if they don't have any alternatives. The railroads can't expect us to haul longer distances or to different railroads to keep competition alive. We're not truckers, we are farmers. We don't have the time and we can't afford increased transportation costs.

Interview #11

The rate flexibility granted in the Staggers Act will not result in loss of shipper protection against rate and service unreasonableness because the competitive market place provides all of the protection that he needs. Besides, Section 229, the savings provision, provides the necessary recourse required by shippers.

Enough intramodal and intermodal competition exists to provide the shipper with adequate protection.

Furthermore, rail customers have the right to assume that they are dealing with ethical business people, not robber barons.

Rates will gravitate upward during periods of equipment shortage, conversely rates will decrease during periods of excess capacity. Increases and decreases will probably impact all shippers alike, smaller shippers will experience smaller gains or losses and bigger shippers will experience bigger gains or losses as a result of increases or decreases of rates on shorter notice.

Export grain should be totally exempted from regulation -- it is a separate and distinct piece of business and different factors such as port capacity and vessel supply impact it in a unique manner compared to domestic grain sales. Railroads should price export grain movements differently because it is a different type of service.

In the long run there won't be any different treatment of domestic and export shippers as a result of the rate flexibility clauses.

Interview #12

Rate flexibility is definitely being used to develop new and innovative rate structures. Efficiencies will guide the development of these new rate structures which is the way it should be.

Rate flexibility won't hurt captive shippers more than others since there is no such thing as a captive shipper. We can all get our grain someplace, however it is definitely higher priced to move it from some areas and by some means, thus some shippers may not be competitive in the market place because of higher priced transportation.

The shorter time period for notifying shippers of changes in rates will favor the low volume operator because he wouldn't have as much grain booked for sale at the old rates. We shouldn't deny railroads short notice and the ability to change rates, however some changes should be made to protect the shipper. A shipper should have five days after notice of a rate change has been made to notify the railroad how much grain he has booked for sale at the old rate and he should be allowed to ship grain on that rate. Maybe it is possible to develop a futures market for transportation so one could hedge his transport costs. The terminal markets or the railroads could administer such a program although it might be easier for the rails.

CONTRACT RATES:

Interview #1

There is a great potential for service considerations in the area of contracts. This potential will be realized when car supply becomes tight and shippers are looking for a guarantee of car supply.

Railroads will be able to use contracts to develop market power and remove rates and service from regulation.

The larger and non captive shipper will have the advantage in making contracts with railroads. Contracts made between smaller and captive shippers will be one side in favor of railroads and will be more like ultimatums than contracts.

Interview #2

The ability to make contracts for rail service will benefit those carriers who serve the most port areas because it will allow those carriers to put together more flexible packages.

Contracts must be short term because of the inability to predict demand unless you are large enough to put together a number of contracts which allows the shipper flexibility in destinations available.

The problem with contracts is that competing carriers can make contract rates or publish rates which are less than those rates in existing contracts. The level of contract rates can be ascertained by comparing the country price to the port price of grain.

Contracts will not influence the type and level of rate structures.

Interview #3

There is some good to be had from the ability to make contracts, however we need full disclosure of the terms or if not full disclosure we at least need to know origin, destination, volume and the effective rate.

A more efficient system can develop from the use of contract rates as a result of putting together the most efficient components of the entire system.

If the terms of the contract are not known how can one obtain redress from potential discrimination.

Contracts are a good catalyst to bring about efficiency in country grain business, they force people to think about efficiency. One reason they can bring about efficiency is that you can do things in a contract that you can't do in a tariff.

What we see wrong is that there has not been full disclosure of terms and we do not know what a carriers costs are. We need to know what the carriers costs are if we are going to be able to make a contract. We are particularly concerned about being undercut by a competing road once a contract has been made.

Domestic and export, and small or large shippers won't be impacted differently by contract rates. However, to write a contract, a shipper is going to have to be efficient which includes loading.

Interview #4

Secrecy will not have that much affect at all. There is no point in having a contract if its going to be made public. The big shipper will be advantaged because of volume and performance characteristics.

Contracts from origin territories may be limited because it will be difficult for an origin shipper to guarantee performance in terms of continuous use of equipment. You also have a problem with the number of shippers in the origin territory. You have many more firms in the origin territory shipping then you have receiving. Therefore, it will be easier to contract with shippers between terminal markets or subterminal markets, and terminal markets then it will be to make contracts between origin territory and terminal or subterminal markets because of the reduced number of shipping firms.

Exporters and domestic merchandisers alike will have an equal capability of making contracts with railroads since both can guarantee certain levels of performance and thus can take the exposure to risk.

It is not clear whether contracts will affect big shippers versus small shippers differently. Strategic location is also a consideration in making contracts, so it may not necessarily relate to big or small but rather to location and type of business.

Interview #5

Contracts will result in discrimination against the small shipper who does not have the economic strength or power to successfully bargain with the railroads. Discrimination will be encouraged as a result of contracts and particularly if the terms of the contract are not known, how can anyone contest a contract on grain if the terms are secret.

Contract rates will destroy the grain rate structure as we know it today and it will also destroy the concept of a national railroad system. The grain rail rate system in the United States is a carefully balanced and delicate mechanism in which one tug at the end of the blanket results in movement of the entire blanket including the three remaining corners. The grain rate structure was originally designed to allow competition to exist, particularly processing such as milling, regardless of locations. The rate relationships were originally disrupted by some extent by the development of the seaway system and aid expansion of the inland waterway system. Contract rates further deteriorate this system and have a particular impact on the domestic trade.

Contracts can be made without any consideration of competitive circumstances of other shippers whether they are on the same line or are served by a different carrier. Competitive equity will become a thing of the past because it is not required in making of contracts. There is no compulsion by law to have competitive equity.

Contracts will also militate against a national railroad system because it will be in the best interest of railroads to make contracts which originate and terminate on their own line.

Interview #6

Contracts are a positive force but there are some dangers. A great learning process between railroads and grain merchandisers has to occur before they can be fully effective.

Contracts will become more popular when transporting demand exceeds supply and grain merchandisers are trying to lock up future transportation costs and service.

The danger is that contracts will be utilized to deregulate a portion of railroad grain pricing and remove it from ICC jurisdiction. It is interesting to note that the ICC has not rejected any contracts as of yet.

The commission has effectively scuttled the provisions of the Staggers Act which requires disclosure of certain information to competitors in agricultural contracts, regulations promulgated by ICC regarding disclosure have effectively voided the intent of the law. Only the base rate has to be given, discounts, rebates and incentives are not public knowledge, therefore we cannot determine the rate.

Interview #7

Contracts are definitely for the larger shipper, how does a small shipper get a contract if the majority of the grain is contracted by a large shipper. A small shipper in Chaffee, North Dakota is as far as you can get from the ICC.

Interview #8

Contracts are going to hurt the small shipper. Large shippers will be able to take advantage of contracts and it will encourage them to become vertically integrated and develop or buy grain merchandising facilities in the origin territory. Small shippers will not be able to use contracts because he does not know from day to day where his grain is going to be shipped to. A small shipper serves a multitude of buyers and destinations.

Contracts will probably be most useful to domestic buyers who can predict with a great deal of reliability what their transportation demand is going to be. Exporters on the other hand like to originate grain from many different sources and to terminate at several different destinations, therefore contracts will not be as useful to them.

Contracts create another competitive dimension and potentially a great deal of uncertainity. Once a contract rate has been made a competing railroad can publish a common carrier rate below the contract rate if the contract rate can somehow be determined. This could result in a shipper in a situation where he has non-competitive contracts which he must fulfill.

It will be difficult for a small shipper with little or no transportation expertise to develop contracts or even determine what rates are.

With all of the mergers we will end up with a small number of large railroads and all shippers will be disadvantaged.

Interview #9

Major shippers will have a definite advantage in making contracts and it will allow discrimination. There should be some method for allowing shippers that are discriminated against to have opportunities to have the same rate.

Contracts give too much power to manipulate who stays and who goes.

Interview #11

Contracts are normally secret and in the area of ratemaking, they will enable and encourage the making of special deals which would not ordinarily be made without the ability to contract for rates and service.

The big shipper is the winner in this situation. The big shipper will have more to offer the railroads and likewise the railroads will have more to offer to the big shipper.

There is a lot of room for collusion in contracts depending on how ethical the carrier is. Also, contracts can be utilized to inhibit competition where intense competition already exists.

Contracts can benefit the small shipper if he is shipping a very specialized type of product.

Contracts for service and not price can be equally advantageous to the big and small shipper alike.

Contracts will not impact export or domestic grain movements differently, but they will impact country moves versus inter-terminal moves differently because of the inability to predict terminal moves.

Similarly, domestic movement is very predictable and export movement is very volatile and unpredictable, thus contracting will be approached differently in the two different types of movement. Domestic grain may contract for a given committment of volume and export for a percentage of the movement. A combination of a given volume and percentage is the best type of contract.

Sporadic shippers can utilize contracts by committing for a percentage of their movement.

Contracts, along with excess capacity and a downturn in business, thus far, have eroded margins in the railroad business. However, contracts can be used to innovate business techniques and provide new opportunities to generate sales.

Interview #12

Contract rates are bad and could severely penalize small shippers and advantage large shippers. The terms of a contract should be made public, and even if they are made public small shippers won't generally have the capability of entering into contracts. Concessions granted in contracts different from published rates should be in relation to any efficiencies gained as a result of the contract, over and above common carrier rates. Concessions in contracts gained by shippers as a result of economic power are unwarranted and should not be granted.

Joint Rates and Routes

It will be much more difficult for small railroads such as the Soo Line to be competitive and it will hurt elevators which are located on smaller lines and will help elevators on larger railroads, I don't know if that is good or bad. There should be some mechanism to allow for joint routes that compensate both railroads involved.

Inflation Indexing

Inflation indexing shouldn't be allowed at all, it encourages laxness, there are no cost of living allowances for farm prices. Productivity is not encouraged when you have this type of mechanism. Its like giving the railroads a blank check.

JOINT RATES AND ROUTES:

Interview #2

The Interstate Commerce Commission will no longer protect gateways and there will be fewer and fewer joint rates and routes. This will have an adverse impact on shippers who are not on a carrier who reaches a variety of port areas. The exporter who buys grain from country shippers who are located on railroads which serve many port areas will enjoy a great deal of logistical flexibility as compared to grain originating on railroads which serve few or no port areas. This will not hurt producers because grain can move cross-country by farm trucks to shippers which are located on the most advantageous line.

Interview #3

Joint rates and routes are critical in the west because some roads don't have connections to the west coast. It is critical wherever a commodity needs a joint route to be merchandised.

Interview #4

There will be less and less joint rates and routes in the future. If a shipper has an opportunity to move on a single line basis, he more than likely will assume that he can get the same price, because it minimizes route sets and decreases total transit time. For the railroads, it minimizes costs and minimizes the income that we would have to share with connecting carriers. Export traffic in the future will generally be on a single line basis.

Interview #5

The ability of one carrier to inhibit, cancel or make unpractical joint rates and routes with other carriers will definitely impact a captive shipper. A captive shipper in this situation is one which is located on a carrier which cannot obtain a reasonable joint rate or route. This prohibits a shipper from reaching any markets except those served by the originating carrier.

Interview #6

Additional instability and uncertainty prevails as a result of the current attitude towards joint rates and routes. It's more cumbersome to negotiate a rate between two railroads because railroads initially want to talk to one another. It probably won't have a major effect on the level of rates.

Interview #7

Railroads will have the power to determine the economic viability of shippers who can't get a joint rate and route to necessary terminal markets.

Interview #9

If there is no alternative you are captive and will pay for that captivity.

Interview #11

The merger activity of the past few years has reduced the route opportunities available to shippers.

Joint route surcharges can be a problem for receivers located on particular lines such as Conrail.

INFLATION INDEXING:

Interview #1

Had the ICC implemented inflation indexing seven years ago we wouldn't have even had the Staggers Act or at least it would have been written much differently. Indexing was certainly needed, we needed a better recovery mechanism then we had, the ICC couldn't or wouldn't act fast enough under the old system.

The problem with inflation indexing is that there is no effective adjustments for productivity gains and the index is used to inflate rates however the index is based on costs.

If the index were constructed properly and if a captive shipper had recourse when his rate became unreasonable indexing would not have an adverse affect on him.

Inflation #2

Inflation indexing won't impact different types of shippers differently. Indexing is a very efficient and timely method of recouping inflationary cost increases while avoiding inter-railroad differences which typified the old ex parte increases. The indexing mechanism has eliminated regulatory lag.

Interview #3

The law should have a provision for decreases in costs as well as increases and the index should be applied to costs rather than rates. However, it is a good and effective technique for railroads to recoup inflationary cost increases and businesses can plan for increased rates because of the predictibility and advance notice of rate changes. It also tempers broad scale increases which are more difficult to adjust to.

The cost recovery index does reward inefficiency because productivity is not properly accounted for.

Interview #4

Inflation indexing will have little impact on all types of shippers. The index should be more accurate than it currently is. They provide a good mechanism for both shippers and railroads. Shippers know that rate increases are going to come and you plan for them by building in the increase in transportation rates into your costs. Since all shippers have the same information, it provides an equally competitive atmosphere. For railroads it provides a mechanism by which they can recoup inflationary cost increases without trouble and vary costly regulatory lag.

Interview #5

The railroads will apply as much increase as they can to captive shippers and shippers which are in a very competitive situation will not bear the full brunt of inflationary increases. All of the potential increases are opportunities for discrimination. It follows that somebody is going to get taken to the cleaners.

Interview #6

There is no mechanism to provide for rate reduction when costs decrease and no method for taking into account gains in productivity.

Realistically railroads have a great deal of rate flexibility now and shippers are going to pay more for a lack of effective competition than for increases resulting from cost recovery.

Interview #7

Increasing rates by a percent distorts rate relationships between origin and destination in favor of the shipper closer to the market.

Interview #9

Inflation indexing is one sided, increases only. It should go both ways, when costs increase rates increase and when costs decrease rates should decrease.

Of course, captive shippers will take the biggest share of the burden.

Interview #11

Inflation indexing is a good and necessary merchanism for recovering inflationary cost increases.

All types of shippers will be impacted equally, however, distance could become a factor. Carriers do not have to take them if the competition won't permit.

RATE BUREAUS:

Interview #1

Reduced rate bureau activity and the reduced communication between railroads on price, service and strategy will probably have a positive affect. This may promote the product and geographic competition that the Congress and ICC envisioned. However, it is not a good substitute for good regulation because railroads always had the right of independent action.

Interview #2

Elimination or restriction of rate bureaus has increased price competition.

Interview #4

Rate bureaus would and had provided greater stability, however, railroads always had the right of independent action.

Interview #6

Grain merchandisers used to rely on rate bureau notification for discovery of rate changes and service charges, this has all but disappeared. Shippers now have to find other means of acertaining rate changes in advance of publication.

Interview #8

Reduction in rate bureau activity has resulted in quicker reaction by railroads to meet problems. It has resulted in reduced bureaucratic lag which is good for all shippers. The old rate bureau process of publishing rates was terribly slow.

Interview #11

No real pricing is conducted in rate bureaus any more and mergers will further reduce rate bureau activity. This reduced activity has resulted in increased price competition.

CONCLUSIONS:

Interview #1

The ICC is going to do everything it can to deregulate rates, what is going to remain in the area of service and abandonment is questionable. Shippers are going to have to seek different sources of countervailing power to offset the railroads power rather than rely on the ICC. If the shipper cannot find that power or it is not available it might result in another form of government intervention.

Interview #2

The Staggers Act gave railroad management the confidence to lower rates during periods of slack demand and they will be able to increase rates when market conditions improve and they will be able to make a profit.

Interview #3

Any more deregulation of railroads in the grain sector would lead to utter chaos at interior elevators and export and domestic system. What we need to do now is to tidy up the existing law.

Interview #4

Railroads are concerned about the general level of instability. The problem is not so bad at the lower level of rates. Shippers will work with you on the down side but they have a tendency to leave your side when you increase rates.

Interview #5

In all practicality the common carrier concept has been abandoned, rail transportation has become a used car market, anything goes.

Interview #6

The major concern for the future is the potential for rapid increases in rates once transportation capacity is taxed to the limit, and the ability to exempt movements from pricing regulation by using contracts without the ability of discovery of terms by competitors.

Interview #7

The only way the rail system can work effectively is if transportation is regulated as a public utility. A monopolistic railroad is not much better than not having a railroad at all.

Interview #11

Market place will guide the future transportation system and abuses will depend on the integrity of the carriers and shippers alike.

Interview #12

It seems to me that it is a necessity for short line railroads to get together and discuss rate matters with other railroads. I think it would be more beneficial if we had the old concept of rate bureaus as long as it was done openly. This is an area where there needs to be oversight by some government agency. There has to be some regulation in the setting of rates, we can't just let the free market determine them.

SECTION 3

LISTING OF INTERVIEWS CONCLUSIONS

RATE FLEXIBILITY:

- No remedy for discrimination as a result of Staggers.
- Short notice will make it difficult for shipper to assess their current situation.
- Market dominance is impossible to prove.
- What constitutes unreasonableness?
- There is no such thing as a captive shipper.
- Some shippers may not be competitive because of high priced transportation.
- Shorter notice period favors low volume shippers.
- Protection by ICC wasn't good before, it will probably be worse.
- Farmers aren't truckers.
- If there is effective competition rates will be reasonable if not they will be unreasonable.
- Trucks are not effective competition.
- There was more protection prior to Staggers but it was never implemented.
- Shorter notice is bad for smaller or captive shippers.
- With rate flexibility railroads can cause grass to grow in any elevator driveway they want to.
- How do you prevent railroads, from using rates to discriminately shut down elevators.
- Shorter notice will allow railroads to meet changing market conditions and correct problems more quickly.
- The small shipper never had a chance of success with the ICC.
- The shipper will have very little impact on or input to the ICC.

- The ability to raise and lower rates will have a tremendous negative impact on country elevators.

- Shipper protection was severely diminished by the Staggers Act.

- ICC has become an advocate for a high rate of return for railroads.

- It is almost impossible to prove market dominance.

- Shorter notice has made it much more difficult for grain buyers.

- Railroads will use their rate freedom vigorously when a transportation shortage occurs.

- Trucks are only effective competition when railroads have excess capacity.

- There is almost no shipper protection left.

- It appears that the ICC is going to keep the railroads afloat without concern for the shipper.

- It will be very difficult to prove market dominance.

- Title III, Sec. 302 of the Act is being blatantly ignored.

- The ICC is not providing the tools the shipper needs to prove unreasonableness.

- Market dominance cannot be proven if geographic competition is to be considered.

- A railroad can ignore geographic competition if it wants to.

- Railroads will definitely increase their rates during a shortage.

- In theory competition works, in practice it doesn't in transportation.

- Short notice of rate changes disrupts orderly grain merchandising.

- Short notice will hurt the small guy who can't afford to buy transportation expertise.

- The competitive market place provides all the protection the shipper needs.

- Intermodal and intramodal competition provides the shipper with adequate protection.

- Rates will gravitate upward during periods of shortage.

- Rate flexibility won't impact different shippers differently.

- Access to the ICC won't impact the shippers level of rates.

- Railroads have to develop rate structures which allow shippers to compete in the market place.

- Short notice definitely will affect trade practices.

- Shorter notice will impact on larger shippers more.

- There is nothing wrong with the concepts of market dominance and unreasonableness.

- Access to the ICC was not substantially changed by the Staggers Act but it was changed by the interpretation of the commission.

- There is nothing wrong with the concepts of market dominance and unreasonableness; it is how they are applied that is important.

- The problem with market dominance and unreasonableness has been with the interpretation by the commission.

- Shorter notice of rate changes should not impact shippers with today's technology and ability to communicate.

- The captive shipper has had a problem in the past and he will continue to have a problem in the future.

- Railroads will be responsive to changes in demand for transport.

- Rate flexibility can hurt small shippers more than larger shippers.

- Rates may not be so volatile with respect to transportation demand in areas close to terminal markets.

- Domestic shippers will be impacted less by rate flexibility.

- Sporadic shipping will decline as a result of rate flexibility.

CONTRACTS:

- Contracts will benefit carriers who serve the most port areas.

- Problem with contracts is that competing carriers can publish rates which are lower.

- There is great potential for service considerations in the area of contracts.

- Railroads will be able to use contracts to develop market power and remove rates and service from regulation.

- The larger and non-captive shipper will have the advantages in making contracts.

- There is no point in making a contract if it is going to be made public.

- Contracts from origin territories may be limited because it is difficult for shippers to guarantee performance.

- Contracts may not be related to big versus small but rather location and type of business.

- Contracts will enable and encourage special deals which would not be made without contracts.

- The big shipper is the winner in this situation.

- There is a lot of room for collection in contracts depending on the ethics of the carrier.

- Sproadic shippers can utilize contracts by committing for a percentage of their movement.

- There is some good to be had from contracts but full disclosure of terms is needed.

- Contracts are good catalyst to bring about efficiency in the country grain business.

- We need to know the carriers costs if we are going to be able to make contracts.

- To write a contract a shipper is going to have to be efficient.

- A learning process has to take place between shippers and carriers before contracts can be effective.

- The danger in contracts is that they will be utilized to deregulate grain pricing.

- The commission has effectively scuttled the provisions of the act requiring disclosure.

- Contracts are definitely for the larger shipper.

- Contracts will encourage large merchandisers to vertically integrate into the country origin territory.

- Contracts will be most useful to domestic buyers.

- Contracts create another competitive dimension and potentially a great deal of uncertainty.

- Major shippers will have a definite advantage and it will allow for discrimination.

- Contract rates could severely penalize small shippers.

- Terms of a contract should be made public.

- Concessions granted in contracts should be in relation to efficiencies.

- Contracts will result in discrimination against the small shipper.

- Contract rates will destroy the grain rate structure as we know it today.

- Competitive equity will become a thing of the past as a result of contracts.

- Contracts will militate against a national railroad system.

- Contracts have thus far eroded margins in the railroad business.

JOINT RATES AND ROUTES:

- Limitations on joint rates and routes will impact a shipper captive to a small or short railroad.

- It will be more difficult for small railroads to be competitive if joint routes aren't mandatory.

- Railroads will have the power to determine the economic viability of shippers who need a joint route.

- Additional uncertainty prevails as a result of the current attitude towards joint rates and routes.

- Joint routes are critical to the West because some railroads don't have single line connections.

- Single line carriers will exercise their single line strength.

- There will be less and less joint routes in the future.

- The ICC will no longer protect gateways and there will be fewer and fewer joint rates and routes.

INFLATION INDEXING:

- Indexing won't impact different shippers differently.

- Indexing has eliminated regulatory lag.

- Had the ICC implemented indexing on its own we wouldn't have the Staggers Act.

- The problem with indexing is that there is no effective adjustments for productivity.

- The index is used to inflate rates, however the index is based on costs.

- If the captive shipper had recourse when his rates became unreasonable indexing would not have an adverse effect on him.

- Shippers know when rate increases are going to come and they can plan for them.

- Necessary mechansim for recovering costs.

- All types of shippers will be impacted equally, however, distance could become a factor.

- The index rewards inefficiency because productivity is not allowed for.

- Business can plan for increased rates because of the advanced notice.

- There is no mechanism for a reduction when costs decrease and no method for taking into account gains in productivity.

- Increasing rates by percentage distorts rate relationships.

- Inflation indexing is one sided, increases only.

- Productivity is not encouraged as a result of indexing.

- All of the potential increases are opportunities to discriminate against captive shippers.

RATE BUREAUS:

- It would be more beneficial if we had the old concept of rate bureaus if it was done more openly.
- Reduction in rate bureau activity has resulted in quicker reaction by railroads to meet problems.
- Reduction in rate bureau activity has made the rate discovery process much more difficult.
- Rate bureaus provided greater stability, however, railroads always had the right of independent action.
- Reduction in rate bureau activity may promote the product and geographic competition that Congress and ICC envisioned, however it is not a good substitute for good regulation.
- Restriction of rate bureaus has increased price competition.

SECTION 4

RECOMMENDATIONS FOR CHANGE

RATE FLEXIBILITY:

- A shipper should have five days after notice of a rate change to notify a railroad how much grain he has booked for sale at the old rate and he should be able to ship that grain at that rate.
- A futures market in transportation should be developed so that shippers can hedge their transportation requirements.
- There should be a greater time period for rate changes.
- The ICC should have more control over rates.
- Freedom of entry to railroads right of way.
- Rates once published should have to be maintained a minimum of six months.
- Congress should explicitly set the standards for market dominance and unreasonableness.
- Carriers costs should be made available to shippers.

CONTRACTS:

- Full disclosure of terms should be required when contracts are made.
- There should be some method for shippers who are discriminated against by contracts to obtain the same rates.
- Concessions granted in contracts should be related only to efficiencies gained.

JOINT RATES AND ROUTES:

- There should be some mechanism for joint rates and routes that compensate all railroads involved in the movement.

INFLATION INDEXING:

- The law should have provisions for decreases as well as increases and the index should be applied to costs rather than rates.

- Gains in productivity should be accounted for in the index.

RATE BUREAUS:

- The old concept of rate bureaus should apply as long as it is done more openly.

SECTION 5

INTERVIEWS

#1 State Regulatory Agency Employee

#2 Railroad Employee-Management

#3 International Grain Merchandising Firm-Management

#4 Railroad Employee-Management

#5 State Transportation Official

#6 Domestic Grain Merchandising and Processing Firm

#7 Regional Grain Merchandising Firm

#8 Medium Sized (26 car shipper) Country Grain Merchandising Firm-President

#9 State Agricultural Official

#10 Producer

#11 Railroad Employee-Management

#12 Elevator Manager and Producer

INTERVIEW WITH STATE REGULATORY AGENCY EMPLOYEES

#1

RATE FLEXIBILITY

Shipper access to the Interstate Commerce Commission and protection by them was not substantially changed by the Staggers Act but rather it was changed by the interpretation of the act by the commission. There is nothing wrong with the concepts of market dominance and beyond that unreasonableness. Shipper protection and access to the ICC are available if the concepts are interpreted properly. The problem with market dominance and unreasonableness has been with the interpretation by the current Interstate Commerce Commission. The interpretation by the present commission has resulted in vague standards and it is extremely difficult to know what has to be shown to prove unreasonableness or market dominance. The Act gives the ICC total discretion in determining standards for market dominance and unreasonableness and their decision cannot be appealed. Congress should have explicitly set the standards for both market dominance and unreasonableness.

The question of unreasonableness is also very difficult to approach because no one really knows to what extent or role revenue adequacy will play in determining what is or isn't unreasonable. The commission can and probably has given the railroads a blank check in this matter.

The Staggers Act provided two standards for protection of the shipper, market dominance and unreasonableness. Congress instructed the commission to establish some definitive criteria for those standards, thus far the commission has not done so and therefore those standards have no meaning at this time.

The shorter notice of rate changes should not impact shippers with today's technology and the degree and ability to communicate. Shippers will have to make a better effort to be informed. The effect will not be determined by big versus small, captive versus non-captive but will be related to sophisticated versus non-sophisticated shippers.

Railroads will take advantage of their ability to raise and lower the absolute level of rates when and where it can. The shipper who is going to feel this the most is the shipper who doesn't have a competitive alternative. The captive shipper is the one who has had the problem in the past and will continue to have a problem in the future. The ICC has provided a false sense of security for the captive shipper.

CONTRACT RATES

There is a great potential for service considerations in the area of contracts. This potential will be realized when car supply becomes tight and shippers are looking for a guarantee of car supply.

Railroads will be able to use contracts to develop market power and remove rates and service from regulation.

The larger and non-captive shipper will have the advantage in making contracts with railroads. Contracts made between smaller and captive shippers will be one sided in favor of railroads and will be more like ultimatums than contracts.

INFLATION INDEXING:

Had the ICC implemented inflation indexing seven years ago we wouldn't have even had the Staggers Act or at least it would have been written much differently. Indexing was certainly needed, we needed a better recovery mechanism than we had, the ICC couldn't or wouldn't act fast enough under the old system.

The problem with inflation indexing is that there is no effective adjustments for productivity gains. The index is used to inflate rates however the index is based on costs.

If the index were constructed properly and if a captive shipper had recourse when his rate became unreasonable, indexing would not have an adverse affect on him.

RATE BUREAUS:

Reduced rate bureau activity and the reduced communication between railroads on price, service and strategy will probably have a positive affect. This may promote the product and geographic competition that the Congress and ICC envisioned. However, it is not a good substitute for good regulation because railroads always had the right of independent action.

CONCLUSION:

The ICC is going to do everything it can to deregulate rates, what is going to remain in the area of service and abandonments is questionable. Shippers are going to have to seek different sources of countervailing power to offset the railroads power rather than rely on the ICC. If the shipper cannot find that power or it is not available it might result in another form of government intervention.

INTERVIEW WITH RAILROAD EMPLOYEE-MANAGEMENT

#2

RATE FLEXIBILITY:

Railroads will be responsive to changes in demand for transport services which will make our economy more efficient by encouraging movement during periods of slack demand. It will also encourage processors or exporters to accumulate stocks when prices are lower resulting in the movement out of country origins and reducing the volatility of grain movement. This will result in a mitigation of our supply problems during periods of large transport demand.

The problem with raising rates on twenty days notice is that it can result in losses to country merchandisers who have sold grain based on existing rates on a to arrive basis. This would result in financial harm to the country elevator industry, however, it would not hurt the producers, since he has already received his price and obtained the best possible price he could achieve within the limits of his ability to market his grain.

The elevator system should be able to avoid such problems and disadvantages of rate flexibility by building contingencies into the to arrive contracts. Provisions could be made between buyer and seller which would cover increase in rates after sale has been made but before delivery is accomplished.

Rate flexibility can hurt smaller shippers more than larger shippers because smaller shippers will not be able to make up losses in other areas of business as easily as larger shippers.

Rate flexibility will result in increased rates during periods of increased demand for transportation services. This will be more prevalent in areas which are more distant from market and lack of viable truck competition. Rates may not be as volatile with respect to transportation demand in areas close to terminal markets or where water competition exists.

Domestic shippers and receivers will be impacted less by rate flexibility than exporters because the domestic buyers exists on more of a hand to mouth basis whereas exporters anticipate changes in export demand and take positions to take advantage of such changes. However, if an exporter misreads the market and doesn't build in changes in freight rates which may occur it will be difficult to pass on rate increases, although exporters can bear more risk than domestic processors.

The sporadic shipper will decline as a result of rate flexibility.

If the shipper is the producer there will be no change in his protection by the ICC because he obtains a price based on factors other than transportation rates.

CONTRACTS:

The ability to make contracts for rail service will benefit those carriers who serve the most port areas because it will allow those carriers to put together more flexible packages.

Contracts must be short term because of the inability to predict demand unless you are large enough to put together a number of contracts which allows the shipper flexibility in destinations available.

The problem with contracts is that competing carriers can make contract rates or publish rates which are less than those rates in existing contracts. The level of contract rates can be ascertained by comparing the country price to the port price of grain.

Contracts will not influence the type and level of rate structures.

JOINT RATES AND ROUTES:

The Interstate Commerce Commission will no longer protect gateways and there will be fewer and fewer joint rates and routes. This will have an adverse impact on shippers who are not on a carrier who reaches a variety of port areas. The exporter who buys grain from country shippers who are located on railroads which serve many port areas will enjoy a great deal of logistical flexibility as compared to grain originating on railroads which serve few or no port areas. This will not hurt producers because grain can move cross country by farm truck to shippers which are located on the most advantageous line.

INFLATION INDEXING:

Inflation indexing won't impact different types of shippers differently. Indexing is a very efficient and timely method of recouping inflationary cost increases while avoiding inter-railroad differences which typified the old ex parte increases. The indexing mechanism has eliminated regulatory lag.

RATE BUREAUS:

Elimination or restriction of rate bureaus has increased price competition.

CONCLUSION:

The Staggers Act gave railroad management the confidence to lower rates during periods of slack demand and they will be able to increase rates when market conditions improve and they will be able to make a profit.

INTERVIEW WITH MANAGEMENT

INTERNATIONAL GRAIN MERCHANDISING FIRM

#3

RATE FLEXIBILITY:

There is almost no protection left or access to the ICC as a result of the Staggers Act or interpretation of same. It appears that the ICC is going to keep the railroads afloat without any concern what so ever for the shipper.

There is no access to the ICC unless the rate is 165 percent of variable cost and then market dominance has to be proven and beyond that a determination of unreasonableness has to be made. We are going to have all kinds of problems achieving any kind of success with such a process. To begin with we don't have any way of knowing what their costs are. Different railroads interpret their costs differently.

Also, Title III, Section 302 of the Act is being ignored. To date the Railroad Accounting Principles Board has not been funded according to the Act they are supposed to submit a report to Congress by October of 1982. Obviously this is a blatant disregard of the law.

In sum, the ICC is not providing the shipper with the tools he needs to show unreasonableness or to even gain access to the ICC.

Market dominance cannot be proven if the ICC is going to consider market or geographic competition. A shipper in South Dakota, North Dakota or Montana may be captive and he may also face geographic competition. A railroad can ignore geographic competition if it wants to. Since they threw out the standards for market dominance provided in the 4-R Act we have no way of proving that a shipper is captive.

So far no real harm has been caused by the ability of railroads to raise and lower rates, most rate adjustments have been down thus far because of the surplus of transportation capacity. This will all come to an end some day when the barges are at capacity and the hopper cars are all used up. Railroads will definitely increase their rates during a shortage.

We will be buying grain on one rate and shipping on another which means that we will be introducing risk into the grain merchandising system and it will become more chaotic. We are going to have to eat a bundle in some cases.

Competition will not resolve these problems in a timely enough manner. In theory competition works but in practice in the transportation business the reaction time is too slow. Railroads will also be guilty of doing the wrong thing at the wrong time because they do not always know what to do. When and if they correct a mistake it will be too late, money will have been lost and businesses ruined.

What we need is an easily understood and applied concept of market dominance.

Railroads run on their own right of way, the least we need is freedom of entry to that right of way.

Short notice of rate change disrupts orderly grain merchandising. We normally had 60 to 90 days notice prior to the Staggers Act. Now many rates are published on one days notice. We blew our grain position for an entire region as a result of such unpredictability.

Shorter notice is definitely going to hurt the small guy who can't afford to hire transportation expertise.

Rates once published should have to be maintained a minimum of six months.

CONTRACTS:

There is some good to be had from the ability to make contracts, however we need full disclosure of the terms or if not full disclosure we at least need to know origin, destination, volume and the effective rate.

A more efficient system can develop from the use of contract rates as a result of putting together the most efficient components of the entire system.

If the terms of the contract are not known how can one obtain redress from potential discrimination?

Contracts are a good catalyst to bring about efficiency in country grain business, they force people to think about efficiency. One reason they can bring about efficiency is you can do things in a contract that you can't do in a tariff.

What we see wrong is that there has not been full disclosure of terms and we do not know what a carriers costs are. We need to know what the carriers costs are if we are going to be able to make a contract. We are particularly concerned about being undercut by a competing road once a contract has been made.

Domestic and export, and small or large shippers won't be impacted differently by contract rates. However, to write a contract a shipper is going to have to be efficient which includes loading.

JOINT RATES AND ROUTES:

Joint rates and routes are critical in the west because some roads don't have connections to the west coast. It is critical wherever a commodity needs a joint route to be merchandised.

INFLATION INDEXING:

The law should have a provision for decreases in costs as well as increases and the index should be applied to costs rather than rates. However, it is a good and effective technique for railroads to recoup inflationary cost increases and businesses can plan for increased rates because of the predictability and advance notice of rate changes. It also tempers broad scale increases which are more difficult to adjust to.

The cost recovery index does reward inefficiency because productivity is not properly accounted for.

CONCLUSION:

Any more deregulation of railroads in the grain sector would lead to utter chaos at interior elevators and export and domestic system. What we need to do now is to tidy up the existing law.

INTERVIEW WITH RAILROAD EMPLOYEE-MANAGEMENT

#4

The access to the Interstate Commerce Commission will not have a material impact on any shippers level of rates on grain since they are substantially below the threshold level. Circumstances presently will not permit rate increases on grain, however, rate structures will change. Larger and more efficient operations will probably be the way of the future. Rate structures on grain in the future will be those that will allow merchandisers to gain efficiencies. Railroads must develop rate structures that fit the market place, they may be for a small shipper or they may be for the large shippers. Essentially railroads have to develop rate structures which allow shippers to compete in the market place.

Rate flexibility provides railroads with a better ability to compete with other types of competition and methods of marketing, such as competing with direct marketing by farmers to river terminals.

Short notice of rate changes definitely affect trade practices. The ten day notice on decreases will have a much less impact than the 20 day notice on increases. We as a railroad like to give as much time as possible and try to ensure 90 days, so that the forward trading mechanism can operate and function in an orderly manner.

The short notice will have a greater impact on larger shippers, which are programmed more on forward contracting and larger volume.

The more volume you have the more exposure you have to risk. Smaller elevators are much smaller risk takers.

CONTRACTS:

Secrecy will not have that much affect at all. There is no point in having a contract if its going to be made public. The big shipper will be advantaged because of volume and performance characteristics.

Contracts from origin territories may be limited because it will be difficult for an origin shipper to guarantee performance in terms of continuous use of equipment. You also have a problem with the number of shippers in the origin territory. You have many more firms in the origin territory shipping then you have receiving. Therefore, it will be easier to contract with shippers between terminal markets or subterminal markets, and terminal markets then it will be to make contracts between origin territory and terminal or subterminal markets because of the reduced number of shipping firms.

Exporters and domestic merchandisers alike will have an equal capability of making contracts with railroads since both can guarantee certain levels of performance and thus can take the exposure to risk.

It is not clear whether contracts will affect big shippers versus small shippers differently. Strategic location is also a consideration in making contracts, so it may not necessarily relate to big or small but rather to location and type of business.

JOINT RATES AND ROUTES:

There will be less and less joint rates and routes in the future. If a shipper has an opportunity to move on a single line basis, he more than likely will, assuming that he can get the same price, because it minimizes route sets and decreases total transit time. For the railroads, it minimizes costs and minimizes the income that we would have to share with connecting carriers. Export traffic in the future will generally be on a single line basis.

INFLATION INDEXING:

Inflation indexing will have little impact on all types of shippers. The index should be more accurate than it currently is. They provide a good mechanism for both shippers and railroads. Shippers know that rate increases are going to come and you plan for them by building in the increase in transportation rates into your costs. Since all shippers have the same information, it provides an equally competitive atmosphere. For railroads it provides a mechanism by which they can recoup inflationary cost increases without trouble and vary costly regulatory lag.

RATE BUREAUS:

Rate bureaus would and had provided greater stability, however, railroads always had the right of independent action.

CONCLUSIONS:

Railroads are concerned about the general level of instability. The problem is not so bad at the lower level of rates. Shippers will work with you on the down side but they have a tendency to leave your side when you increase rates.

INTERVIEW WITH STATE TRANSPORTATION OFFICIAL

#5

RATE FLEXIBILITY:

Big shippers will be advantaged as small shippers will be disadvantaged as a result of rate flexibility. There is no effective remedy for discrimination as a result of the Staggers Act. The small shipper or the small town no longer has any protection.

Discrimination can take place in the form of rate reductions which can be offered to preferred shippers and they cannot be challenged if they are above variable cost. Certain shippers, such as large shippers may obtain rate concessions.

Railroads are not required to take the inflationary percentage increases or the six percent. As a result of competition railroads may choose to ignore increases on certain grain traffic and impose the inflations percentage plus a part or all of the six percent in the flexibility zone on other grain traffic resulting in unequal treatment between captive and non-captive shippers.

The short notice required for increases or decreases will make it difficult for all types of shippers to make an assessment of the current situation as well as future considerations of transportation costs. This will result in increased uncertainity for the entire grain trade which is the same as increasing risk. This risk is going to have to be paid for and more than likely it will be the shipper that pays for it. We may very well see the return to the day of the midnight tariff.

Not only can rates be published on shorter notice anymore, many if not most rates are not docketed with a rate bureau which means even less notice is available post Staggers than is implied by the 10 and 20 day requirements in the Act. There is also a great deal of difference between providing notice and shippers actually obtaining information regarding rate changes. Small shippers in particular may not become aware of rate changes because they are not large enough to retain or hire professional transportation staff.

Protection of the shipper is almost non-existent anymore as a result of the commissions interpretation of market dominance. Because of the evaluation of market dominance on a case by case basis and because of the interpretation of market competition serving as a substitute for intermodal or intramodal competition and because of the shift from quantitative evidence to qualitative evidence it is going to be difficult to prove market dominance exists. Assuming that one can prove market dominance exists the more difficult question arises of what constitutes an unreasonable rate. The fact that market dominance exists does not mean that the rate is unreasonable. Little shipper protection is left as a result of the Staggers Act, however, to the extent that an effort to show unreasonableness of a rate can be successful a larger shipper probably has an advantage in that he has monetary and professional resources available to him that a smaller shipper does not have.

CONTRACTS:

Contracts will result in discrimination against the small shipper who does not have the economic strength or power to successfully bargain with the railroads. Discrimination will be encouraged as a result of contracts and particularly if the terms of the contract are not known, how can anyone contest a contract on grain if the terms are secret.

Contract rates will destroy the grain rate structure as we know it today and it will also destroy the concept of a national railroad system. The grain rail rate system in the United States is a carefully balanced and delicate mechanism in which one tug at the end of the blanket results in movement of the entire blanket including the three remaining corners. The grain rate structure was originally designed to allow competition to exist, particularly processing operations such as milling, regardless of locations. The rate relationships were originally disrupted to some extent by the development of the seaway system and aid expansion of the inland waterway system. Contract rates further deteriorate this system and have a particular impact on the domestic trade.

Contracts can be made without any consideration of competitive circumstances of other shippers whether they are on the same line or are served by a different carrier. Competitive equity will become a thing of the past because it is not required in the making of contracts. There is no compulsion by law to have competitive equity.

Contracts will also militate against a national railroad system because it will be in the best interest of railroads to make contracts which originate and terminate on their own line.

JOINT RATES AND ROUTES

The ability of one carrier to inhibit, cancel or make unpractical joint rates and routes with other carriers will definitely impact a captive shipper. A captive shipper in this situation is one which is located on a carrier which cannot obtain a reasonable joint rate or route. This prohibits a shipper from reaching any markets except those served by the originating carrier.

INFLATION INDEXING:

The railroads will apply as much increase as they can to captive shippers and shippers which are in a very competitive situation will not bear the full brunt of inflationary increases. All of the potential increases are opportunities for discrimination. It follows that somebody is going to get taken to the cleaners.

CONCLUSION:

In all practicality the common carrier concept has been abandoned, rail transportation has become a used car market, where anything goes.

INTERVIEW WITH DOMESTIC GRAIN MERCHANDISING

AND PROCESSING FIRM

#6

RATE FLEXIBILITY:

Shipper protection by the ICC has been severely diminished since the passage of the Staggers Act. The ICC has become an advocate for a high rate of return for railroads and this has resulted in a diminished role of shipper protection by the ICC. It is almost impossible to prove market dominance. A change in emphasis has taken place from shipper protection to an advocate of the railroads financial well being.

The change in time for noticing rate changes has made it much more difficult for grain buyers. We used to always be on top of rate changes, however, that is no longer true.

There seems to be no obvious difference between shippers such as domestic versus export -- the two markets are too interrelated to cause any difference. It will be easier for a larger shipper to stay abreast of changes compared to smaller shippers. Smaller shippers may have to rely on local rail agents who are ineffective in the most part in such matters.

The ability to raise and lower rates has not been tested yet. Since the Staggers Act was passed the rail transportation system has not been taxed such as during the Russian grain deals and the heavy export movements of the late 1970's. Railroads are currently competing for a relatively small amount of movement resulting in a downward pressure on rates. When this trend reverses and we get into a period of shortage of equipment we will see railroads use their freedom to raise rates and they will use their freedom aggressively, particularly in areas where there is no effective competition. Effective competition will not exist anywhere when cars are no longer idle and when the railroads are using their system capacity to the maximum possible. Then trucks are no longer effective competition. Trucks are only effective competitors when railroads have an abundance of excess capacity.

CONTRACTS:

Contracts are a positive force but there are some dangers. A great learning process between railroads and grain merchandisers has to occur before they can be fully effective.

Contracts will become more popular when transportation demand exceeds supply and grain merchandisers are trying to lock up future transportation costs and service.

The danger is that contracts will be utilized to deregulate a portion of railroad grain pricing and remove it from ICC jurisdiction. It is interesting to note that the ICC has not rejected any contracts as of yet.

The commission has effectively scuttled the provisions of the Staggers Act which requires disclosure of certain information to competitors in agricultural contracts, regulations promulgated by ICC regarding disclosure have effectively voided the intent of the law. Only the base rate has to be given, discounts, rebates and incentives are not public knowledge, therefore we cannot determine the rate.

JOINT RATES AND ROUTES:

Additional instability and uncertainty prevails as a result of the current additude towards joint rate and routes. It's more cumbersome to negotiate a rate between two railroads because railroads initially want to talk to one another. It probably won't have a major effect on the level of rates.

INFLATION INDEXING:

There is no mechanism to provide for rate reduction when costs decrease and no method for taking into account gains in productivity.

Realistically railroads have a great deal of rate flexibility now and shippers are going to pay more for a lack of effective competition than for increases resulting from cost recovery.

RATE BUREAUS:

Grain merchandisers used to rely on rate bureau notification for discovery of rate changes and service charges, this has all but disappeared. Shippers now have to find other means of ascertaining rate changes in advance of publication.

CONCLUSION:

The major concern for the future is the potential for rapid increases in rates once transportation capacity is taxed to the limit, and the ability to exempt movements from pricing regulation by using contracts without the ability of discovery of terms by competitors.

INTERVIEW WITH REGIONAL GRAIN MERCHANDISING FIRM

#7

RATE FLEXIBILITY:

With the ICC the way it is the shipper is going to have very little input or impact. The only way to have an impact is to show that they are reaping unreasonable profits.

The ability to lower and raise rates is going to have a tremendous impact on country elevator operator. Grain is marketed forward and increases in rates on short notice will result in smaller margins or losses.

CONTRACTS:

Contracts are definitely for the larger shipper, how does a small shipper get a contract if the majority of the grain is contracted by a large shipper. A small shipper in Chaffee, North Dakota is as far as you can get from the ICC.

JOINT RATES AND ROUTES:

Railroads will have the power to determine the economic viability of shippers who can't get a joint rate and route to necessary terminal markets.

INFLATION INDEXING:

Increasing rates by a percent distorts rate relationships between origin and destination in favor of the shipper closer to the market.

CONCLUSIONS:

The only way the rail system can work effectively is if transportation is regulated as a public utility. A monopolistic railroad is not much better than not having a railroad at all.

INTERVIEW WITH PRESIDENT OF MEDIUM SIZED (26 CAR SHIPPER) COUNTRY GRAIN MERCHANDISING FIRM

#8

RATE FLEXIBILITY:

Short notice of rate changes won't have a negative impact on my business. In fact it will probably have a positive effect. Shorter notice of rate changes allows for faster correction of problems and quicker reaction to marketing changes. All shippers, small and large will have to be more aware of what is going on and what changes are taking place. Smaller shippers may have problems keeping abreast of changes.

Access or protection by the Interstate Commerce Commission really hasn't changed when comparing post-Staggers and pre-Staggers. The small shipper never did have a chance with the Interstate Commerce Commission anyway.

The rate flexibility granted by the Staggers Act has mostly resulted in rate reductions thus far. Problems arising from increases in rates as a result of rate flexibility and as a result of the shorter notice could be overcome by accounting for increases in transportation in a forward contract. Another method would be to sell grain F.O.B. origin and let the buyer deal with the uncertainty.

CONTRACTS:

Contracts are going to hurt the small shipper, large shippers will be able to take advantage of contracts and it will encourage them to become vertically integrated and develop or buy grain merchandising facilities in the origin territory. Small shippers will not be able to use contracts because he does not know from day to day where his grain is going to be shipped to. A small shipper serves a multitude of buyers and destinations.

Contracts will probably be most useful to domestic buyers who can predict with a great deal of reliability what their transportation demand is going to be. Exporters on the other hand like to originate grain from many different sources and to terminate at several different destinations, therefore contracts will not be as useful to them.

Contracts create another competitive dimension and potentially a great deal of uncertainity. Once a contract rate has been made a competing railroad can publish a common carrier rate below the contract rate if the contract rate can somehow be determined. This could result in a shipper in a situation where he has non-competitive contracts which he must fulfill.

It will be difficult for a small shipper with little or no transportation expertise to develop contracts or even determine what rates are.

With all of the mergers we will end up with a small number of large railroads and all shippers will be disadvantaged.

RATE BUREAUS:

Reduction in rate bureau activity has resulted in quicker reaction by railroads to meet problems. It has resulted in reduced bureaucratic lag which is good for all shippers. The old rate bureau process of publishing rates was terribly slow.

INTERVIEW WITH STATE AGRICULTURAL OFFICIAL

#9

RATE FLEXIBILITY:

If there is effective competition we can assume that rates will be reasonable and if there is no effective competition then it is safe to assume that rates won't be reasonable. The Interstate Commerce Commission has not protected the shipper in the past. Effective competition for railroads seems to be water competition. Trucks are not a viable form of competition; because truck costs are so much higher than rail costs.

If competition exists it lessens the need for regulation. There was more protection prior to the Staggers Act, however, it was not implemented. The new commission will be more understanding of our problems.

The short notice requirements is bad particularly for small or captive shippers. Rates can be bounced around to accomplish what the railroads want. With rate flexibility they can cause grass to grow in any elevator driveway they want to. There should be a greater time period for rate changes and the Interstate Commerce Commission should have more control over rate changes.

The question arising from increased rate flexibility is how does one prevent railroads from using such rate changes to discriminately shut down elevators. The issue of what elevators survive and which ones die should not be settled by railroads but should include input from other elevators, industries, etc.

Without effective competition railroads will be able to increase rates and get away with nearly anything they want to.

CONTRACTS:

Major shippers will have a definite advantage in making contracts and it will allow discrimination. There should be some method for allowing shippers that are discriminated against to have opportunities to have the same rate.

Contracts give too much power to manipulate who stays and who goes.

JOINT RATES AND ROUTES:

If there is no alternative, you are captive and will pay for that captivity.

INFLATION INDEXING:

Inflation indexing is one sided, increases only. It should go both ways, when costs increase rates increase and when costs decrease rates should decrease.

Of course, captive shippers will take the biggest share of the burden.

INTERVIEW WITH PRODUCER

#10

RATE FLEXIBILITY:

Protection of rate reasonableness and service by the Intrastate Commerce Commission wasn't good prior to deregulation and it appears now that it is going to be even worse.

The farmers will have to pay for increases in rates particularly if they don't have any alternatives. The railroads can't expect us to haul longer distances or to different railroads to keep competition alive. We're not truckers, we are farmers. We don't have the time and we can't afford increased transportation costs.

INTERVIEW WITH RAILROAD EMPLOYEE - MANAGEMENT

#11

RATE FLEXIBILITY:

The rate flexibility granted in the Staggers Act will not result in loss of shipper protection against rate and service unreasonableness because the competitive market place provides all of the protection that he needs. Besides, section 229, the savings provision, provides the necessary recourse required by shippers.

Enough intramodal and intermodal competition exists to provide the shipper with adequate protection.

Furthermore, rail customers have the right to assume that they are dealing with ethical business people, not robber barons.

Rates will gravitate upward during periods of equipment shortage, conversely rates will decrease during periods of excess capacity. Increases and decreases will probably impact all shippers alike, smaller shippers will experience smaller gains or losses and bigger shippers will experience bigger gains or losses as a result of increases or decreases of rates on shorter notice.

Export grain should be totally exempted from regulation -- it is a separate and distinct piece of business and different factors such as port capacity and vessel supply impact it in a unique manner compared to domestic grain sales. Railroads should price export grain movements differently because it is a different type of service.

In the long run there won't be any different treatment of domestic and export shippers as a result of the rate flexibility clauses.

CONTRACTS:

Contracts are normally secret and in the area of ratemaking they will enable and encourage the making of special deals which would not ordinarily be made without the ability to contract for rates and service.

The big shipper is the winner in this situation. The big shipper will have more to offer the railroads and likewise the railroads will have more to offer to the big shipper.

There is a lot of room for collusion in contracts depending on how ethical the carrier is. Also, contracts can be utilized to inhibit competition where intense competition already exists.

Contracts can benefit the small shipper if he is shipping a very specialized type of product.

Contracts for service and not price can be equally advantageous to the big and small shipper alike.

Contracts will not impact export or domestic grain movements differently, but they will impact country moves versus inter terminal moves differently because of the ability to predict terminal moves.

Similarly, domestic movement is very predictable and export movement is very volatile and unpredictable, thus contracting will be approached differently in the two different types of movement. Domestic grain may contract for a given committment of volume and export for a percentage of the movement. A combination of a given volume and percentage is the best type of contract.

Sporadic shippers can utilize contracts by committing for a percentage of their movement.

Contracts, along with excess capacity and a downturn in business, thus far, have eroded margins in the railroad business. However, contracts can be used to innovate business techniques and provide new opportunities to generate sales.

JOINT RATES AND ROUTES:

The merger activity of the past few years has reduced the route opportunities available to shippers.

Single line carriers will exercise their single line strength and their strength has been and will continue to increase as a result of mergers.

Joint route surcharges can be a problem for receivers located on particular lines such as Conrail.

INFLATION INDEXING:

Inflation indexing is a good and necessary mechanism for recovering inflationary cost increases.

All types of shippers will be impacted equally, however, distance could become a factor. Carriers do not have to take them if the competition won't permit.

RATE BUREAUS:

No real pricing is conducted in rate bureaus any more and mergers will further reduce rate bureau activity. This reduced activity has resulted in increased price competition.

CONCLUSIONS:

Market place will guide the future transportation system and abuses will depend on the integrity of the carriers and shippers alike.

INTERVIEW WITH ELEVATOR MANAGER AND PRODUCER

#12

RATE FLEXIBILITY:

Rate flexibility is definitely being used to develop new and inovative rate structures. Efficiencies will guide the development of these new rate structures which is the way it should be.

Rate flexibility won't hurt captive shippers more than others since there is no such thing as a captive shipper. We can all get our grain someplace, however, it is definitely higher priced to move it from some areas and by some means, thus some shippers may not be competitive in the market place because of higher priced transportation.

The shorter time period for notifying shippers of changes in rates will favor the low volume operator because he wouldn't have as much grain booked for sale at the old rates. We shouldn't deny railroads short notice and the ability to change rates, however, some changes should be made to protect the shipper. A shipper should have five days after notice of a rate change has been made to notify the railroad how much grain he has booked for sale at the old rate and he should be allowed to ship grain on that rate. Maybe it is possible to develop a futures market for transportation so one could hedge his transport costs. The terminal markets or the railroads could administer such a program although it might be easier for the rails.

CONTRACTS:

Contract rates are bad and could severely penalize small shippers and advantage large shippers. The terms of a contract should be made public, and even if they are made public small shippers won't generally have the capability of entering into contracts. Concessions granted in contracts different from published rates should be in relation to any efficiencies gained as a result of the contract, over and above common carrier rates. Consessions in contracts gained by shippers as a result of economic power are unwarranted and should not be granted.

JOINT RATES AND ROUTES:

It will be much more difficult for small railroads such as the Soo Line to be competitive and it will hurt elevators which are located on smaller lines and will help elevators on larger railroads, I don't know if that is good or bad. There should be some mechanism to allow for joint routes that compensate both railroads involved.

INFLATION INDEXING:

Inflation indexing shouldn't be allowed at all, it encourages laxness, there are no cost of living allowances for farm prices. Productivity is not encouraged when you have this type of mechanism. Its like giving the railroads a blank check.

RATE BUREAUS:

It seems to me that it is a necessity for short line railroads to get together and discuss rate matters with other railroads. I think it would be more beneficial if we had the old concept of rate bureaus as long as it was done openly. This is an area where there needs to be oversight by some government agency. There has to be some regulation in the setting of rates, we can't just let the free market determine them.

SECTION 6

CONCLUSION

Regulation of the railroad industry in the United States is a subject which has philosophical, theoretical and practical aspects associated with it. The philosophical aspect relates to the concept of where transportation fits in the economic system of the United States and for what purpose does it function. The theoretical aspect considers how the distribution of scarce resources take place and how output can most efficiently be achieved. The practical aspect of regulation relates to what actually happens and who benefits and who loses. This country has considered these since its birth when it inherited the common carrier concept developed under English common law. It appears that the country is still struggling to determine what the proper mix and influence of these three concepts should be.

The philosophical question of whether the railroad industry should operate and be regulated as a public utility or whether it should function in a free market economy unfettered by government interference has never been answered. Should a railroad serve the other economic sectors in manner which allows those other sectors an equitable chance to compete vigorously or should railroads be allowed to take advantage of all the market opportunities found in a free market system and differentially price its services.

Theoretically, strong cases have been made recently by free market economists that the railroad industry can function more efficiently in a less regulated environment. They maintain that the outcome of this reregulation will be a financially stronger industry promising better service to the economy at a lower price.

This leads us to the practical matter of things. There is little argument among most that healthy competition within any industry can most efficiently order the use of scarce resources in achieving output of goods and services. However, the question arises of whether healthy competition or competition at all exists other than in the textbook. It remains to be seen if competition is as pervasive as is suggested by some or if there is a dearth of it as suggested by others.

Much of the rate changes that individual railroad firms have implemented in the Upper Great Plains States could have been accomplished under the old Interstate Commerce Act, however, railroad management probably would not have undertaken such changes for fear that any changes made would become permanent or at the least very rigid within the system. Thus, the Staggers Act provided an atmosphere which has allowed the railroads a great deal of managerial latitude. This in itself is not bad nor necessarily harmful and may indeed lead to development of better transportation services. However, as a practical matter certain events have taken place that would suggest that competition does not always function in a manner beneficial to the economic community or society as a whole.

The Burlington Northern has chosen in the past to ignore the geographic competition between the wheat produced in the Upper Great Plains and Central Great Plains states which compete for existing and potential export markets off the Pacific Northwest. It continues to this very day to still ignore such competition. One would presume that they believe that they are maximizing their profits by doing so and for this one cannot blame them. For if they were not profit maximizers it would upset a great deal of economic theory on which the success of our system is premised upon. However, this provides little comfort to those trying to promote wheat exports to the Pacific Northwest from the upper great plains.

The Burlington Northern has also utilized its rate structures on wheat to influence the development of the country grain merchandising and handling system in Minnesota, Montana and North Dakota in a way which is not necessarily beneficial to all parties involved. The Burlington Northern has chosen to develop the spreads between different rate structures in a manner which encourages 52 car loading and gives and advantage to such shippers unwarranted by the economic efficiencies gained in such a movement. This is not to suggest that the grain handling, transportation and merchandising system should not change or it should not become more efficient. On the contrary it will become more efficient. However, should one firm within a critical industry such as railroading determine the future grain handling, transportation and merchandising system?

Finally, the question of comparative equity of rates arises. Shippers more distant from markets have in the past and continue to pay for a comparatively larger part of the overhead burden than shippers closer to terminal markets or shippers near a viable river system. Both railroads which serve the upper great plains continue to take advantage of the great distances to markets.

Summing up, one must question whether geographic and product competition will work; should railroads solely determine the nature of the grain handling and merchandising system; and can comparative equity of rates be achieved?

There is no question that agricultural shippers need a strong and dynamic railroad system in this country and it should probably remain in the private sector. To achieve this it must by necessity be a profitable system. However, where competition does not result in competitive equity for shippers some form of redress should be available.

The Staggers Act of 1980 was an outgrowth of the poor financial condition of the industry which the Interstate Commerce Commission must be partially responsible for. It now appears that the commission has swung past equilibrium and is now reacting totally in favor of the railroads financial interests with all disregard towards shippers. One interviewee put it best, "Shippers access to the Interstate Commerce Commission and protection by them was not substantially changed by the Staggers Act but rather it was changed by the interpretation of the Act by the commission. There is nothing wrong with the concepts of market dominance and beyond that unreasonableness. Shipper protection and access to the Interstate Commerce Commission are available if the concepts are properly interpreted. The problem with market dominance and unreasonableness has been with the interpretation by the current Interstate Commerce Commission."