

1076

96-4
Ag 8/1
96-GGG

Y4
Ag 8/1
96-GGG

AGRICULTURAL SUBTERMINAL FACILITIES ACT OF 1979
and
RURAL TRANSPORTATION ADVISORY TASK
FORCE REPORT

GOVERNMENT

Storage

DOCUMENTS

2 5 1980

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

HEARING

BEFORE THE

SUBCOMMITTEE ON FAMILY FARMS, RURAL
DEVELOPMENT, AND SPECIAL STUDIES

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

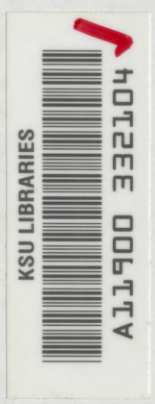
SECOND SESSION

ON

H.R. 2968

APRIL 23, 1980

Serial No. 96-GGG



Printed for the use of the Committee on Agriculture

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1980

65-213 O

COMMITTEE ON AGRICULTURE

THOMAS S. FOLEY, Washington, *Chairman*

E DE LA GARZA, Texas

Vice Chairman

WALTER B. JONES, North Carolina

ED JONES, Tennessee

DAWSON MATHIS, Georgia

GEORGE E. BROWN, Jr., California

DAVID R. BOWEN, Mississippi

CHARLES ROSE, North Carolina

FREDERICK W. RICHMOND, New York

RICHARD NOLAN, Minnesota

JIM WEAVER, Oregon

ALVIN BALDUS, Wisconsin

TOM HARKIN, Iowa

BERKLEY BEDELL, Iowa

GLENN ENGLISH, Oklahoma

FLOYD J. FITHIAN, Indiana

LEON E. PANETTA, California

IKE SKELTON, Missouri

JERRY HUCKABY, Louisiana

DAN GLICKMAN, Kansas

DANIEL K. AKAKA, Hawaii

CHARLES WHITLEY, North Carolina

TONY COELHO, California

TOM DASCHLE, South Dakota

KENT HANCE, Texas

BERYL ANTHONY, Jr., Arkansas

CHARLES W. STENHOLM, Texas

WILLIAM C. WAMPLER, Virginia

Ranking Minority Member

KEITH G. SEBELIUS, Kansas

PAUL FINDLEY, Illinois

STEVEN D. SYMMS, Idaho

JAMES P. JOHNSON, Colorado

EDWARD R. MADIGAN, Illinois

MARGARET M. HECKLER, Massachusetts

JAMES M. JEFFORDS, Vermont

RICHARD KELLY, Florida

CHARLES E. GRASSLEY, Iowa

TOM HAGEDORN, Minnesota

E. THOMAS COLEMAN, Missouri

RON MARLENEE, Montana

LARRY J. HOPKINS, Kentucky

WILLIAM M. THOMAS, California

PROFESSIONAL STAFF

FOWLER C. WEST, *Staff Director*

ROBERT M. BOR, *Chief Counsel*

JOHN E. HOGAN, *Counsel*

JOHN R. KRAMER, *Special Counsel*

SUBCOMMITTEE ON FAMILY FARMS, RURAL DEVELOPMENT, AND SPECIAL STUDIES

RICHARD NOLAN, Minnesota, *Chairman*

DANIEL K. AKAKA, Hawaii

TOM HARKIN, Iowa

TOM DASCHLE, South Dakota

BERYL ANTHONY, Jr., Arkansas

FREDERICK W. RICHMOND, New York

BERKLEY BEDELL, Iowa

LEON E. PANETTA, California

CHARLES E. GRASSLEY, Iowa

KEITH G. SEBELIUS, Kansas

E. THOMAS COLEMAN, Missouri

WILLIAM M. THOMAS, California

CONTENTS

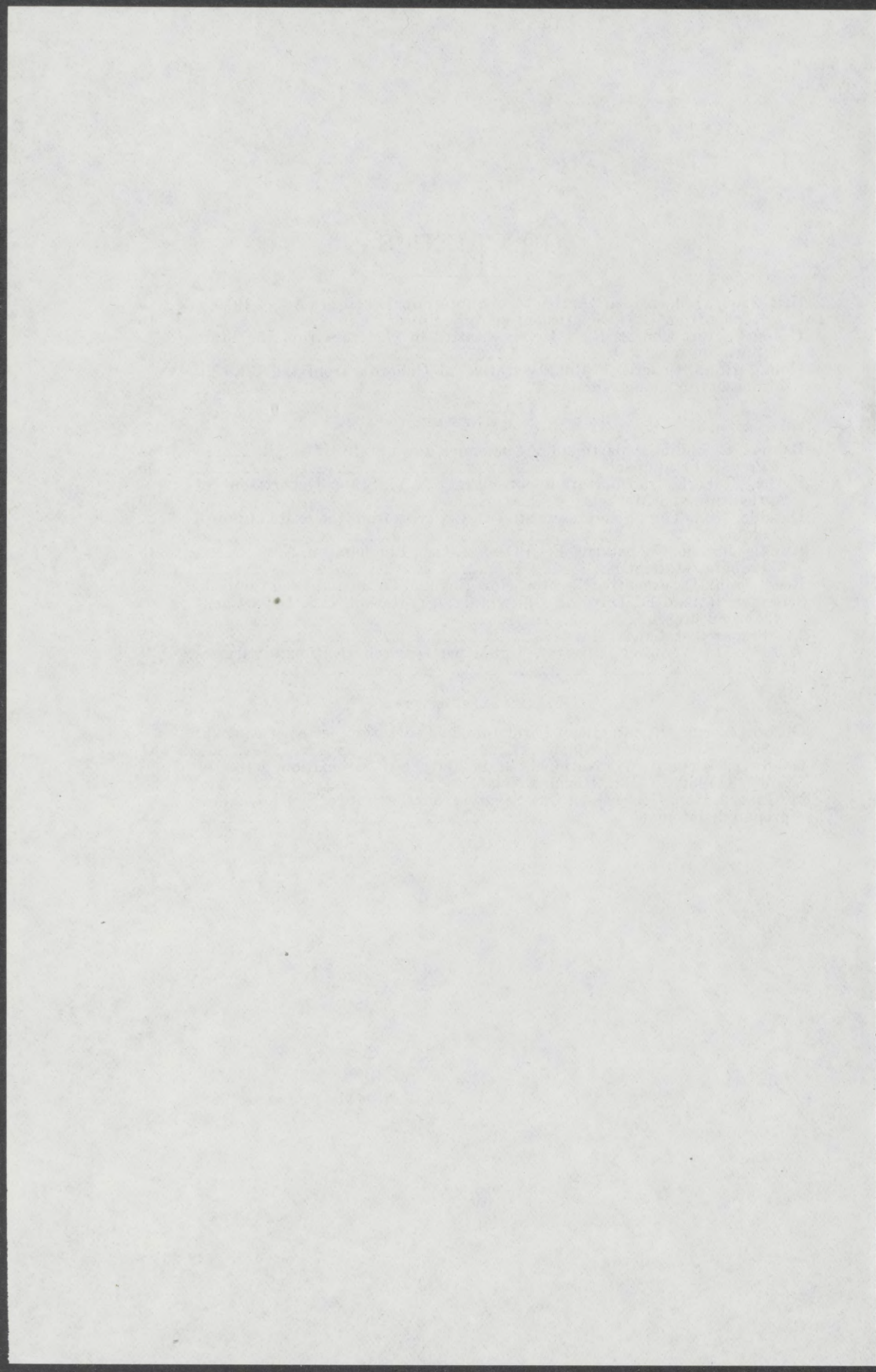
H.R. 2968, a bill, entitled "Agricultural Subterminal Facilities Act of 1979"-----	Page 3
Report from U.S. Department of Agriculture-----	16
Grassley, Hon. Charles E., a Representative in Congress from the State of Iowa, opening statement-----	2
Nolan, Hon. Richard, a Representative in Congress from the State of Minnesota, opening remarks-----	1

WITNESSES

Baumel, C. Phillip, department of economics, Iowa State University-----	34
Prepared statement-----	65
Byrne, Robert, transportation consultant, N.Y. State Department of Agriculture and Markets-----	39
Daschle, Hon. Tom, a Representative in Congress from the State of South Dakota-----	18
Kunkle, Jerome, Cooperative Feed Dealers, Inc., Binghamton, N. Y.-----	43
Prepared statement-----	80
Reed, Frank D., executive director, New England Grain and Feed Council-----	41
Schrader, Ronald F., Director, Office of Transportation, U.S. Department of Agriculture-----	21
Prepared statement-----	45
Wilson, M. Woodrow, director, legislative research, National Farmers Union-----	37

MATERIAL SUBMITTED

Glasson, Vernie, R., American Farm Bureau Federation, letter of Apr. 23, 1980, to Hon. Richard Nolan-----	87
Goldberg, Richard W., National Grain and Feed Association, letter of Apr. 23, 1980, to Hon. Richard Nolan-----	85
McGovern, Hon. George S., a U.S. Senator from the State of South Dakota, prepared statement-----	83



AGRICULTURAL SUBTERMINAL FACILITIES ACT OF 1979 AND RURAL TRANSPORTATION ADVISORY TASK FORCE REPORT

WEDNESDAY, APRIL 23, 1980

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FAMILY FARMS,
RURAL DEVELOPMENT, AND SPECIAL STUDIES
OF THE COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1301, Longworth House Office Building, Hon. Richard Nolan (chairman of the subcommittee) presiding.

Present: Representatives Harkin, Daschle, and Grassley.

Also present: Representative Baldus of the full committee.

Staff present: Fowler C. West, staff director; John E. Hogan, counsel; J. Robert Franks, associate counsel; Glenda L. Temple, clerk; Gary Norton, James W. Swiderski, Stephen T. Adams, and Bernard Brenner.

OPENING STATEMENT OF HON. RICHARD NOLAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. NOLAN. The hearing will come to order, please.

This morning we meet to consider H.R. 2968, and S. 261, the Agricultural Subterminal Facilities Act of 1979, introduced by Senator George McGovern and Representative Tom Daschle, a member of this subcommittee.

We will also consider the recommendations of the Rural Transportation Advisory Task Force, which is jointly chaired by the Department of Agriculture and the Department of Transportation and authorized by this committee and this Congress last year.

All witnesses are reminded to keep their oral presentations limited to 5 minutes.

Before we begin, let me say that it is no secret to anyone that the movement and shipment of agricultural commodities is today in severe disrepair. In my own State of Minnesota, fully one-fourth of all the rail lines at this point in time are scheduled for abandonment. The Rock Island and the Milwaukee Road are facing imminent collapse. The Highway Trust Fund is increasingly insufficient to meet the growing repair and construction costs of the highways serving many farm communities throughout the country.

Meanwhile, farmers face record export demand for their products. The question before us today is one of addressing the critical need to revitalize and to rebuild our rural transportation system.

I look forward to the testimony of all the witnesses. Before calling our first witnesses, I might ask the members of the subcommittee if any of them have any opening statements they would like to make.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. GRASSLEY. Mr. Chairman, I want to take this opportunity to congratulate you for holding these hearings.

Quite obviously, to some extent, they are a carryover of a piece of legislation that you were a leader in getting passed last year to look further into this subject. I think in your area of Minnesota and the whole State of Iowa, and probably South Dakota and North Dakota, so far as rail transportation is concerned, it could not be in any worse state of decay.

Quite obviously, there is a need for improvement, which is very directly related to the prosperity of the agricultural economy. So, I want to commend you for your leadership in this area.

I hope out of the testimony that we receive from these hearings, we will be able to come to some conclusions that will cause the Congress to forge ahead with the possible improvement of transportation in the Midwest.

Mr. NOLAN. Thank you very much, Mr. Grassley.

At this point in the record, I would like to insert a copy of H.R. 2968, and the Department report.

Without objection, so ordered.

[H.R. 2968 and the report from U.S. Department of Agriculture follow:]

96TH CONGRESS
1ST SESSION

H. R. 2968

Entitled "Agricultural Subterminal Facilities Act of 1979".

IN THE HOUSE OF REPRESENTATIVES

MARCH 14, 1979

Mr. DASCHLE introduced the following bill; which was referred jointly to the
Committees on Agriculture and Ways and Means

A BILL

Entitled "Agricultural Subterminal Facilities Act of 1979".

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Agricultural Subterminal
4 Facilities Act of 1979".

FINDINGS

5 SEC. 2. The Congress finds and declares—
6 (1) that an adequate system for the efficient tran-
7 sient storage and movement of bulk agricultural com-
8 modities is essential to the overall success of the agri-
9 cultural industry of the Nation, the development of
10 cultural industry of the Nation, the development of

I—E●

1 rural areas of the Nation, and the economic stability of
2 the Nation;

3 (2) that the movement and storage of bulk agri-
4 cultural commodities has been seriously and repeatedly
5 impeded by shortages of transient storage facilities,
6 adequate rail rolling stock, and the deterioration of
7 many railroad track beds and rural highways through-
8 out the United States;

9 (3) that the efficient movement and storage of
10 bulk agricultural commodities may be achieved and fa-
11 cilitated by the joint location at strategic points
12 throughout the United States of transient storage facil-
13 ities and multimodal terminal facilities constructed es-
14 pecially for the efficient shipment and receipt of agri-
15 cultural commodities; and

16 (4) that the location of such facilities must be
17 carefully planned to assure maximum benefits to pro-
18 ducers of agricultural commodities and to assure the
19 most efficient means of transporting bulk agricultural
20 commodities to domestic and export markets.

21 DEFINITIONS

22 SEC. 3. As used in this Act—

23 (1) The term "Secretary" means the Secretary of
24 Agriculture.

(2) The term "subterminal facility" means any facility—

(A) which is used for the transient storage of bulk agricultural commodities or for the transporting, upgrading, receiving, drying, or loading out of such commodities;

(B) which is used for the transient storage of any commodity or product that is used by producers in the production of agricultural commodities and that can be stored or shipped in bulk, such as fertilizer and fuel;

(C) which is located in the area of production of agricultural commodities and any major storage or major export point for such commodities; and

(D) which is located (or after construction, will be located) at a place that conveniently serves the needs of producers and purchasers of such commodities.

Such term also means any rail siding, loading, or unloading facility which can accommodate unit railroad trains or multiple car trains of twenty cars or more and other appropriate transportation modes designed for the transport and storage of bulk agricultural commodities and production materials.

1 (3) The term "bulk agricultural commodity"
2 means any agricultural commodity that can be trans-
3 ported in bulk from the farm where produced and can
4 be temporarily stored in bulk quantities without under-
5 going processing or packaging. Such term also includes
6 any commodity or product that is used by producers in
7 the production of agricultural commodities and that can
8 be stored or shipped in bulk.

9 STATE AND REGIONAL PLANS; PLANNING GRANTS

10 SEC. 4. (a)(1) The Secretary shall, beginning not more
11 than one hundred and eighty days after the date of enactment
12 of this Act, make financial assistance available to States
13 which make application therefore, and which otherwise meet
14 the requirements of this section and further requirements de-
15 veloped by the Secretary for the purpose of assisting such
16 State in the development of a subterminal facilities plan
17 (hereinafter in this Act referred to as the "State plan") for
18 such State. Assistance under this section shall be made avail-
19 able in the form of a grant. No grant may be made to any
20 State unless the Governor of such State or the appropriate
21 agency of such State makes an application therefor as pro-
22 vided in this section.

23 (2) The Secretary may also make such grants available
24 to two or more States acting together to develop a coordi-

1 nated regional subterminal facilities plan (hereinafter in this
2 Act referred to as the "regional plan") for such region.

3 (3) The amount of the grant made under this section to
4 any State, or to any two or more States acting together (as
5 provided in paragraph (2)), shall be proportionate to the
6 amount to which such State, or States acting together, would
7 be entitled for the purpose of implementing an approved
8 State plan or an approved regional plan (as defined in subsec-
9 tion (d)) under the provisions of section 310B(e)(2) of the
10 Consolidated Farm and Rural Development Act (7 U.S.C.
11 1932(e)(2)), except that in no case may the amount of the
12 grant exceed an amount equal to 80 per centum of the cost of
13 preparing the State plan or regional plan, as the case
14 may be.

15 (4) The State or regional plan shall prescribe in detail
16 the actions such State or group of States proposes to take in
17 order (A) to facilitate the efficient movement of bulk agricul-
18 tural commodities from the points of production within such
19 State or region to major market or export points, (B) to pro-
20 vide adequate storage facilities for such commodities between
21 points of production and market, and (C) to provide adequate
22 receiving, storage and loading facilities for any commodity or
23 product used in the production of agricultural commodities
24 and that can be stored or shipped in bulk.

1 (5) The State plan of any State or regional plan of any
2 group of States shall include the following:

3 (A) An analysis of the trends in the marketing,
4 shipping, storage, and production of bulk agricultural
5 commodities produced in such State or region and the
6 short and long range projections with respect to the
7 marketing, shipping, storage, and production of such
8 commodities in such State or region.

9 (B) A determination, on the basis of the analysis
10 and projections described in clause (A), of the needs of
11 the State or region for subterminal facilities and a de-
12 termination of the most efficient locations for and the
13 handling capacity of such facilities.

14 (C) A program for the continued use of existing
15 on-farm storage facilities located within the State or
16 region and for facilitating the transport of bulk agricul-
17 tural commodities stored on the farm, either to subter-
18 minal facilities or directly to market or export points.

19 (D) An assessment of the impact of subterminal
20 facilities on small rural storage facilities within the
21 State or region and a program for the continued use of
22 such small storage facilities under arrangements which
23 make subterminal facilities available to them on an
24 equitable and fair basis.

1 (E) An evaluation of the various types of nonprof-
2 it and for profit ownership arrangements available with
3 respect to subterminal facilities that will provide maxi-
4 mum benefits for producers of agricultural commodities
5 within the State or region, that will enhance such pro-
6 ducers' control over the marketing of commodities pro-
7 duced by them, that will provide reasonable ownership
8 participation opportunities of subterminal facilities by
9 the owners and/or operators of small rural storage
10 facilities, and that will otherwise minimize any adverse
11 impact on existing small rural storage facilities within
12 the State or region.

13 (F) An evaluation of the potential benefits of sub-
14 terminal ownership and leasing arrangements for rail
15 rolling stock (including locomotives), motor trucks,
16 barges, and other bulk agricultural commodity trans-
17 port equipment that will help achieve maximum bene-
18 fits from the operation of subterminal facilities within
19 the State or region.

20 (G) Findings regarding the need for, the potential
21 benefits of, the estimated cost of, and the possible
22 methods of financing a State or regional office which
23 would (i) coordinate the use of freight transportation
24 equipment with subterminal shipping requirements, and
25 (ii) be owned and operated by the subterminal facility

1 developed in such State or region with assistance
2 under this Act.

3 (H) Specific plans for constructing and improving
4 subterminal facilities within such State or region, in-
5 cluding features of such facilities that will facilitate the
6 efficient movement of bulk agricultural commodities
7 from points of production to market or export points.

8 (b) Any funds made available to a State or region for the
9 purpose of assisting such State or region to develop a State
10 or regional plan shall be made available on condition that the
11 appropriate State agency (1) hold public hearings in connec-
12 tion with the development of such plan, and (2) upon comple-
13 tion of such plan submit a copy thereof to the Secretary.

14 (c) No State or region shall be eligible for a grant under
15 this section unless—

16 (1) the average annual production of bulk agricul-
17 tural commodities by such State or region meets mini-
18 mum levels established by the Secretary for a period
19 the Secretary considers appropriate preceding the year
20 in which application for such grant is made;

21 (2) the Governor of such State or the Governors
22 of such States acting together on a regional basis certi-
23 fies to the Secretary that producers of agricultural
24 commodities have experienced serious storage and
25 transportation problems within such State or region

1 during the three years preceding that year in which
2 application for such grant is made; and

3 (3) such State or group of States acting together
4 on a regional basis has established an adequate plan,
5 as described in section 5(j) of the Department of
6 Transportation Act (49 U.S.C. 1654), for rail service
7 in such State or States.

8 (d) Whenever any State or group of States acting to-
9 gether on a regional basis has submitted a State or regional
10 plan under this section, the Secretary shall approve such plan
11 if it meets the conditions specified in this Act and those pre-
12 scribed in regulations of the Secretary to carry out this Act.
13 Such a plan when approved by the Secretary shall be known
14 as an "approved State plan" or an "approved regional plan",
15 as appropriate.

16 (e) To carry out the purposes of this section, there are
17 authorized to be appropriated not to exceed \$5,000,000 for
18 the fiscal year 1980 and for each of the three succeeding
19 fiscal years.

20 LOANS UNDER THE CONSOLIDATED FARM AND RURAL

21 DEVELOPMENT ACT

22 SEC. 5. Section 310B of the Consolidated Farm and
23 Rural Development Act (7 U.S.C. 1930) is amended by
24 adding at the end thereof a new subsection as follows:

1 “(e)(1) The Secretary may also make and insure loans
2 under this section to public, private, or cooperative organiza-
3 tions organized for profit or nonprofit, or to individuals for
4 the purpose of constructing or improving a subterminal
5 facility in any State if the construction or improvement of
6 such facility is consistent with the approved State plan or
7 approved regional plan of such State or region. Such loans
8 may also be made to purchase rolling stock (including loco-
9 motives), motor trucks, barges, and other bulk agricultural
10 commodity transport equipment to be used in conjunction
11 with the operation of subterminal facilities.

12 “(2)(A) The total amount of loan authority made availa-
13 ble for the purposes of this subsection for any fiscal year shall
14 be allocated by the Secretary among those States that have
15 approved State plans or approved regional plans. Such allo-
16 cation shall be made among such States on the basis of such
17 formula as the Secretary shall prescribe by regulation, except
18 that any such formula shall include the following factors: the
19 total railroad mileage in each such State, the annual produc-
20 tion of bulk agricultural commodities in each such State, and
21 the existing storage capacity for bulk agricultural commod-
22 ities within each State. In no event may the amount of loan
23 authority allocated to any such State in any fiscal year be
24 less than an amount equal to 1 per centum of the total loan
25 authority available for allocation in such fiscal year.

1 “(B) Any loan authority available for use in any State in
 2 any fiscal year that is not utilized by such State shall be
 3 reallocated, to the extent practicable, among other States eli-
 4 gible for the assistance provided under this section, in accord-
 5 ance with the same formula developed by the Secretary for
 6 the initial allocation of loan authority under this subsection.

7 “(C) The total railroad mileage, bulk agricultural com-
 8 modity production, and storage capacity within any State
 9 shall be determined by the Secretary in consultation with the
 10 Interstate Commerce Commission.

11 “(3) As used in this subsection, the terms ‘subterminal
 12 facility’, ‘approved State plan’, or ‘approved regional plan’
 13 shall have the same meanings as provided in the Agricultural
 14 Subterminal Storage Facilities Act of 1979.

15 “(4) Within one hundred and eighty days after the date
 16 of enactment of the Agricultural Subterminal Storage Facili-
 17 ties Act of 1979, the Secretary shall establish such rules and
 18 regulations as may be necessary to implement the provisions
 19 of and to carry out the purposes of this subsection.”.

20 NONRECOGNITION OF GAIN FROM SALE OF FACILITY IF
 21 PROCEEDS ARE REINVESTED IN ANY TRADE OR BUSI-
 22 NESS PROPERTY

23 SEC. 6. (a) Section 1033 of the Internal Revenue Code
 24 of 1954 (relating to involuntary conversions) is amended by
 25 redesignating subsections (g) and (h) as (h) and (i), respec-

1 tively, and by inserting after subsection (f) the following new
2 subsection:

3 “(g) CERTAIN AGRICULTURAL STORAGE FACILITIES
4 ADVERSELY IMPACTED UNDER THE AGRICULTURAL SUB-
5 TERMINAL STORAGE FACILITIES ACT OF 1979.—If the
6 taxpayer sells or exchanges a single purpose agricultural
7 structure (within the meaning of section 48(a)(1)(D)) used by
8 the taxpayer during a preceding taxable year ending 24
9 months or less before the date of sale or exchange by the
10 taxpayer in his trade or business for the storage of agricul-
11 tural commodities, and such sale or exchange is due to the
12 construction of a subterminal facility (as defined in paragraph
13 (2) of section 3 of the Agricultural Subterminal Storage
14 Facilities Act of 1979) which serves the area previously
15 served by the taxpayer’s structure, then—

16 “(1) the sale or exchange shall be treated as an
17 involuntary conversion for purposes of this section,

18 “(2) the sale or exchange shall not be considered
19 a disposition of, or cessation of being section 38 prop-
20 erty for, such property for purposes of section 47, and

21 “(3) any other property (including real property)
22 used by the taxpayer in a trade or business, including
23 farming, shall be treated as property similar or related
24 in service or use to the property converted.

1 For purposes of this subsection, the gain, if any, properly
2 allocable to the sale or exchange of any building or structure
3 used in connection with such an agricultural structure, or to
4 any land on which such structure (and building and other
5 structure) is located used in connection with the operation of
6 the agricultural structure, shall be treated the same as gain
7 from the sale or exchange of the agricultural structure if such
8 building, structure, or land is sold at the same time as the
9 agricultural structures.”.

10 (b) The amendments made by this section shall apply to
11 taxable years beginning after December 31, 1979.





DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

April 26 1979

Honorable Thomas S. Foley
Chairman, Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This letter is in response to your request for a report on H.R. 2968, a bill proposed to be the "Agricultural Subterminal Storage Facilities Act of 1979".

The Department of Agriculture does not support enactment of H.R. 2968 at this time. In the view of the Department such action would be premature prior to considering the findings and recommendations of the Rural Transportation Advisory Task Force. The Department of Treasury will be commenting on Section 6 tax provisions.

H.R. 2968 would amend the Consolidated Farm and Rural Development Act to authorize loans for the construction and improvement of subterminal storage and transportation facilities for certain types of agricultural commodities, and to provide for the development of State plans to improve such facilities within the States or within a group of States acting together on a regional basis.

The subterminal approach certainly has merit and is being followed very successfully in some geographic areas. Where density of crop production and other relevant variables indicate that a subterminal can operate profitably and return net benefits to agricultural producers, it is a viable option.

However, Public Law 95-580 authorized the establishment of a Rural Transportation Advisory Task Force. This Task Force is jointly chaired by the Secretary of Agriculture and the Secretary of Transportation and whose 14 members represent carriers, Congress, governmental agencies, and the agricultural and academic communities, has been mandated by the Congress to study and report on methods for moving agricultural commodities more economically and efficiently. The specific charge of the Rural Transportation Advisory Task Force is

threefold: (1) to make recommendations for determining the essential transportation needs of agriculture; (2) for establishing a national agricultural transportation policy; and (3) for identifying impediments to a railroad transportation system adequate to meet the essential needs of the agriculture industry of the United States.

The Task Force became operational on March 14, 1979. A study and report by the Task Force is due to Congress by January 1, 1980, on how to improve the movement of farm products and supplies in this country.

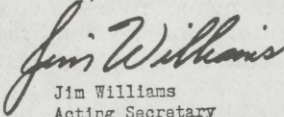
Authority presently exists, both within the Farmers Home Administration (FmHA) of the Department of Agriculture and the Federal Railroad Administration (FRA) of the Department of Transportation, for availability of funds, either on a loan (FmHA) or grant basis (FRA) for subterminal facilities. To this extent it is the Department's view H.R.2968 would provide some duplication of authority which presently exists in both the FmHA and the FRA. Additionally, it would require two separate federal planning processes for the same purpose.

FRA also has authority for grants to States for rail planning, including projects such as subterminal facilities. Adequate funds are available for these purposes in Fiscal Year 1979.

Several projects have been funded by FmHA for branchlines. Farmers Home Administration at USDA and Federal Railroad Administration at DOT have recently signed a memorandum of cooperation outlining program objectives and procedural matters. Farmers Home expects to provide an increased level of loan activity for railroad rehabilitation and rail shipper facility projects during Fiscal Year 1979 and subsequent years.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

A handwritten signature in cursive script, reading "Jim Williams".

Jim Williams
Acting Secretary

Mr. NOLAN. I am delighted to call as our first witness the Honorable Thomas A. Daschle, a Member of Congress from the State of South Dakota, and a member of this subcommittee.

Mr. Daschle, please proceed.

**STATEMENT OF HON. TOM DASCHLE, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF SOUTH DAKOTA**

Mr. DASCHLE. Thank you, Mr. Chairman.

I want to associate myself with the remarks made by the ranking minority member. I certainly agree with him that it is to your credit that we are holding these hearings this morning.

The Agricultural Subterminal Storage Facilities Act provides grain farmers and other bulk agricultural producers and shippers with the comprehensive planning and financial assistance resources needed to finally shake themselves free of intolerable and alarmingly wasteful, poor rail service. It does so by enabling them to build modern, efficient, storage and transportation facilities into a national rail system undergoing far-reaching structural changes.

The bill is based on the successful efforts of Iowa grain producers, grain cooperatives and small elevator operators over the past several years to escape dependence on obsolete storage and loading facilities often located on totally inadequate branch lines which are threatened with abandonment.

These groups found that establishment of modern, strategically placed subterminals on main lines and viable branch lines have enabled them, with the use of multiple car and unit trains, to obtain adequate railcar service and to ship more grain at better prices on schedules of their own choosing. Similarly successful but less extensive efforts have been launched in other grain-producing States, including South Dakota. There, one subterminal operator found he could reduce rail transportation costs by as much as 20 cents a bushel with the use of multiple-car shipments.

Against this demonstrated, though limited, background of success, the bill provides a way to achieve widespread application of an emerging storage and shipping system technology to benefit the greatest number of producers and local shippers. It is a vehicle to enable them to prevent changes occurring in rural America's rail network that may leave them even more disadvantaged than they presently are.

The bill essentially consists of two sections. The first would provide grants for comprehensive State and regional planning efforts to determine the need for and the best location of subterminals.

The second furnishes loan assistance to construct and operate such facilities if credit is not otherwise available. Overriding all the provisions of the measure is the mandate to give priority for ownership to local producers and shippers, assure that local producers receive maximum benefits from subterminals, and to continue to utilize existing on-farm and small elevator facilities in conjunction with subterminals.

For reasons that I consider to be wholly unacceptable, the bill is opposed by the Department of Agriculture. During consideration in the Senate, USDA admitted that subterminals have merit, but asked that consideration of the bill be delayed pending the report of the Rural Transportation Task Force.

The task force has now made its report. Among key recommendations are ones urging the use of rail rate-and-service contracts between agricultural shippers and railroads and the utilization of multiple-car and unit trains.

Subterminals automatically and fully lend themselves to both recommendations.

USDA also pointed out that existing programs within that agency and the Department of Transportation could provide the assistance furnished by the bill. This is true only in the most superficial sense.

It must be recognized that what we are considering here is major legislation which would launch a comprehensive, interstate, multifaceted planning effort focused on multimodal bulk agricultural storage and shipping.

It would be nothing less than self-defeating to attempt to fold this initiative into existing programs where both the scope and funding is limited, the focus defused, and where a large group of diverse interests are competing for attention.

I think USDA's real position becomes clear when the Department's testimony to the Senate Agriculture Committee on the bill is examined. During the course of that hearing, Ronald Schrader, Director of USDA's Office of Transportation, actually admitted that the Department would have been able to support the bill had not OMB opposed it on the grounds it called for expenditures of \$5 million in planning funds.

During discussion of this point during the Senate hearing, it was observed that the Defense Department spends \$5 million every 20 minutes, 24 hours a day, all year long. Needless to say, the Senate brushed aside the obviously flimsy USDA position and passed the bill.

The lending assistance provided by the bill relies on the existing business and industrial loan program of the Farmers Home Administration. In effect, this section of the bill simply makes it clear that the subterminal program qualifies for rural development assistance and requires that such loan assistance provide maximum benefits to agricultural producers impacted by these facilities.

During consideration in the Senate, the Agricultural Subterminal Storage Facilities Act was amended in a number of important and beneficial ways. These changes eliminated the use of direct loans and confined credit assistance to insured and guaranteed loans, reduced the authorized level of planning grants from \$5 million to \$3.3 million a year for 3 years, required establishment of local plan review commissions to provide greater opportunity for grass roots participation in planning efforts, and somewhat broadened the transportation options which must be considered in development of plans.

Like Senator McGovern, I view these changes as helpful.

Beyond these considerations, I think the bill should be further improved by appropriate technical amendments that make it clear that planning and credit assistance is available to distributors and consumers of bulk agricultural commodities used in the production of food and fiber, as well as by producers and shippers of such commodities.

When Senator McGovern and I introduced this legislation we envisioned that, for example, poultry producers and cattle feedlot operators should be able to utilize subterminals to receive bulk feed grains.

In this connection, I will today introduce an amended version of the Senate-passed bill which reflects these considerations, and I urge the subcommittee to take up this bill in markup.

Mr. Chairman, with these changes in mind, I urge the subcommittee to adopt what I consider to be milestone legislation in efforts to improve rural America's sadly neglected and discouraging inadequate transportation system. With this bill we will be providing the Nation's agriculture community with the leverage it needs to tailor its transportation requirements to the developing shape of a restructured rail system.

Mr. Chairman, I would like to also submit for the hearing record an article by Jim Ruen, a South Dakota farmer, concerning cooperative grain elevators in South Dakota and North Dakota, who are already joining together to build a subterminal.

Mr. NOLAN. Without objection, that will be inserted in the record at this point.

[The article "Cooperation Helps Elevators Beat Abandonment," from the April 19, 1980, Dakota Farmer, is held in the subcommittee file.]

Mr. DASCHLE. I appreciate this time, Mr. Chairman.

Mr. NOLAN. Thank you very much for your statement, Mr. Daschle.

I think it really sets the tone and the spirit and the concern with which this subcommittee intends to deliberate on this matter.

Let me call our first panel of witnesses.

That will include Mr. Ronald F. Schrader, Director, Office of Transportation, U.S. Department of Agriculture; Mr. Robert Bruton, Rural Policy Coordinator, Office of the Secretary, U.S. Department of Transportation; and Mr. Richard J. Schiefelbein, Deputy Director for Rural Services Planning, Interstate Commerce Commission.

Gentlemen, could you please come to the witness table.

Mr. Schrader, I will call on you first.

It is a delight to have you before the committee.

For the interest of the rest of the committee, I have had enormous respect for Mr. Schrader since the days when he coached the basketball team that I played on, a team that he took to the State championships every year.

I must confess, however, that our rise to the State championship was no part of my doing. All I did was make his starters work hard at practice time.

But it was a delight to play on your team. It is still a delight to be working on your team. I think you know I have nothing but the greatest respect for you.

It is a privilege to welcome you before the subcommittee. You may proceed.

STATEMENT OF RONALD F. SCHRADER, DIRECTOR, OFFICE OF TRANSPORTATION, AND ROBERT TOSTERUD, DEPUTY DIRECTOR, OFFICE OF TRANSPORTATION, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY ROBERT BRUTON, RURAL POLICY COORDINATOR, OFFICE OF THE SECRETARY, U.S. DEPARTMENT OF TRANSPORTATION; RICHARD J. SCHIEFELBEIN, DEPUTY DIRECTOR FOR RURAL SERVICES PLANNING; CONSTANCE L. ABRAMS, ASSOCIATE DIRECTOR, OFFICE OF POLICY AND ANALYSIS; AND RICHARD KLEM, DEPUTY DIRECTOR FOR MOTOR CARRIER POLICY, INTERSTATE COMMERCE COMMISSION

Mr. SCHRADER. Thank you, Mr. Chairman.

I appreciate those nice words.

I am speaking on behalf of Bob Bruton of the Department of Transportation with respect to the task force activities, as well as the Department of Agriculture.

Behind me is Dr. Robert Tosterud, the staff director of USDA's effort in the task force activity. Bob Bruton, on my right, is the staff director for DOT's portion of the Rural Transportation Advisory Task Force proceedings.

Dick Schiefelbein from the ICC served as a member of the Rural Transportation Advisory Task Force, as well as Dr. Phil Baummel, who will be testifying shortly.

I am pleased to be here to report on the final task force recommendations and to present the administration's views on H.R. 2968.

I have a prepared statement which I would like to have submitted for the record.

Mr. NOLAN. Without objection, it will be placed in the record in its entirety.

Mr. SCHRADER. The bill, H.R. 2968, provides for an amendment to the Rural Development Act, as you know. It authorizes loans for the construction and improvement of subterminal storage and transportation facilities.

We believe the subterminal approach has merit and has been implemented very successfully in many geographic areas, particularly in Iowa, which I believe is the best example.

As you know, Mr. Chairman, this Department has already reported its opposition to the bill. The basis for our opposition is not that we do not support the subterminal concept, but rather that the authority presently exists within USDA, the Farmers Home Administration, and within the Federal Railroad Administration at DOT.

At Farmers Home we have the business and industry loan program and also the community development program. At the FRA they have both grant and loan authorities available for subterminal facilities. FRA also has the authority for grants to States for rail planning, including projects such as the subterminal facilities.

Therefore, it is the administration's view that H.R. 2968 would duplicate authority which presently exists in both Farmers Home and FRA.

Section 5 of the Department of Transportation Act provides for comprehensive rail assistance to States for planning and rehabilitation. It is a Federal-State cost-sharing program with the Federal share set at 80 percent.

The fiscal year 1980 funding is \$90.5 million, including a carryover from previous years that is apportioned to the States. Each State may spend up to 5 percent of its total entitlement with a minimum of \$100,000 to each State for these planning-type purposes. The total planning money available for fiscal year 1980, including the carryover, is \$6.3 million.

So, Farmers Home has both community development and business and industry loan programs to rehabilitate rail lines. This program in Farmers Home was implemented 8 months ago as a result of the administration's rural transportation initiative. We have eight applications. One has been approved. Another is nearly at that point. The total amount would be \$12.7 million, should all eight of them be approved.

I would like now to talk about the Rural Transportation Advisory Task Force. We first reported a year ago that the task force was underway. We also indicated that we would like to hold our comments on the subterminal bill until the final recommendations were in.

As Congressman Daschle indicated, the final report is in. While the task force did not specifically address subterminals, its strong endorsement of multiple car and unit train shipments, as well as other recommendations concerning the rail industry, are certainly conducive to developing subterminals.

We had 15 members on our task force. There were actually 14 with 1 alternate, plus the Secretaries of DOT and USDA. We held 12 public hearings around the country. We had about 9 or 10 months of debate over the various issues. We published the final report in January of this year.

This committee indicated that they wanted a task force made up of different types of individuals. I think, in retrospect, it was an excellent choice because we had members of the academic community, members from the Government, the ICC, representatives selected by the House Agriculture Committee and the Senate Agriculture Committee, as well as from the shipping community, the agricultural community, and so on. We had lively debates and lively discussions. I think as a result of this we came up with some recommendations that could be sold not only in Congress but to the public.

We had three objectives as set forth by this committee and by the Congress:

One was recommending a means for determining, on a continuing basis, the essential transportation needs of agriculture;

Second, recommending elements necessary for a national agricultural transportation policy; and

Third, recommendations on what are some specific impediments to agriculture's transportation system and how we could rectify them.

Let me just briefly talk about those three areas.

First are agriculture's transportation needs. We had four basic recommendations in this area:

The first was to recommend the development and publication of estimates on current and future agricultural movements by commodity, mode, and region.

Today in this Government we have roughly 50 to 60 agencies that have information on transportation. The Federal Grain Inspection Service, for example, has information on weights at export for all types of grain, from Winter wheat to what have you. The Agricultural

Marketing Service has market news information on all perishable shipments from all parts of the country. The ASCS has storage capacity figures for grain throughout the country.

But the problem is that this information has been used by the various agencies for their own purposes, and not for the purpose of transportation. What the task force recommended is that all of this information, not only from USDA, but from the Federal Maritime Administration, from DOT, and other places, be put together, computerized, and some sense made of it so that Government can make decent legislative decisions in the future.

In addition business could improve their investment decisions in the future in the best interests of agriculture.

The second recommendation in the essential needs area is that the ICC, in consultation with USDA and DOT, monitor the transportation system's performance in serving agriculture, particularly the railroad industry. If the task force recommendations are implemented, how are they affecting agriculture? If they are not implemented, how are the systems working?

Third, the task force recommended that USDA continue its applied research activities in transportation.

For example, in this country today we have 150 different-size wooden pallets; we have 2,500 different-size boxes—a situation which is creating a terrible mess. In Europe there are 4 different-size pallets and 68 different-size cardboard boxes. This makes it much easier to move, to store, to put on pallets, and so on. The task force felt that this, among other things, had to be rectified. Technological research could help to solve some of these problems.

In addition, there are some new techniques, such as the "road-railer," which is a trailer with railroad wheels which could be used on some of our branch lines, and perhaps even on our main lines, to move goods to market. This perhaps would not necessitate the rehabilitation of so many of our badly deteriorated branch lines.

Next is the national policy area.

The task force recommended that the primary objective of a transportation system for agriculture is the efficient movement of agricultural products. It should be achieved through market forces, free enterprise. They did feel that some rate and service regulation must be continued, particularly in the area where no effective competition exists, such as the area of captive shippers, for example.

They also felt that public funds used to develop and maintain a transport system should be identified and looked into to determine whether or not they should be recovered through the institution of some sort of user fee.

Finally, they felt that the cost of advancing nontransportation goals, such as rural development goals, family farm goals, and other goals of that nature, should be assumed not by the carriers, not by the railroad companies and the trucking companies, but by the public.

The final area is the area of specific impediments to our system. I would just like to briefly cover the three major areas: Waterways, highways, and rail.

First of all, in the last 10 years, our grain exports have increased, tremendously as you know. Of those increases, approximately 70 percent have been taken up by the waterways system.

In looking at the three major export waterway systems; the Mississippi River, the Columbia River to the west, and the St. Lawrence Seaway, we found there was no further room for expansion. Locks and dam 26 has a 2-, 4-, to a 5-day delay at that facility. Certainly it could not take any additional grain exports, such as we anticipate for the 1980's. We have the same situation on the Columbia River to the west; and, of course, the Welland Canal is a bottleneck on the St. Lawrence Seaway.

So, the recommendation of the task force was that the corps immediately accelerate their construction schedule for locks and dam 26 and, rather than make an 8- to 10-year project, that they cut it down to 4 years. They also recommended that Congress accelerate its appropriations schedule for that project, thereby saving time and inflation costs.

Also, they recommended that Congress immediately authorize a second 600-foot lock at locks and dam 26. As you know, the legislation that passed Congress calls for one 1,200-foot lock. They felt a second auxiliary lock was important and would be needed by the time the first lock was built.

They also recommended that executive and legislative procedures be modernized so that environmental and economic impacts would be given more equal and quicker treatment so that there would not be such a long holdup on pushing very important projects, such as locks and dam 26.

They also recommended that the Welland Canal—even though it is in Canada, and we have no direct control over it—that negotiations between this Government and the Canadian Government should be opened to try to get an agreement to rehabilitate and enlarge that facility, they also recommended economic and environmental feasibility studies on the Bonneville and John Day Dams on the Columbia River.

Second, are the truck and highway recommendations: The task force recommended that uniform weights of 80,000 pounds be implemented nationwide for trucks. As you know, there are 11 States in the country today that have 73,000-pound weight limits, thus forcing 15 percent waste on products moving from the west to the east coast.

They also recommended there be an equal length limit of 65 feet for all trucks. They recommended that there be uniform State regulation and licensing procedures to prevent trucks from having to pay different homages at each State as they cross borders, regarding new rules, regulations, and licensing.

They also recommended that there be Federal financing of the maintenance of the Interstate Highway System. Currently that maintenance is handled by the States. They felt the States could better use their money on the rural road and bridge problems within their own State.

They felt there should be an increase in agricultural exemptions for trucking. They also recommended that there be an increase in the current agricultural co-op exemption from 15 percent for nonmember, nonfarm goods to 50 percent. They recommended a standard contract of haul for interstate trucking of fresh fruits and vegetables, which would be implemented by the Secretary of Agriculture.

They also recommended that the hours-of-service regulations for truckers stay at 10 hours rather than the 8 hours as have been recommended by some groups or the 12 hours that have been recommended by the truckers.

Those are the highway issues.

Finally, I turn to the rail issues:

First of all, the task force recommended that there should be a demonstration free-running car fleet. This car fleet would be owned and controlled by the railroads. The railroads would contribute 500 covered hopper cars and 500 boxcars to this fleet. It would be sent to Florida, for example, in the spring to help with the phosphate problem, to the wheat-growing areas of Kansas and Oklahoma in the early summer and to the grain-growing areas of the Upper Midwest during the fall. It could be used as a trouble-shooting system.

On abandonment procedures, in those areas where there are no protests by the shipping community, the task force recommended that these procedures be limited to 75 days. If there is a protest, then the railroads should be forced to give relevant data to the shippers so that the shippers can adequately defend themselves before the Interstate Commerce Commission.

They also recommended that the Farmers Home Administration and the Federal Rail Administration increase their rehabilitation of branch lines under the Rail Line Agreement, which I described earlier when talking about the Daschle bill. They also recommended that there should be no abandonment permitted if shippers and receivers are willing to commit themselves in the upgrading of that line, so that it would yield a profit, or a return.

They recommended the promotion of end-to-end mergers of rail lines. They recommended a binding arbitration procedure between labor and management in the rail work rules.

As you may know, today rail labor has work rules that were originated in the 19th century. They include such things as the 100-mile rule: If you go 100 miles, you get 1 day's pay; and if you go 200 miles, 2 day's pay; 300 miles, you get 3 day's pay; and so on. If you work 12 hours and you are not in the terminal, you stop the train, you get a taxicab and you go to town. You come back the next morning and pick up the train and take it in the rest of the way.

The task force felt those rules were antiquated and should be upgraded. Should labor and management not be able to resolve those problems, some kind of binding arbitration on work rules only, which would permit more efficient use of rail lines, should be instituted to solve those problems. They also recommended that there be intermodal terminals developed for air, rail, and truck.

Finally, and I guess the most important recommendations, or perhaps two of the most important recommendations, are the rural transportation cooperative concept, which is a demonstration project that would incorporate the ideas encompassed in the Rural Electrification Administration.

Low-interest loans should be made available to groups of shippers who could buy up a branch line, or several branch lines and provide their own rail service, with technical assistance perhaps being given to those shippers by this administration. I do not want to mislead you.

The task force did not recommend this administration be set up, but a demonstration project in one area of the country should be set up to determine whether or not this idea is feasible.

Another important recommendation concerns interim rehabilitation. Under the 4-R Act of 1976, there is a preference-share loan program that is available to upgrade main lines. The task force recommended that this redeemable preference-share loan program be expanded and more moneys be put into it to improve those main lines serving export facilities. The task force felt that the only way our problem with rehabilitation was going to be solved was to infuse some money into these export lines.

The final recommendation is a contract rate approach to rail hauling. The task force looked at the bill that was before Congress about 1 year ago, S. 796. They did not feel that it adequately protected the captive shipper.

They began to look for ways that a captive shipper could be protected. Different definitions of a captive shipper were looked at. After several months they decided that was impossible. So they finally ended up with a recommendation for a contract rate approach, a three-tier system: A negotiated contract, a regulated contract, and a continuation of the current common carrier obligation. No more than 50 percent of the cars owned by a railroad could be used for the contract approach; 50 percent of those cars had to be kept for common carriage.

They also felt that anything under the contract approach had to be protected from car service orders, that rates must be above variable costs, and that anyone who wanted to declare himself a captive would be eligible for the regulated contract provision. The regulated contract means that a shipper who says that he is captive and declares himself as such, must guarantee to the railroads a certain percentage of his traffic.

The railroads, in turn, would have to guarantee rate and equipment over a period of time. If there is any dispute over the contract, the ICC would be the final arbitrator of that rate.

The freight rate in a regulated contract would be no less than the fuel cost of providing the service. I will let some others explain that in more detail should you have any questions.

Finally, the task force asked that USDA and DOT, for the next 5 years, assist shippers, small shippers, throughout the country, in helping them form shipper associations so they could collectively negotiate for contracts. This would help put small shippers on a more equal basis with large shippers.

Of course, this brings us back to the subterminal facilities bill. Many of these recommendations would, in fact, promote a subterminal-type concept.

Mr. Chairman, I will stop at that point. Thank you.

Mr. NOLAN. Thank you very much, Mr. Schrader.

I really have not had an opportunity to personally thank you for the leadership that you have demonstrated in carrying out the task force report.

Specifically, let me thank you for a very clear and articulate presentation of the report here this morning. I think I can speak for everyone on the committee that they are grateful for the manner in which you have carried out the task force study. They are pleased with the kind of report that you have prepared here.

I just want to say thank you for that.

Let me at this point call on Mr. Bruton. Do you have a statement you would like to make?

Mr. BRUTON. No; I do not have a statement. Mr. Schrader made the statement for both of us.

Mr. NOLAN. Mr. Schiefelbein, do you have a statement?

Mr. SCHIEFELBEIN. The Interstate Commerce Commission does not have a prepared statement, but we have brought staff members who can address the questions the committee may have.

On my left is Richard Klem, Deputy Director for Motor Carrier Policy at the ICC and on his left is Mrs. Constance Abrams, Associate Director of the Office of Policy and Analysis in ICC.

Mr. NOLAN. Thank you very much.

Mr. Daschle, do you have any questions you would like to ask?

Mr. DASCHLE. Thank you, Mr. Chairman.

I would like to commend Mr. Schrader for what I think is an excellent summary of what is a very formidable study—a study that is a comprehensive look, finally, at rural transportation in particular, and the problems we are facing. I certainly want to commend him not only for his work on the study but the description he gave the committee this morning.

I have a number of questions that relate not only to the study, but actually to the work done within the Department of Agriculture. Let us assume for just a moment that we satisfied the whole matter of cost and let us assume just from the study's prospective, Mr. Schrader, do you think the subterminal bill, as a concept, supports the goals that are set out and the approach recommended by the study?

Mr. SCHRADER. Yes; I do.

Mr. DASCHLE. I share that feeling that the subterminal approach really does coincide very well, especially in the area of intermodals, which as you very ably pointed out, was the No. 1 recommendation of the task force in the highway service. I guess my concern is that unless we have some kind of directed approach, we really do not have the means by which we can focus attention.

My second question relates to the history. Obviously, when you looked at the recommendations made by the task force you mentioned in your earlier testimony about Iowa. Some of the people have looked at subterminal approaches as a means of degrading or nullifying the impact or the import that small country elevators in this whole affair have.

Would you say, based on the cases in Iowa and the history in Iowa, that subterminals have debased country elevators or actually have assisted country elevators in this movement of grain?

Mr. SCHRADER. I did not hear the one word. Have they hurt or helped?

Mr. DASCHLE. Hurt or helped; yes.

Mr. SCHRADER. I am not sure. I think Dr. Baummel could answer that question more effectively than I, but in Iowa, of course, subterminals are very effective because of the high density of production. Of course, you could have the subterminal facility and truck in from 20 miles very effectively.

In a State like Montana, you have a different story where you have different kinds of wheat and different kinds of grain, and, therefore,

you would need a separate storage tank for each of the various types of grain, such as barley, winter wheat, and so forth.

I am not answering your question.

Mr. DASCHLE. No, I think you are. I think you point out exactly what my preception has been in the case in Iowa and that is that there have been a very direct and beneficial relationship between the subterminals and the small country grain elevators.

In essence, if we would hold the grain elevators in Iowa—certainly Mr. Grassley can further elaborate, if he wishes—I think we have seen a very positive partnership or relationship that has developed. I think you pointed that out.

What do you think your assessment of the future would be given the fact that now we have seen an abandonment in the rail system in the upper Midwest, such as Milwaukee. We see the Rock Island problems continuing to prevent movements of grain.

How do you see—if we do not focus attention on subterminal concepts—of whether or not you will find yourself in support of this bill of what other approach there is?

How do we get around to modalism without subterminal? Or, is there any other alternative?

Mr. SCHRADER. As I pointed out in my testimony, we have no objection to this concept. It is a good concept. Many of the recommendations of the task force, in fact, would push us toward more subterminals.

So, we have no objection to that concept. We feel that the Government has the capacity at this time and the funds to promote that concept without additional legislation.

Mr. DASCHLE. Thank you.

When you address the bill itself, in essence, really the only—if there were not \$3.3 million in the bill on an annual basis which comes to \$15 million for that 5-year period, what you are telling me is that you would emphatically support this subterminal bill; is that correct?

Mr. SCHRADER. I believe that would be correct. As I have stated, adequate authority and funding currently exists.

Mr. DASCHLE. And \$15 million over 5 years is what OMB has trouble with; is not that the problem?

Mr. SCHRADER. I am not certain. I have not talked with OMB.

Mr. DASCHLE. I see. Let me ask you one final question, Mr. Schrader.

We have talked about subterminals in the past. We have had various discussions about intermodalism. You have talked about Farmers Home or the Farmers Home method over the last 8 months.

That would take us roughly back to August or September of last year. That was 3 months after the hearings and the markup and the passage of the Senate bill.

Was there a direct relationship between the action taken in the Senate and the effort made by the administration to move on subterminals?

Mr. SCHRADER. No, Congressman. The 8-month figure is incorrect. I am sorry.

The actual agreement took place, I believe, in late May or early June. I believe the first application came in in August. I was referring to the application—the first application was about 8 months ago.

But the agreement itself took place and was formalized, I believe in May or early June. I am not quite certain when.

By the way, that agreement dealt with using Farmers Home funds for rehabilitation of branch lines that were identified in the State rail plan as essential. So, those lines were then eligible for not only FRA funds under 1976 for our act, but also under the Farmers Home business and industry program.

Mr. DASCHLE. Mr. Chairman, I ask unanimous consent for 1 additional moment.

Mr. NOLAN. No problem. Please proceed.

Mr. DASCHLE. I would ask this. Within the Farmers Home Administration, how does your structure differ from the structure that we set out in the bill?

I have the impression that basically you really have no structural differences with the way the bill is set up. In essence, we might already be using the funds and the resources within the Farmers Home, but not in any kind of focused fashion.

We do not have a program specifically for subterminals. It is just considered along with all the rest; is that correct?

Mr. SCHRADER. That is correct. The Farmers Home program is available for quite a number of things, including the transportation activities that we are talking about.

Mr. DASCHLE. Which is why, then, speaking from the Department of Agriculture, you really have no objection to putting that kind of focus on subterminal bill program?

Mr. SCHRADER. We have no objection; and the FmHA program is already proceeding in that direction under their B. & I. loan program.

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. NOLAN. Mr. Baldus?

Mr. BALDUS. Thank you, Mr. Chairman.

Thank you, Mr. Schrader.

I have not had the opportunity to go through this report thoroughly, but I am sure it will be used by the committee extensively. Incidentally, I am not a member of this subcommittee, but I am a member of the Agriculture Committee and I am interested.

Were there attempts in your study to go through and quantify cost-benefit ratios or to assign priorities to the various recommendations?

Mr. SCHRADER. Yes; there were. Maybe I could turn some of this over to Bob Bruton and Bob Tosterud and also Dick Schiefelbein.

Mr. Schiefelbein was a member of that committee. Dick, could you respond to that?

Mr. SCHIEFELBEIN. Congressman, as a member of the task force, I think there were indeed priorities. If I could speak for the whole task force, I think the priority was particularly the rail area.

It is important to agriculture that the railroad transportation system be healthy and stay in business over the long term. Changes that are needed to assure the long-term viability of the transportation system that agriculture needs were by far the most important recommendations.

That is why the concept of contracts for railroad transportation was high on the recommendation list of the task force. The ability to do forward planning, to have a known demand for your service, and to start to negotiate with your customers so that your service and prices meet their needs, I think is very important over the long run.

I would identify as our next important recommendation the focus on the need for adequate transportation capacities in export channels. The way the task force pointed to that was through the recommendation that some of the existing funds in the redeemable preference share program that is administered by the Federal Rail Administration be focused on export transportation and that export transportation be a principal criterion in deciding where to apply the loan funds that are available.

I would focus on the capacity and long-term viability of the rail system; those recommendations are, by far, the highest priority ones in the task force's report. Many of the others are supporting recommendations, such as assisting shippers who are not in a position to start negotiating contracts now.

There we are talking about changing the way transportation is done by instituting contracts. The task force also recommended that assistance be provided to those who would have to start negotiating contracts to make the adjustment to the new way of doing business easier.

Mr. BALDUS. Mr. Bruton, would you also like to answer the basic question of priorities and cost benefits?

Mr. BRUTON. I agree with Dick Schiefelbein in the priorities he described. They are pretty much those of the task force members.

If you mean cost-benefit analysis—there was no analysis of that type done by the task force. The priorities were set up mainly on the basis of the opinions of members.

Mr. BALDUS. That is what I am concerned about. This year we saw the basis of that as the difference between grain prices inland and away from port facilities and so forth, spread to 80 cents.

What I am worried about is the cost of not doing something. We must understand fully what the cost of indecision, lack of direction, and the lack of planning is going to do to us. Were there efforts made to project needs down the road and to set up systems based on the projected problems?

Did you do that kind of thing?

Mr. BRUTON. That was not done as part of the task force work. It is one of the principal recommendations of the task force that that be done by the Department of Agriculture.

Mr. BALDUS. That would be a second step?

Mr. BRUTON. That is right.

Mr. BALDUS. It would seem to me that given past history and what we know logically on grain alone, we are going to become even more of an exporting nation. The grain comes from the interior; it has to get to the exterior. We are using our export facilities to the limit. Either we are going to have to make better use of existing facilities or there is going to have to be some expansion of facilities.

Certainly we are going to have normal wear and tear and deterioration. Unless the facilities are maintained, we are going to be in more and more trouble. That is the kind of cost-benefit ratio I am looking for. On locks and dam 26, the recommendation is to speed up the construction. Was that quantified in some way, as to what the costs are and the delay is? What is the benefit in speeding up construction, Mr. Schrader?

Mr. SCHRADER. Mr. Baldus, the cost figures were mostly from the Corps of Engineers insofar as the total cost of the facility is concerned.

As I recall, they estimated \$500 million or \$600 million—could be as high as \$1.5 billion—in the 8-year timeframe that the corps originally set up for construction.

They estimated they could do it in 4 to 4½ years with a cost saving of about 75 percent of that inflationary portion of the cost. That was one item.

The second and more important item so far as the task force is concerned, I think, was the fact that the amount of grain for export was going to increase so significantly in the next 5 to 10 years that we could not afford to wait for the 8-year timeframe for construction. That had to be accelerated so that we would not have this interruption of flow and put additional stress on a rail system that perhaps is not able to handle it.

Mr. BALDUS. Did the task force quantify the anticipated shipping volume in the next 5 or 10 years? You just referred to it, but I wonder if you had put that down on paper?

Mr. SCHRADER. I do not think so.

Mr. BALDUS. Thank you, Mr. Chairman.

Mr. NOLAN. Thank you, Mr. Baldus.

Mr. Harkin?

Mr. HARKIN. Thank you.

I just want to make one point. I understand Mr. Schrader or Mr. Schiefelbein said that basically this administration is doing some things in this area. It is a problem that we see a lot of times in this committee, and other committees, and that is that the administration witness comes in and says, "Well, we are already doing something. We have the flexibility to do it. We will make those kinds of decisions within the parameters of existing law."

The question that confronts us is what happens next year if this administration may not be here, or in 2 years or 5 years from now? In other words, we look at it from a long timeframe. If we think something like the Daschle bill has merit to it, we see it as something we probably ought to enact into law to provide direction to whatever administration might be downtown at any given point in time.

I just wanted to make that point.

Mr. NOLAN. Thank you very much, Mr. Harkin. That is a good point.

I have just a couple of questions.

You talked about the loan money that is available for the subterminals program that Mr. Daschle was talking about through FmHA and through the Federal Railroad authorities. Are there any planning grant moneys available under FmHA or as would be anticipated under the Daschle and McGovern proposals?

Mr. SCHRADER. Planning grant moneys are available through the Federal Railroad Administration. Bob Bruton could answer that.

Mr. NOLAN. Are they available under FmHA? With regard to the rail people, are they available for that specific purpose? Or are they available for just general statewide planning?

Mr. BRUTON. The purpose of the planning funds is to permit the States to develop State rail plans. Terminals are part of State rail plans.

Mr. NOLAN. They are part of it, but if someone came to you and said: "Look, we are considering a subterminal plan. Could we get some money to plan for that?" Are you able to consider an application

submitted specifically for that purpose rather than being part of an overall State plan?

Mr. BRUTON. It would not be submitted to us. It would be submitted to the State. It would be up to the State whether it wanted to take it on or not.

Mr. NOLAN. But the only people who can apply to you for money are States—for development of their overall State plans; is that correct? So really there would not be grant money for specific planning for these purposes unless a State decided on it?

Mr. BRUTON. That is right.

Mr. DASCHLE. Would the gentleman yield on that?

Could you tell us whether any planning money has been granted to States, even for subterminals at this date?

Mr. BRUTON. Money from the Department to the States goes for general statewide rail planning. The Department does not determine whether or not it goes for subterminals.

Mr. DASCHLE. Do you know whether any of the States have used that money?

Mr. BRUTON. No; I do not know.

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. NOLAN. The next question I have is a rather general one but it is an important one.

One of the reasons we find a lot of opposition from time to time to commissions and task forces and study groups here in the Congress is the sense of feeling that all too often a report is filed and oftentimes is an excellent report, such as the one we have before us today.

But the commission or the task force completes its work, it makes a presentation to the authorizing committee, and many of its recommendations cross the jurisdictions of numerous committees and the commission files its reports.

The commission, or task force, as in this case, is disbanded. It goes on a shelf somewhere and collects a lot of dust. There is really oftentimes not accompanied by any kind of action or implementation plan.

Maybe here and there a member like Mr. Daschle picks up a part of it and runs with it and gets something done. But oftentimes there is not a comprehensive plan of action to implement the recommendations.

So, my question to you is this: What, if any, kind of concerted effort are you aware of that the Department intends to make to follow up on the recommendations that are contained here in your report?

Mr. SCHRADER. The Department has not taken a position formally. Neither has the administration taken a position formally on all the recommendations in the task force report.

We have presented the recommendations to the Secretary. The DOT, of course, has presented their final recommendations. The administration and the White House have been given a briefing on it.

I know they are strongly supporting various elements of it. There have been a number of these recommendations already implemented by legislation. Several of the trucking recommendations are in the trucking bill that passed the Senate last week.

Several of the recommendations are included in the rail bill which has passed the Senate, I believe.

We have a bill that has been introduced by, or will be introduced by Representative Baucus on 10 of the 33 recommendations, most of

which deal with the Department of Agriculture and the development of statistical information on data and so on for long-range purposes.

So, we have a number of these recommendations that have been discussed. But there is no formal approach. There is no plan of action, as you point out, on how to get all these implemented.

Mr. NOLAN. Thank you.

I have no further questions. Do any of the other members of the committee have any questions?

[No response.]

Mr. NOLAN. Again, Mr. Schrader, to you and your staff, we thank you and commend you for an excellent report.

Mr. SCHRADER. Thank you, Mr. Chairman.

[The following additional material was submitted by the Department of Agriculture:]

This is in response to the Committee's request for information relating to Farmers Home Administration (FmHA) loans for subterminal facilities.

The information is not immediately available in the precise format requested. FmHA does not have a loan purpose category called "subterminal facility."

We requested our State Offices to review their records to determine the number and amount of loan applications for purposes which would satisfy the definition of subterminal facility as contained in H.R. 2968. The request went to the 29 (with 23 States reporting to date) State Offices reporting loans in the following three major categories:

1. Railroads—line haul operating, passenger included.
2. Primarily storing grain, grain elevators except storage only.
3. Grain elevators, storage only.

The information reported is subject to the interpretation of the State Offices as to whether a given application fits the definition requested. The data are cumulative.

	Number of applications	Amount of application
Approved.....	134	\$171, 248, 174
Pending.....	11	72, 090, 000
Total.....	145	243, 338, 174

[The report, "Agricultural Transportation Services: Needs, Problems, Opportunities," the final report of the Rural Transportation Advisory Task Force, is held in the subcommittee file.]

[The prepared statement of Mr. Schrader may be found on p. 45.]

Mr. NOLAN. Our next witness is Prof. Phillip Baumel from the department of economics at Iowa State University in Ames, Iowa.

Mr. Harkin?

Mr. HARKIN. Mr. Chairman, being from Ames, Iowa, and a graduate of Iowa State, and representing Iowa State, I especially want to welcome Dr. Baumel to the subcommittee.

I have had correspondence and have been in contact with him for a long time concerning the transportation systems, especially in Iowa. Professor Baumel is probably the best known person in Iowa in terms of expertise on the rail situation in Iowa.

As you know, he was a member of this task force. It is with a great deal of pleasure that I welcome Dr. Baumel to the subcommittee.

Mr. NOLAN. Dr. Baumel, please proceed.

STATEMENT OF C. PHILLIP BAUMEL, PROFESSOR, DEPARTMENT OF
ECONOMICS, IOWA STATE UNIVERSITY

Mr. BAUMEL. Thank you, Mr. Chairman. Thank you, Mr. Harkin. Mr. Chairman, I have a prepared statement, which is fairly lengthy, which I will just talk about in parts. I would ask that it be placed in the record.

Mr. NOLAN. Without objection, so ordered.

[The prepared statement of Mr. Baumel may be found on p. 65.]

Mr. BAUMEL. Certainly with the bankruptcy of the Milwaukee and the liquidation of the Rock Island and the possibility of additional bankruptcies of midwestern carriers, and a rapid increase in applications for abandonment, we are going to see fewer miles of track in the United States.

One method of accommodating changes in the rail system, and at the same time improving the efficiency of the distribution of farm products and supplies, is through the development of a system of grain elevators and warehouses capable of loading multiple car and unit trains. Most observers credit the efficiencies of the existing multiple car, unit train shipments in the Corn Belt for much of the recent growth of rail grain traffic. There has been a very dramatic growth in rail grain traffic in the last 18 months.

The major reason for this increased carrying capacity, of course, is the faster turnaround times of these multiple car and unit train shipments. The numbers we have gathered from shippers indicate that turnaround times take about half as long in unit trains, 75-car trains, as single cars. In addition to the faster turnaround time, resulting in increased carrying capacity, the multiple car, unit train tariffs provide for reduced rates for shipping larger volumes.

Out of Iowa, for example, the typical rate reduction from a single-car shipment to the gulf to a 75-car shipment is about 15 cents per bushel.

Farmers in northwest Iowa tell me that on the average, year around, they receive about 46 cents per bushel more for corn and about 10 or 12 cents more per bushel for soybeans at train-loading stations than at non-train-loading stations. Moreover, these rates have put Iowa farmers into the world markets on a regular basis. The farmers' co-op elevator role in Iowa is an example of an elevator that was located on a branch line. That line has since been abandoned. It has successfully adjusted to rail abandonment.

The elevator co-op built a 75-car train-loading facility down on the main line about 14 miles away. Despite the abandonment, the branch line serving the original elevator, the subterminal has been able to co-op to more than double its volume, and, more importantly, to pay 3 to 5 cents per bushel more to its farmers than nearby elevators. The manager of the co-op at Roland indicated originally there was some resistance by cooperative members to the idea of discontinuing the fight to preserve the branch line and to build the subterminal.

However, most of the members now agree that it was a good move. They agree that they must accept change in the way grain is transported, just as they have accepted change in the way they grow their grain.

Managers of other elevators in Iowa report as much or more success with the subterminal concept than the Roland co-op. While it has not solved all their problems, it has enabled them to transport

more grain with fewer problems and to pay higher prices to farmers than those elevators generally not utilizing the system. Moreover, railroad companies report higher earnings on these shipments than in single-car shipments.

So, the concept appears to be usable to farmers, elevators, and railroad companies. There is some question in the grain trade of whether this type of a system will work in areas of less dense grain production than in the corn and soybean producing areas. The wheat producing area, of course, is the area they are questioning.

There are a few multiple-car shippers in South Dakota and a large number of them that have recently been built in Nebraska. One of these is the Pierre Farmers Co-op Elevator Association at Pierre, S. Dak.

This co-op invested \$150,000 for additional siding for 25-car grain shipments from a new elevator located on a main line. The manager of this cooperative, Herb Sibson, told me last week that in 1979 he had shipped 25 shipments of 25 cars each from this elevator.

He indicated that he was very enthusiastic about his operation. His grain volume has doubled. He would like to expand his facilities. He said: "You cannot stop progress. The subterminal system would help save the railroads."

As was pointed out earlier, the subterminal system can be used in areas that receive grain as well as those that ship it. It can be used to receive commodities, like fertilizer, and possibly cotton, fresh fruits, and vegetables.

I want to make one last point and that is: What are the implications of this on the small independent elevator?

On January 1, 1980, there were a little over 140 multiple car shippers in Iowa, and 72 percent of them were cooperatives, 17 percent were major grain firms, and 11 percent were small, independent elevators that had geared up to handle 25 cars.

Not one independent elevator had geared up to handle 50 cars or 75 cars. There undoubtedly are several reasons for this, one of which is undoubtedly the lack of financing. The cooperatives have access to the banks for co-op funds.

Major grain firms have internally generated funds, as well as loan funds from major banks.

My feeling is that if we wish the small independent elevator to remain a viable part of the grain industry, it is important that financing be made available to these firms to enable them to adjust to rail abandonment and to utilize the efficiencies of the subterminal system.

I feel that a planning process is needed to determine where these facilities can be built and in what areas they will be economic. This has to be an independent operation, independent of the rail planning process carried on by States. Thank you.

Mr. NOLAN. Thank you very much, Mr. Baumel.

Are there any members who have any questions? Mr. Harkin?

Mr. HARKIN. Thank you, Mr. Chairman.

Dr. Baumel, I do not wish to take the subcommittee's time and your time by discussing specifics in Iowa. However, in looking over your testimony, and in looking at that map that you have of the main line south of Roland, that theoretical farmer that lives between Roland and the main line—that is the Chicago Northwestern line?

Mr. BAUMEL. Yes; it is.

Mr. HARKIN. How do you see something like an area of southwest Iowa where that Rock Island line is going out? You have the Burlington Northern down south, and the Milwaukee up north being abandoned.

You have about two or three counties there with no rail service, all the way from that Chicago Northwest line clear down to the Burlington Northern line. That is a long way to take these commodities; right?

Mr. BAUMEL. Let me suggest to you that had we had a system or subterminals on some of those Rock Island and Milwaukee lines there may have been a lot more enthusiasm for keeping the lines.

If you had seen the Iowa DOT maps with the circles on it, the orange, the green, and the blue, indicating the location of the 75 car and 50 car and 25 car trains, when the railroads look at that, they seem to have a lot more enthusiasm for keeping those lines—when they have the circles on them—than for the lines that do not have any.

You point out a problem area. I would say that had we had something like this in this area there would have been more enthusiasm for someone to take over those lines. Perhaps if they were built on that line, there might be some enthusiasm to take them over yet.

Mr. HARKIN. Perhaps we are getting to the critical point, then. Along that Rock Island line from Omaha to Des Moines, I believe there are only one or two co-ops.

Mr. BAUMEL. There are more. There is one west of Des Moines.

Mr. HARKIN. They are mostly small grain companies.

Mr. BAUMEL. Exactly.

Mr. HARKIN. That is interesting.

Mr. BAUMEL. The kind of funding that this bill might provide might encourage the development of something on that line.

Mr. HARKIN. Thank you very much.

Mr. NOLAN. Mr. Daschle?

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. Baumel, I want to commend you for what I think is just an excellent statement. As we proceed through the legislative history, I am sure we are going to be referring to the comments and data you provided the committee many times.

As I said in my earlier remarks, I think Iowa really points to the tremendous potential there is for subterminals.

I want to further elaborate briefly on the two big problems that you said faced Iowa when you began the development of subterminals in your State. The first was lack of planning ability. The second was lack of adequate financing.

Looking back, and given those two problems, and having 20-20 hindsight, do you think you would have probably made some different decisions had you had the benefit of planning in Iowa back when you started subterminal development?

Mr. BAUMEL. I must say that when we started, or when the subterminals were being developed in Iowa, they did have the advantage of a study at Iowa State that indicated that this system would yield higher incomes to farmers and would improve the capability of railroads to move grain. Iowa probably moved in that direction because they did have the advantage.

Mr. DASCHLE. What you are saying is that because you had a study, it really allowed you to better place the terminals?

Mr. BAUMEL. It seems, and perhaps I should not be saying it, but I think that is the case. The fact that the analyses were done strongly motivated firms to move in and make the investments.

Mr. DASCHLE. Do you know that because of the lack of financing that existed during this time that perhaps some subterminals were not built or, at least, were put in jeopardy during the early phases of their development—because of this problem?

Mr. BAUMEL. One can only speculate on that. Again, I would speculate that the reason for lack of investment in these facilities by independent or small independent elevators has been lack of financing.

Mr. DASCHLE. Again, I want to thank you for your comments.

Mr. NOLAN. Thank you very much, Mr. Daschle.

Mr. Baumel, thank you very much for your testimony and work on the task force.

Our next witness is Mr. Woodrow Wilson of the National Farmers Union in Washington, D.C.

You may proceed.

STATEMENT OF M. WOODROW WILSON, DIRECTOR, LEGISLATIVE RESEARCH, NATIONAL FARMERS UNION

Mr. WILSON. Mr. Chairman, I am M. Woodrow Wilson, director of legislative research for the National Farmers Union, Washington, D.C.

I am pleased to be here today to testify in support of H.R. 1968, a bill that would do much to help solve the serious transportation problems facing U.S. agriculture.

Rural America is in the midst of a transportation crisis and an economic crisis. Surplus stocks, scarcity of credit for production expenses, soaring production costs and soaring interest rates have combined to create some of the worst economic hardships for American farmers since the Great Depression. These problems began well before the grain embargo of January 4, and the deterioration of our transportation system is a major cause.

Rural transportation problems are perhaps worst in the northern Midwest States. The bankruptcies of the Milwaukee and Rock Island Railroads have left major grain-producing States like South Dakota in doubt of having adequate rail service to move their grain to market. Last summer, when it became obvious that the United States would probably produce a record grain crop in 1979, the most serious problem facing U.S. agriculture was to devise ways to make our delapidated transportation system deliver the grain that could be sold in export markets.

The continuing shortages of railcars for grain movement and the wave of branch line abandonments by the railroads are forcing much of our grain onto the highways. The hauling of grain over long distances by truck is an unacceptable alternative because it is inefficient, expensive, wasteful of precious fuel, and destructive to our highways. Trucks and highways simply cannot handle weight and volume of traffic required to move midwestern grain to market, and farmers cannot afford to pay up to 90 cents more per bushel of grain for truck transportation.

As Professor Harold Breimeyer of the University of Missouri has recently said, we should keep the boxcars on the railroads.

The National Farmers Union established a special transportation committee in 1979 to study transportation problems facing U.S.

farmers. The committee has met with farmers, representatives of railroads, trucking firms, and grain handlers. These experts in the handling and transportation of grain have all agreed that the transportation system has several "bottlenecks" that impede the flow of grain. Many of these bottlenecks are at transfer points, like grain elevators and export terminals.

Much of the heralded "railcar shortage" of the last couple of years is due to decreased utilization rather than an absolute shortage of rolling stock. In November 1978, the U.S. Department of Agriculture issued a report entitled, "Future Railcar Needs for U.S. Grain Movement."

In that report, the Department noted that in the 5 years between 1972 and 1977, average usage of narrow-door boxcars reduced from 14 trips per year to 9 trips and covered hopper car usage reduced from nearly 18 trips per year to 15 trips. In 1968 all types of cars averaged nearly 20 trips per year.

Anyone who has visited grain-handling facilities in the Midwest during the fall or winter months of the past 3 years has seen long lines of trucks, barges, and railcars waiting to be unloaded. By necessity these vessels are being used for temporary storage rather than depositing their loads quickly in order to return for more.

Many country grain elevators are located on rail branch lines that have been abandoned or soon will be. Many of the smaller grain elevators are not equipped to load unit trains, and the railroads are often unwilling to provide a few cars to a small elevator. The construction or modernization of grain elevators at selected locations throughout the grain-producing areas to serve as collection for smaller elevators could greatly facilitate grain handling.

We believe that such primary storage and marketing facilities best serve the economic well-being of farmers when they are operated by farmer cooperatives.

We, therefore, recommend that in providing Federal assistance for the establishment of subterminal grain handling facilities, as in H.R. 2968, Congress should give first preference and consideration to farmer cooperatives.

The chairman of the National Farmers Union Transportation Committee, South Dakota Farmers Union president, Ben Ratcliffe, has testified in support of similar legislation before the U.S. Senate Committee on Agriculture, Nutrition, and Forestry and before the U.S. Department of Agriculture's Rural Transportation Task Force.

I am pleased today to reiterate Farmers Union's strong support for this important and needed legislation.

We would like to commend Congressman Daschle, as well, for introducing the bill.

Mr. NOLAN. Thank you very much, Mr. Wilson.

Mr. Daschle, do you have any questions?

Mr. DASCHLE. No, I do not, except to commend Mr. Wilson for an excellent statement. I appreciate his testimony this morning.

Mr. NOLAN. I, too, want to commend Mr. Wilson and the Farmers Union for their statement and their concern in this area.

I have no questions.

Mr. WILSON. Thank you.

Mr. NOLAN. Our next witness is Mr. Robert Byrne, transportation consultant, New York State Department of Agriculture and Markets.

You may proceed.

**STATEMENT OF ROBERT BYRNE, TRANSPORTATION CONSULTANT,
NEW YORK STATE DEPARTMENT OF AGRICULTURE AND
MARKETS**

Mr. BYRNE. Thank you, Mr. Chairman and members of the subcommittee. I am pleased to be with you this morning.

I want to express my appreciation to you for giving the New York State Department of Agriculture and Markets this opportunity to express its views on H.R. 2968, the Agricultural Subterminal Facilities Act of 1979.

The bill, as we understand it, would provide funds for Federal planning grants for the development of State and regional subterminal facilities programs, promote the construction and improvement of subterminal storage, shipping and receiving facilities for handling bulk agricultural commodities and farm production supplies, and authorize the Secretary of Agriculture to make and insure loans for construction and improvement of such facilities.

We believe H.R. 2968 offers opportunities for receivers of bulk fertilizers, feed grains and other bulk feed ingredients in the State of New York to adapt their bulk agricultural storage and handling facilities to meet the requirements of a changing transportation system.

At the beginning, let me point out that agriculture is the No. 1 industry in the State of New York. To assist the subcommittee in understanding our particular interest in H.R. 2968 and its possible effects, let me give you a brief profile of the segment of the State's agriculture that we believe could benefit most from enactment of this proposed legislation.

Livestock, livestock products, and poultry make up about three-fourths of all cash receipts from farm marketing in the State. More than three-fourths of the cattle inventory belongs to the milk production industry.

With livestock, livestock products and poultry accounting for such a large share of farm marketing receipts, it is not surprising that feed is the No. 1 farm expense item accounting for an estimated \$390 million in 1979. The next largest farm input item handled is fertilizer, including lime.

Despite an increase in its feed grain production in recent years, the State must still import nearly half of its corn requirements for feed. Most of the corn is shipped in by rail from the eastern Corn Belt States of Indiana and Ohio.

Because of limited storage capacity and a restricted rail rate structure, corn for feed is received in one- or three-car units. Average grain storage capacity at inland elevators in the State is about 57,000 bushels while storage capacity at local feed mills amounts to about 190,000 bushels or five covered hopper carloads.

Limited storage capacity at feed mills means that in times of rail service breakdowns or severe winter weather, feed supply is limited to about 10 to 14 days' requirements. Rail service on corn shipments from principal Ohio and Indiana origins will take from 7 to 14 days. Thus, New York State, and the New England States as well, live with the very real threat and possibility of feed shortages during times of emergency.

In addition to corn for feed, New York also receives about 300,000 tons of soybean meal a year from midwestern sources. Also, bulk

fertilizer ingredients—including an estimated 200,000 tons of phosphates—move by rail from Florida and North Carolina to New York blending plants in one- to three-car lots.

In summary, New York's bulk agricultural industry is faced with high rail rates on one- to three-car units movements and has limited storage capacity at feed mills, inland elevators, and fertilizer blending plants. Recognizing that we have a bulk agricultural receiving system that is designed to handle one- to three-car lots and has limited storage capacity, we note with concern some possible changes in rail rates and services that could make that system obsolete.

I refer to contracting for railroad services as an example.

As Congressman Daschle pointed out, the Senate recently passed S. 1946, the Railroad Transportation Policy Act of 1980, which, among other things, gives railroads greater flexibility in ratemaking and encourages greater use of contracting for transportation service between railroad and shipper.

We believe greater availability and use of contract rates and service will favor the shipper or receiver who can handle unit-train shipments. The one-, two-, or three-car shipper or receiver will be at even greater competitive disadvantage in marketing or purchasing grain and bulk farm production supplies. This possible consequence was recognized by the Rural Transportation Advisory Task Force in its January 1980 final report which recommended a three-tiered type of contracting for railroad transportation.

As part of its recommendation, the task force urged the development of a special program by USDA and DOT to assist small shippers in contracting, including the formation of cooperative shippers' associations. Such associations could be made up of small feed mill operators who could jointly build receiving facilities large enough to take advantage of contracting for multicar or unit-train rail rates and service.

Faced with the changes in rail transportation that I just described and recognizing that our present bulk agricultural commodity receiving system would be unable to take advantage of those changes, we believe the time has come to consider a new bulk storage and handling system in the State. Such a system would require the building of large, breakbulk receiving elevators capable of receiving unit-train shipments and located to serve the State's agriculture.

Professor C. Phillip Baumel of Iowa State University, who pioneered much of the research that led to the greater use of the subterminal concept for shipping grain in Iowa, made the following comment in his statement before the Senate Subcommittee on Agricultural Credit and Rural Electrification regarding S. 261:

Most of the discussion of the subterminal system focuses on the problems of shipping grain out of the grain-producing areas. The same concept can be used in areas that receive grain to be fed to livestock and poultry.

These areas include the States in dairy areas like New York * * *. At the present time, grain is shipped to these areas in single or three-car shipments at relatively high rates.

If subterminal receiving facilities were built in these States to receive grain in low cost multiple-car or unit trains and the grain was distributed by truck to small users, these areas would benefit from lower transport costs and at the same time be assured of a supply of grain stored in the receiving subterminal.

Both the grain and railroad industries would benefit from the more efficient utilization of the railroad equipment.

Dr. Baumel obviously saw S. 261 and this companion bill, H.R. 2968, as a vehicle for providing the planning and resources necessary to provide New York's bulk agricultural industry an alternative storage and handling system.

While the tone and wording of H.R. 2968 seems to stress the need for construction and improvement of subterminal storage and shipping facilities from the shipper's standpoint, we have tried to impress that as great or even a greater need exists on the receiving side. The New York dairy or poultry farmer that buys his corn from a local elevator or feed from a local feed dealer stands to benefit from the economies of unit-train shipments stored and handled in subterminal receiving facilities to the same extent as the farmer in the surplus grain State that shipped his corn through a subterminal shipping facility.

We ask this committee to keep the needs of the farmers on the receiving end in mind as deliberations on H.R. 2968 proceed.

We want to point out, however, that grain producers in the States ship corn to New England markets and could also benefit from shipping their grain in multiple-car or unit trains from subterminal facilities. There is a need for the type of planning and financing activity provided for by the bill.

We thank the committee for the opportunity afforded the New York Department of Agriculture and Markets to present our views on this important legislative issue.

Mr. NOLAN. Thank you very much, Mr. Byrne.

Mr. Daschle?

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. Chairman, I have more a comment than a question.

I could not agree with you more, Mr. Byrne, that really the subterminal approach lends itself just as adequately to receiving as to receiving. For that reason, the amended version of the bill that I am introducing today does emphasize receiving as well as shipping.

I think it would be far more to your liking. It does nothing in changing the real structure of the legislation. It only emphasizes that those involved in receiving could equally benefit from this kind of program and makes the program available to them as well.

So, I am very appreciative to you for making the comments you have. I think it further substantiates the view I have held in the last couple of weeks in evaluating this program to insure that both receivers and shippers have an opportunity to use the program.

I want to thank you.

Mr. BYRNE. Thank you. We appreciate your interest in our views also.

Mr. NOLAN. Thank you very much, Mr. Byrne.

Our next witness is Mr. Frank Reed of the New England Grain and Feed Council of Orono, Maine.

Mr. Reed, you may proceed.

STATEMENT OF FRANK D. REED, EXECUTIVE DIRECTOR, NEW ENGLAND GRAIN AND FEED COUNCIL

Mr. REED. Thank you, Mr. Chairman.

My name is Frank D. Reed. I am executive director of the New England Grain and Feed Council, a trade organization of New England feed manufacturers and suppliers.

The New England feed and grain using industries have a definite interest in the proposed legislation on subterminal grain facilities. It offers a possible solution to a very serious problem faced by the feed using agricultural enterprises in the region: Namely, a steadily worsening competitive situation for New England producers of dairy and poultry products.

New England is not a grain-raising area. I expect that one or two big Iowa farms probably raise more grain than all of New England put together. Feed grains and most feedstuffs must be imported—mostly from the Midwest.

The region uses approximately 2.5 million tons of feed a year, according to the USDA estimates, 98 percent of which is imported.

The deficit in corn alone in New England is about 1 billion tons annually.

Furthermore, the region is dependent upon a single mode of transportation; namely, rail. There is no waterway alternative, and distance from grain sources rules out truck shipments.

Eastern carrier rail rates on feed grains are approximately 70 percent higher than rates in southern territory—a major competitor for poultry and egg markets.

This disadvantage, in terms of dollars and cents, has widened with each of the general freight rate increases that has happened in the past several years. These are all applied on a flat percentage basis because our base is so much higher, 70 percent higher, than in other areas. It hits us just about twice as hard.

The transportation differential on corn, for example, has doubled since 1972 and now is \$10 to \$15 a ton, compared with Atlanta, Ga.

Given the current financial condition of the eastern railroads, the most promising means of reducing relative transportation costs on grains appears to lie in volume and unit train shipments.

Such shipments necessitate the construction of subterminal facilities for the receiving and distribution to feed manufacturing plants and other users of the grains.

The recent New England Regional Commission-sponsored study, conducted by the Connecticut Agricultural Experiment Station, indicated that there is sufficient volume of feed grain usage and concentration to make unit train shipments feasible.

The study identified four possible strategically located subterminal facility locations, with annual feed grain volume as follows: Augusta, Maine, 477,800 tons; Fitchburg, Mass., 163,956 tons; Willimantic, Conn., 167,076 tons; and St. Albans, Vt., 95,004 tons.

The proposed subterminal legislation could be a major factor in bringing about the necessary restructure of the distribution system of feed grains in this region and in solving the present serious economic situation with which the dairy and poultry industry of New England is faced.

I am glad to hear from the previous testimony and the information I have picked up that this provision, which covers subterminal facilities in feed deficit areas at the receiving end, such as New England, is included in the proposed legislation.

We urge that this provision be retained where volume and concentration makes it feasible. Thank you.

Mr. NOLAN. Thank you very much for your testimony.

Are there any questions from any members of the subcommittee?

[No response.]

Mr. NOLAN. Your testimony is most helpful. Thank you very much, sir.

Mr. REED. Thank you.

Mr. NOLAN. Our next witness is Mr. Jerome Kunkle of the Co-Operative Feed Dealers, Inc., Binghamton, N.Y.

You may proceed.

STATEMENT OF JEROME KUNKLE, CO-OPERATIVE FEED DEALERS, INC., BINGHAMTON, N.Y.

Mr. KUNKLE. Thank you, Mr. Chairman.

Mr. Chairman and gentlemen, I am here today representing the Co-Operative Feed Dealers, Inc., a cooperative of feed manufacturing facilities in New York State. We have been in existence since 1934 and are primarily concerned with the availability of feed ingredients, be they whole grains or manufactured products to the dealers on a continual basis.

We have experienced in the past several years a continual decline in the rail service. That has lent itself to several lines being abandoned and a total decrease in the availability and supply. To alleviate this, some of the manufacturers who have been left out have had to go to small and efficient unloading facilities, transfer facilities, and/or truck shipments. Truck shipments have increased in price dramatically. They are slowly, but surely, driving themselves out of the market.

What we need are subterminal facilities that are able to bring in the multicar shipments of these feed ingredients, varied as they may be, and distribute them by truck for short distances to keep these feed mills in operation.

If the money is not made available, or plans made to facilitate a system of this sort, we are looking potentially at the wholesale decline of the feed manufacturing facilities, and, therefore, really the demise of many of the farm situations within New York and northern Pennsylvania.

I have no other statement to make at this time. I would ask that my statement be inserted in the record.

Mr. NOLAN. Thank you very much.

Without objection, your entire statement will be placed in the record.

[The prepared statement of Mr. Kunkle may be found on p. 80.]

Mr. NOLAN. Mr. Daschle or Mr. Grassley, do you have any questions?

[No response.]

Mr. NOLAN. Thank you very much, sir.

That, then, concludes our hearing.

Mr. Daschle?

Mr. DASCHLE. Mr. Chairman, I would ask unanimous consent to submit the statement of Senator George McGovern. He was scheduled to be our first witness. He had a conflict at the last moment and could not participate.

But if there are no objections, I will submit his testimony at this time.

Mr. NOLAN. Without objection, so ordered.

[The prepared statement of Mr. McGovern may be found on p. 83.]

Mr. NOLAN. I would also like to have placed in the record a letter from the National Grain and Feed Association on H.R. 2968.

Without objection, so ordered.

The subcommittee will reconvene tomorrow morning at 10 a.m. in room 1302 for the purpose of marking up H.R. 2968.

If there is no further business, the subcommittee is adjourned.

[Whereupon, at 11:40 a.m., the subcommittee was adjourned.]

[The letter referred to above and other material submitted may be found on p. 85.]

STATEMENT OF RON SCHRADER, DIRECTOR, OFFICE OF TRANSPORTATION
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE SUBCOMMITTEE ON FAMILY FARMS, RURAL DEVELOPMENT
AND SPECIAL STUDIES, COMMITTEE ON AGRICULTURE
U. S. HOUSE OF REPRESENTATIVES
CONCERNING THE RECOMMENDATIONS OF THE
RURAL TRANSPORTATION ADVISORY TASK FORCE, AND H.R. 2968,
THE AGRICULTURE SUBTERMINAL FACILITIES ACT
April 23, 1980

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Final Report of the Rural Transportation Advisory Task Force and to present the Administration's views on H.R. 2968.

H.R. 2968

The proposed Agricultural Subterminal Facilities Act, H.R. 2968, provides for amendment to the Consolidated Farm and Rural Development Act to authorize loans for the construction and improvement of subterminal storage and transportation facilities for certain types of agricultural commodities, and provides for the development of State plans to improve such facilities within the States or within a group of States acting together on a regional basis.

The subterminal approach certainly has merit and is being followed very successfully in some geographic areas. Where density of crop production and other relevant variables indicate that a subterminal can operate profitably and return net benefits to agricultural producers, it is a viable option.

As you know, Mr. Chairman, this Department has already reported its opposition to H.R. 2968. The basis for our opposition is not that we do not support the subterminal concept. Rather, it is that authority presently exists, both within the Farmers Home Administration (FmHA) of the Department of Agriculture and the Federal Railroad Administration

(FRA) of the Department of Transportation, to make funds available either on a loan (FmHA) or grant basis (FRA) for subterminal facilities. FRA has authority for grants to States for rail planning, including projects such as subterminal facilities. Therefore, Mr. Chairman, it is the administration's view that H.R. 2968 would duplicate authority which presently exists in both the FmHA and the FRA. Additionally, it would require two separate Federal planning processes for the same purpose.

Section 5 of the Department of Transportation Act provides for comprehensive rail assistance to States for planning, rehabilitation, and subsidy for local rail service continuation. It is a Federal-State cost sharing program with the Federal share set at 80 percent.

The FY 80 funding is \$90.5 million including carryover from prior years, apportioned by formula to the several States. Each State may spend up to 5 percent of its total entitlement (\$100,000 minimum) for planning purposes and preparation of the required State Rail Plan. Total planning money available in FY 80, including carryover, is \$6.3 million.

Funding for planning under this program is adequate. Not every State chooses to spend all planning funds available at present funding levels. Some States choose, instead, to spend funds available for planning for other permissible purposes.

FmHA has made both Community Development and Business and Industry loans to help rehabilitate rail lines and assist rail shippers to utilize rail transport. Since the beginning of the B&I loan program, several million dollars in loan guarantees have been made for transportation and transportation related facilities, including farm product warehousing facilities.

In those States where the subterminal approach seems profitable it is anticipated the necessary studies will be conducted, using DOT's planning assistance, with our loan programs in mind. Our offices will cooperate in developing the analyses and studies so that they may become the basis for loan applications.

Rural Transportation Advisory Task Force

When the Department first reported on H.R. 2968, 1 year ago, the work of the Rural Transportation Advisory Task Force was just getting underway. We indicated that legislative initiatives, such as H.R. 2968, with rural or agricultural problems were premature at the time and should await the final report and recommendations of the task force.

The final report is now available. While the task force did not specifically address subterminals, its strong endorsement of multiple-car and unit-train shipments as well as other recommendations concerning the rail industry, are certainly conducive to developing subterminals.

The fifteen members of the task force shared an unusual professional knowledge of agricultural needs and problems. The Departments of Transportation and Agriculture provided staff support. And the public offered information and suggestions at 12 task force hearings held last summer. The task force drew on these resources to thoroughly review agriculture's transportation situation and to determine means of improving the system. Although the Department has not evaluated and reached a position on all of the 30 or so recommendations, it is clear that the task force has identified the critical issues and problems that must be addressed.

The Policy Statement

The task force expressed its philosophy in the proposed statement for a national agricultural transportation policy. The group perceived the efficient movement of agricultural products as the prime policy goal, and that such a goal could best be met by an efficient and commercially viable transportation system. Finally, it was felt that such a system should be achieved primarily through market forces. The task force felt that some economic regulation was necessary in particular areas where competition is inadequate to protect agriculture's transportation interests. In the recommendations, other than oversight review of unregulated air cargo operations, the task force specifically proposed limited economic regulatory activity only in the area of rail operations, where shippers or receivers may be considered "captive."

In its policy statement, the task force recognized the essential role of government in providing some transportation facilities. It called for the identification of these governmental transportation expenses and suggested that recovery of these costs from the beneficiaries be considered. The task force believed that facilities should be provided and costs recovered in ways that would promote an efficient competitive balance among transportation modes.

Finally, the task force concluded that a competitive transportation industry cannot generate enough funds to support non-transportation goals of government. Consequently, in its policy statement it said that where government requires carriers to adopt rates, routes or services to further such goals as international trade, rural development or relief of depressed industries any added costs of so doing should be publicly borne.

Agriculture's Transport Needs

The task force responded to the Congressional directive to recommend a means for determining agriculture's essential transportation needs on a continuing basis. The proposed program would involve four basic components.

First, the task force recommended the development and publication of estimates on current and future agricultural movements by commodity, mode and region. The estimates would be based primarily on the ongoing statistical work of the Department of Agriculture, Department of Transportation, Interstate Commerce Commission, and other agencies.

Second, the group recommended that the ICC, in consultation with USDA and DOT, monitor the transportation system's performance in serving agriculture, particularly the railroad industry. The information gathered in monitoring the modes would improve agriculture's ability to interpret trends in transportation services and costs. This, in turn, would influence agriculture's locational patterns and other business choices.

Third, the task force determined that, in part because of the unique and relatively small volumes of agricultural traffic that need specialized technology and knowledge, the transportation industry does not have the incentive to conduct research in this kind of transportation. Therefore, the group recommended that USDA continue its applied research activities to improve agricultural transportation and handling facilities and operations.

Finally, the task force pointed to a need for greater educational efforts in the area of agricultural transportation. The group recommended that the government develop educational materials to inform the public about the special issues and problems of agricultural transportation and their possible remedies.

Recommendations Regarding Specific Modes

You'll find a digest of the task force recommendations concerning rail, highway, waterway and air regulations and investments attached to my statement. The task force explored a broad range of issues, and the recommendations varied from proposals involving major budgetary commitments to changes in the regulatory treatment of some modes. Rather than running through the whole list with you, I would like to discuss five of these proposals: contracting for rail service, interim assistance in rehabilitating rail lines servicing agriculture's export movements, a pilot rural transportation cooperative project, and the agricultural and cooperative exemptions from economic regulation of interstate trucking.

Agricultural groups were instrumental in bringing about Federal regulation of the railroads. They were concerned because agricultural shippers were unable to negotiate reasonable rates and to obtain the number and types of rail cars they needed. More than 90 years after the start of rail regulation, the task force found that these same issues continue to trouble agricultural groups in many areas, even in areas where railroads have only a small portion of the agricultural traffic.

The task force decided that the prohibition against forward contracting of rail services creates problems for both agricultural shippers and railroads. Neither shippers nor carriers can plan ahead with confidence; they cannot be certain of their future business environment. Shippers are unwilling to invest in modern facilities in locations where there is little or no transport competition to rail service because they fear massive rate increases. In addition, they do not want to make forward delivery commitments for fear rail cars will not be available. On the other hand, railroads do not want to invest in too many cars lest several shippers decide to use another mode.

Agriculture's fears are understandable, but the task force decided that protections against undue rate increases are not universally necessary for agriculture. The absence of forward agreements on rates, services, and volumes increases agriculture's sense of need for protection. In the task force's opinion, permitting private negotiations could resolve many of the uncertainties of both shippers and carriers.

The task force recommended the enactment of legislation that would provide three levels, or tiers, of rail service--negotiated contracts, regulated contracts and common carrier service. The task force believed that there would be a transition period during which regulated contracts would be phased out in many areas. In areas where most shippers or receivers are truly "captive" to rail service, regulated contracts would provide equity and certainty for both shippers and carriers. The task force thought that common carriage would be necessary for many shippers.

The task force recognized that allowing contracts for railroad service would change the way that shippers have traditionally conducted their business. Some shippers, especially small shippers, may not be organized in such a way that they can easily take advantage of these new options. The task force recommended that USDA and DOT offer assistance to shippers to help them understand these regulatory changes and to aid them in making any organizational changes that might help them exercise their option to contract for service.

The task force believed that implementation of its recommendations, particularly in regard to contracting, would help railroads acquire the revenues to support the facilities, equipment and services needed by shippers. However, the task force noted that some rail plant has

deteriorated to such an extent that the owning railroads will not be able to meet the growing needs of agricultural and other shippers unless they can immediately obtain the funds to rehabilitate main lines. The task force recommended the expansion of the redeemable preference loan share program established by the Railroad Revitalization and Regulatory Reform Act to include a focus on main lines that serve agriculture's export needs. I might add that DOT has proposed to reform and reauthorize this program at increased budget levels.

As a part of its overall approach to local rail service in agricultural areas, the task force recommended the initiation of a federally assisted pilot demonstration of the rural transportation cooperative concept. The demonstration should take place in an area where a branchline is about to be abandoned. Shipper and community commitments to the project should be great enough to assure the rail line's future viability.

Public hearings showed that many shippers appreciate the efficiency and flexibility of truck service in hauling exempt agricultural commodities. Also, representatives of cooperatives discussed aspects of cooperative trucking. The task force recommended that the exempt commodity list be broadened and that the cooperative exemption not be subject to the 15 percent restriction that now applies to nonfarm, nonmembers traffic. The task force believed that these changes would improve the efficiency of agricultural trucking. The motor carrier reform legislation which recently passed the Senate, which has the strong support of the Administration, includes expansion of both exemptions. Committee action is pending in the House.

Conclusion

These recommendations by no means exhaust the wealth of ideas and recommendations in the final report. The task force gathered a great deal of information to develop the recommendations. The preliminary report published in June and the summary of the public hearings held in July and August describe conditions in agricultural transportation and possible means for improving them.

USDA appreciates the contributions of the task force. The group has earned the respect of agriculture and many others by exploring the conditions that led to the original task force legislation. While the Department is not ready to support all the recommendations, we are far better informed than we were a year ago; and we will be able to evaluate the recommendations in light of our new knowledge.

We will find the task force experience useful as we deal with proposals for change in Federal regulations and with conditions in agricultural transportation. I believe the task force efforts reflect credit on this committee and Congress.

Thank you for this opportunity to discuss the work of the Rural Transportation Advisory Task Force.

RURAL TRANSPORTATION ADVISORY TASK FORCE

Digest of the Final Report

Railroad Service

Underlying assumptions of the task force

- Agriculture requires a profitable railroad industry that meets the needs of users.
- greater incentives should be provided to the rail industry to finance needed equipment.
- Agriculture requires a substantial common carrier obligation.

The task force recommendations

1. Contracting for Rail ServiceA. Negotiated Contracts -- (Shipper/Railroad)

- equipment to be exempt from ICC car service decisions
- rates to be above variable cost
- basic terms to be filed with the ICC for publication
- similarly situated shippers (as determined by the ICC) have a right to similar contract terms
- unless the ICC grants relief, a railroad not to commit more than 50 percent of any particular type of equipment to contract service.

B. Regulated Contracts -- (Shipper/Railroad/ICC)

- equipment to be exempt from car service decisions
- for purposes of the 50 percent limitation, equipment to be considered as contracted
- rate to be specified by the ICC at no less than the railroad's full cost of providing service or the rates provided for comparable negotiated contracts, whichever is greater.

C. Common Carrier Obligations

- rate and car service regulations to be continued

Desired Effects of Contracting

- protect captive shippers and receivers

Desired Effects of Contracting (continued)

- ensure car supply to contracting shippers
- encourage investments in equipment
- allow shippers to negotiate service standards
- help shippers and railroads plan and forecast
- encourage cost-based rates
- allow shippers and railroads to work out agreements that may justify maintaining some branchlines,

2. Interim Rehabilitation Assistance for Lines Serving Ports

- the redeemable preference share loan program to be expanded to include a focus on improving the rail lines necessary for export transportation.

Desired Effects

- help overcome the deteriorated condition of many rail lines (which will in turn improve car utilization and service)
- help the railroads handle increasing volumes of agricultural exports
- contribute to the resolution of immediate problems while spreading the cost impact over 30 years,

3. Assistance to Shippers' in Contracting

- USDA and DOT to develop and implement a program to provide information and technical assistance to all types of railroad users on how best to take advantage of contracts.
- the program to last no more than 5 years
(directed to helping shippers in forming shippers associations)

Desired Effects

- help small shippers contract with railroads
- also help shippers with many origins and destinations use contract service.

4. Demonstration Fleets of Free-running Freight Cars

- the railroads through trailer train or a new corporation, jointly to acquire and control a demonstration free running fleet of 500 covered hopper cars and 500 50-foot wide-door, general purpose boxcars.
- Congress to pass legislation giving the railroads a refundable tax credit for this purpose.

Desired Effects

- help alleviate car shortage by supplying cars and serving as example of the potential of free-running fleets.
- give shippers experience in using free-running cars.

5. Expedited Process for Abandonment

- if there are no protests, abandonment to occur after 75 days.
- abandonment to be permitted after 195 days if oral hearings are conducted and no appeals are filed.
- all supporting data to be available to users at the time a railroad issues its notice of intent to abandon, 30 days before filing for abandonment.
(this assumes the continued availability of the System Diagram Map)

Desired Effects

- give shippers time to review the data and information that the railroad is using,
- permit expedited abandonment.

6. Assistance to Branchline Service

- Federal Railroad Administration programs to provide Federal financial assistance for railroad branchline rehabilitation projects (under the 4-R Act) to be continued.
- top priority use of Farmers Home Administration loan/grant programs for branchline rehabilitation projects to be considered.

Desired Effects

- coordinate the branchline rehabilitation programs of FRA and FmHA
- help maintain essential but nonviable branchlines without forcing the rail industry to support them.

7. A Specific ICC Abandonment Criterion

- no abandonment to be allowed when shippers and receivers are willing to commit themselves to using the line and upgrading could yield a reasonable return on investment.
(to prevent the abandonment of potentially viable lines),

Railroad Line Abandonment Processes

Issue	Task Force Recommendation
Public convenience & necessity test?	Yes
Availability of investigation?	Yes
Definition of public convenience & necessity	ICC interpretation
Time limits	30-day prenotification
	30-day comment period after application for filing protest
	45 days following application, ICC must approve abandonment if no protest
	90 days for ICC to review protest without oral hearings, and announce a decision
	165 days for investigation including oral hearings, and announce decisions
	270 days for full ICC review including appeal
	30 days after ICC approval of abandonment, line can be discontinued
Continuation of line in event of subsidy or purchase	Yes
Amount of subsidy	Avoidable cost plus return on investment
Commencement date for subsidy	Any time after filing of application, but no later than effective date of abandonment
Amount-of-purchase price	Fair market value or highest and best non-rail use
ICC subsidy role	Development of subsidy compensation standards
Labor protection	Decision requires that labor protection provisions be RSPA-provided (Amtrak conditions)
Judicial review	Yes, for protestants in original ICC filings of railroad

Desired Effects

- protect shippers who are willing to commit themselves to using rail.
- prevent arbitrary abandonments.
- provide the ICC with more specific direction regarding abandonments.

8. A Pilot Rural Transportation Cooperative

- initiation of a demonstration project to start a rural transportation cooperative designed to maintain a branchline up for abandonment.
- project to be organized on the basis of shipper and community commitment adequate to assure the branchline's viability.

Desired Effects

- explore the concept of a Rural Electrification Administration approach to rural transportation problems.
- serve as an example for other types of cooperative transportation projects--such as those for passenger movement.

9. Rail Exemptions Under the 4-R Act

- ICC to monitor progress of the fresh fruit and vegetable regulatory exemption (May 1979) under the 4-R Act.
- if necessary, administrative action to prevent these commodities from being driven entirely to other modes.
- Congress to review ICC activities to be sure that administrative remedies within the 4-R Act are used to prevent the effective elimination of fresh fruits and vegetables from the rail market.
- if administrative remedies are not used, Congress to give fresh fruit and vegetable shippers access to regulated contracts.

Desired Effects

- provide the option of reregulating fresh fruits and vegetables should deregulation prove unsuccessful,

10, Rail Labor and Management

- Federal and State assistance provided for railroads to be monitored to ensure its application to the desired goals.
- DOT, ICC, and National Mediation Board to work with rail labor and management to promote the objectives set forth by the task force.
- Congress to pass legislation for compulsory binding national arbitration of the work rules issue that will go into effect if collective bargaining reaches an impasse.
- Congress, ICC, and DOT carefully to avoid using subsidies and regulations to preserve rail management that does not take advantage of the increased opportunities available through the task force recommendations.

Desired Effects

- promote fiscal responsibility,
- provide innovative concepts from outside the rail industry,
- ensure the meaningful negotiation of work rules,
- encourage greater innovation and cooperation on the part of rail management.

Highway Service

The Task Force Recommendations

1. Intermodalism

- DOT to work with USDA and other Federal, State and local agencies and private industry to improve intermodal freight facilities.

Desired Effects

- make it easier to move freight from mode to mode.
- as a result, improve overall transport efficiency.

2. Financing Major Highways and Rural Roads and Bridges

- more Federal aid to be targeted to Interstate and other major highways.
- scope of Federal responsibility on these highways to be expanded to include maintenance.
- number of highways directly eligible for Federal assistance to be reduced.
- Highway Trust Fund to be devoted to highway uses only.
- appropriate changes to be made in Federal Highway user taxes to cover the changing Federal role.
- an incentive program to be provided to increase the level of State funding for non-major highways.

Desired Effects

- concentrate Federal funds on fewer miles.
- remove Federal requirements on small highway projects (such as special Federal design standards).
- relieve States from the responsibility of maintaining major highways and increase their responsibility for rural roads and bridges.

3. Truck Size and Weight

- States that prohibit twin trailers and have load limits of less than 80,000 lbs. and vehicle length limits of less than 65 feet to be encouraged to raise their maximums to that level on Interstates and other major highways.
- the Federal Government to design an incentive program under the financing program which will include a State's adherence to the Federal weight and length standards as one criterion for receiving an increased level of funding for major highways.
(This is to tie the Federal financing of major highways to the Federal weight and length standards on those highways.)

Desired Effects

- provide up to 15 percent increase in vehicle payload.
- reduce the cost of long distance trucking of some perishables.
- tie together Federal size and weight limits and Federal financing of major highways.

4. Truck Permits and Fuel Tax Reporting

- legislation to provide incentives to States to resolve the problem of varying State regulation to be considered.

Desired Effects

- make licensing, taxing and reporting simpler.
- improve agricultural trucking efficiency.
- save energy by eliminating some circuitous routing.

5. The Agricultural Exemption

- feeds, feed ingredients, grain mill by-products used in feeding, fertilizer, agricultural limestone, and other soil conditioners to be added to the list of exempt commodities under the agricultural commodities exemption from ICC trucking regulations.

Desired Effects

- help feed and fertilizer distributors get truck service.
- improve backhaul loading for agricultural truckers.
- reduce adverse impacts from rail abandonments.

6. Agricultural Cooperative Exemption

- the restriction now applied under the agricultural cooperative exemption that limits non-cooperative non-member regulated truck traffic of farmer co-ops to 15 percent of their total truck traffic to be removed. (so that agricultural cooperatives could carry 50 percent non-co-op, non-member regulated traffic.)

Desired Effect

- promote more effective use of agricultural cooperative trucks.

7. Standard Contracts of Haul for Agricultural Truckers

- Secretary of Agriculture to be given the authority to develop standard contracts of haul for the trucking of fresh fruits and vegetables.
- Secretary to be given authority to develop both waivable and nonwaivable regulations for contracts,
- contracts to establish shipper responsibility for loading and receiver responsibility for unloading as non-waivable contractual provision.

Desired Effects

- promote the use of written contracts in the trucking of fresh fruits and vegetables,
- help eliminate unfair trade practices in unregulated trucking.
- resolve the loading/unloading problem.
- aid small agricultural trucking operations.

8. Rate and Cost Information for Unregulated Trucking

- USDA to continue to provide cost, rate and other information that is useful to truckers in deciding where to look for loads.

Desired Effects

- help agricultural truckers allocate vehicles
- inform agricultural truckers and shippers about rates and costs
- improve competition in agricultural trucking.

9. Hours of Service

- hours of service regulations to continue as they are.

Desired Effect

- prevent any abrupt changes in trucking capacity.

Inland Waterway Service

The Task Force Recommendations

1. Locks and Dam 26

- the Corps of Engineers to be directed to accelerate the construction schedule of Locks and Dam 26.
- Congress to appropriate the necessary funds.
- Congress to authorize a second lock of 600 feet (to provide capacity needed on the basis of projected grain exports and other commodity movements and for use during emergency closings of the one lock.)

Desired Effects

- provide needed capacity as soon as possible.
- hold down inflation and costs increases.
- conserve energy now used to hold barge flotillas against river currents.
- provide stand-by capacity in case of emergency.

2. Snake-Columbia River System

- Congress to authorize a coordinated examination of the economic feasibility and environmental impacts of expanding the Bonneville Locks and rehabilitating the John Day Dam.

Desired Effects

- improve competitive forces in moving agricultural products from the Upper Midwest and Northwest
- reduce energy use by improving conditions for movement from the West Coast to the Far East, a distance half as great as that from New Orleans to the Far East via the Panama Canal.
- ensure the necessary analyses are completed before these problems become critical.

3. The Welland Canal

- the United States to continue discussions with the Canadian government about considering the economic feasibility of expanding the capacity of the Welland Canal (that connects the Great Lakes to the St. Lawrence Seaway and opens the Lakes up to ocean-going vessels.)

Desired Effects

- ensure that the divided international responsibilities for the Seaway do not adversely affect its economic efficiency.

4. Waterway Decisionmaking

- executive and legislative procedures to be improved to weigh economic and environmental concerns more effectively and quickly in waterway decisionmaking.

Desired Effect

- balance economic and environmental variables so that delays such as those that slowed down work on Locks and Dam 26 do not recur.

Air Service

The Task Force Recommendations

1. Federal Regulation of Air Cargo

- Congress to provide an overview on the results of air cargo deregulation to determine the ability of shippers of perishable agricultural products and live animals to utilize air freight.

Desired Effect

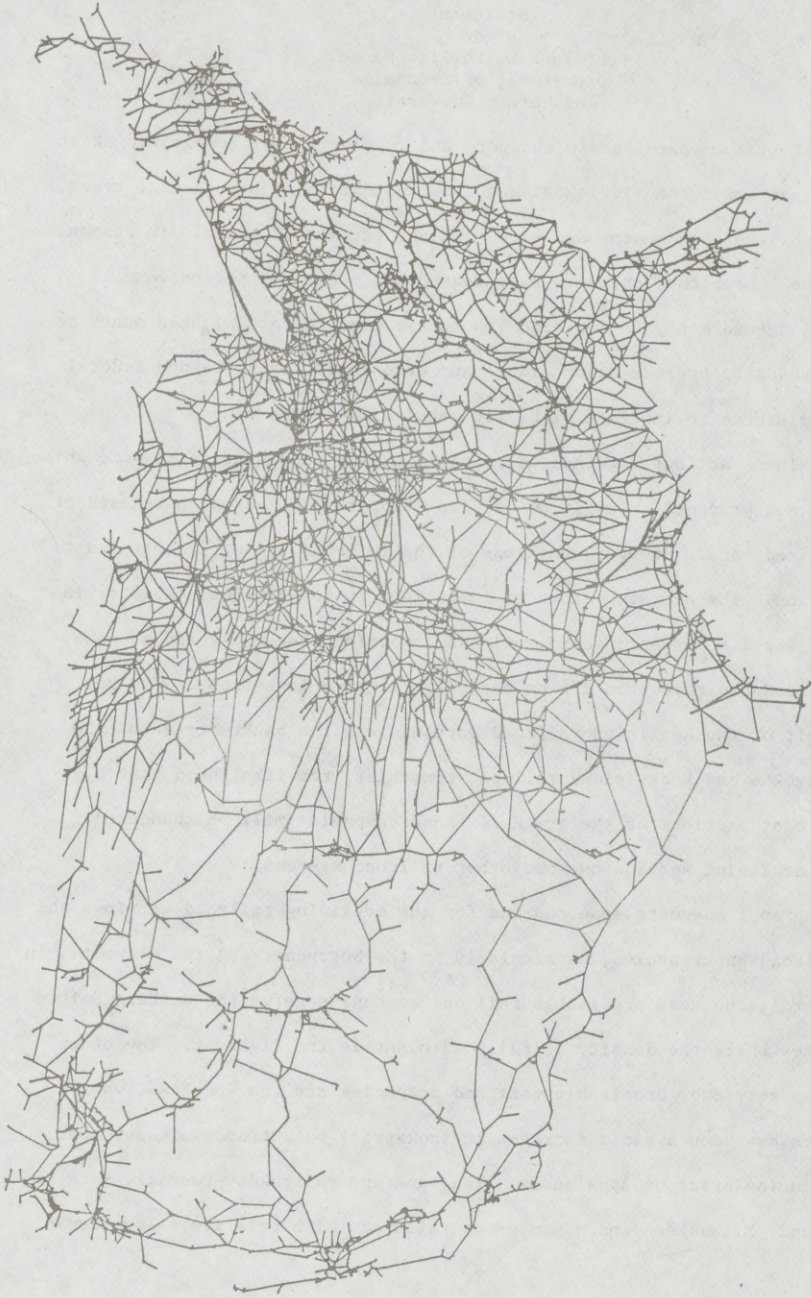
- reassure agricultural shippers that the common carrier obligations of transport firms will not be dismissed.

Statement
of
Professor C. Phillip Baumel
Department of Economics
Iowa State University

Over the years, grain shippers and receivers have complained about rail car and locomotive shortages, poor condition of branch line track, branch line abandonment and slow rail car turnaround times. In response to these problems, shippers have leased and sometimes purchased rail cars, loaned money to railroads to repair wrecked cars, loaned money to railroads to upgrade branch lines and encouraged the state and federal legislatures to initiate plans for rebuilding branch lines.

These actions have helped maintain branch line service to some shippers and provided a supply of cars to shippers who leased, purchased or repaired cars. However, earnings of the railroad industry continued to decline. The average return on investment in the railroad industry in 1978 was 1.6 percent; seven railroad companies lost money and no major railroad had more than a nine percent return on investment. The net result of the declining railroad earnings was the bankruptcies of the Milwaukee and Rock Island railroad companies, the likelihood that significant portions of the track of those companies will be abandoned, and declining service on some other railroad systems.

Map 1 suggests some reasons for the declining railroad earnings and railroad bankruptcies, particularly in the Northeast and the Midwest. In general, the most profitable railroad companies serve the western United States where the density of railroad plant is the lightest. The other areas served by profitable railroad companies are the southeast where there has been a rapid increase in industrial output and in heavy coal producing areas of Appalachia. The bankrupt railroads--Conrail, Rock Island, Milwaukee--and a number of railroads with relatively low levels



Map 1. U.S. RAIL NETWORK IN 1976

of income--Illinois Central Gulf, Chicago and Northwestern, Missouri, Kansas and Texas, Kansas City Southern--serve the Northeast and Midwest United States. These areas are characterized by a very heavy density of railroad plant, slow growth in industrial output and well developed inland waterway systems. The level of competition and the heavy density of rail plant in the Northeast and the Midwest suggest that some reduction and modernization of the railroad plant is necessary if an efficient private enterprise railroad system is to survive and provide good service in these areas. Liquidation of the Rock Island and the restructuring of the Milwaukee Lines will probably speed up the process of reducing the number of miles of railroad track in the Midwest.

One method of accommodating needed changes in the railroad system and improving the efficiency of the distribution of farm products and supplies is through the development of a system of grain elevators and warehouses capable of loading and receiving multiple-car and unit trains. Most observers credit the efficiencies of existing multiple-car and unit-grain train shipments in the Corn Belt for much of the recent growth in rail grain traffic. The major reason for the increased rail carrying capacity of the multiple-car and unit-grain trains is the faster turnaround times of these shipments. Table 1 indicates the records from approximately 2,000 cars leased by cooperatives in Iowa in 1977 and 1978 and their average turnaround times from Central Iowa origins to Gulf export ports and to Chicago destinations for various sizes of shipments.

Table 1. Turnaround Times from Central Iowa to Gulf Export Ports and to Chicago Markets in Days.

<u>Destination</u>	<u>Size of Shipment</u>	<u>Turnaround Time in Days</u>	
		<u>1977</u>	<u>Jan. - Apr. 1978</u>
Gulf export ports	Single-car	34.4	38.5
	3 to 10-cars	26.5	27.4
	25-cars	19.8	26.0
	50-cars	17.9	25.6
	75-cars	16.9	20.7
Chicago	Single-car	22.7	20.1
	25-cars	12.5	15.0

Turnaround times declined as the size of the shipment increased.

Single-car shipments took almost twice as many car days as 75-car shipments.

In addition to the increased carrying capacity, the multiple-car and unit-train grain tariffs provide for reduced rates for shipping the larger volumes. The current Ex Parte 375-A rail rates for single-car, multiple-car and unit grain train shipments from Nevada, Iowa to Gulf export ports are presented in Table 2.

Table 2. Ex Parte 375-A Rail Rates for Shipping Corn from Nevada, Iowa to Gulf Export Ports in Cents per Bushel.

<u>Size of Shipment</u>	<u>Cents per Bushel</u>
Single	66.6
25	59.4
50	55.7
75	51.5

The rate reductions from the single-car to 25-car and 75-car rates to Gulf export ports are 7.2 and 14.1 per bushel, respectively. Rate reductions of this magnitude enable an elevator to pay for additional

rail siding and load-out capacities to load the larger size shipments and to be able to pay higher prices to farmers. Farmers in Northwest Iowa tell me that, on the average, they receive from four to six cents per bushel more for corn and 10-12 cents more per bushel for soybeans at train loading elevators than at non-train loading elevators. Moreover, these rates have enabled Iowa farmers to sell grain regularly in world markets. The larger sizes of shipments have enabled the approximately 140 multiple-car grain shippers in Iowa to transport more grain out of Iowa with the existing number of rail cars, than would have been possible before the development of the subterminal system. At the same time, railroad companies report higher earnings from these types of shipments.

The Farmers Cooperative Elevator Association at Roland, Iowa is an example of a shipper located on a branch line that has used the multiple car system to successfully adjust to rail abandonment. In 1971, the Chicago and Northwestern Transportation Company informed Mr. Vale Peter, manager of the Roland Cooperative, that the railroad intended to abandon the Roland branch line. After fighting the abandonment in court, Mr. Peter decided that even if the line were preserved, the rapid reduction in the number of 40-foot box cars would mean that the cooperative would have extreme difficulty obtaining any cars. After a series of information meetings with the cooperative membership, the board of directors of the Roland Cooperative voted to build a new elevator on the main line 10 miles south of Roland near Nevada, Iowa. The new facility, costing \$1,250,000 with 400,000 bushels of storage capacity and rail siding for

50 cars, was completed in time for the harvest in 1974. A 380,000 bushel storage annex and siding for an additional 25 cars was completed in 1976. Despite the abandonment of the branch line serving the original Roland elevator, the subterminal has enabled the cooperative to more than double its grain volume and more importantly, to pay from 3 to 5¢ per bushel more to farmers than nearby elevators.

Mr. Peter indicated that both the Roland elevator on the abandoned rail line and the subterminal are filled during harvest time. After harvest, much of the grain is hauled directly from the farm to the subterminal. Figure 1 illustrates why the costs of the additional distance the grain is hauled by the farmer is relatively small. If the branch line is maintained, a farmer located 4 miles south of Roland must travel four miles to deliver his grain to the Roland Cooperative. If the rail line is abandoned or if the farmer simply wishes to haul to the new subterminal, the farmer would need to haul his grain six miles to the subterminal located on the mainline. Thus, the farmer would need to travel only two additional miles to deliver his grain to the new subterminal. And since the farmer has already incurred the truck ownership costs to haul to Roland as well as the time required to load and unload the grain, the additional cost of traveling the additional two miles is small. Table 3 shows the estimated variable cost of trucking grain an extra 10 miles with fuel prices at \$1.25 per gallon. Under the assumption that the farmer must incur the cost of the vehicle and the time to load and unload the grain regardless how far he hauls the grain, the additional cost of hauling the grain an extra 10 miles varies from about 2.0¢ to 2.6¢ per bushel depending on the price of fuel and the type of truck.

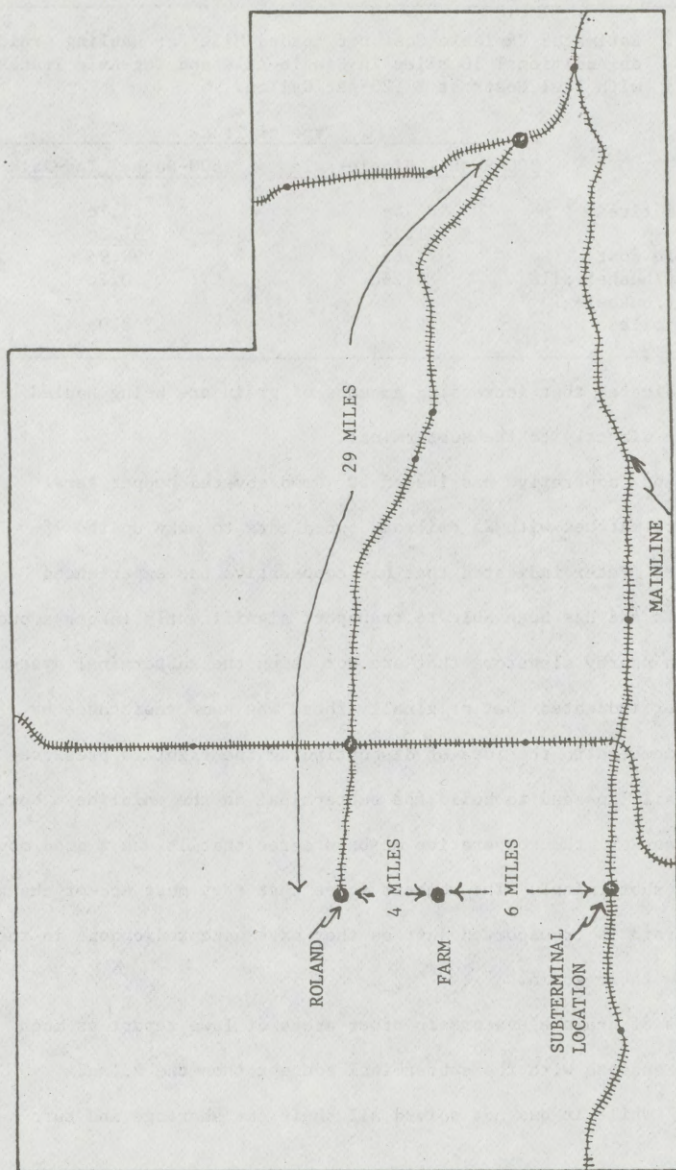


Figure 1. Illustration of Grain Flows with the Roland Branch Line Preserved and Alternatively Abandoned.

Table 3. Estimated Variable Cost per Loaded Mile for Hauling Grain an Additional 10 Miles in Single-Axle and Tag-Axle Trucks with Fuel Costs at \$1.25 per Gallon.

<u>Cost</u>	<u>Type of Truck</u>	
	<u>300-Bushel Single-Axle</u>	<u>500-Bushel Tag-Axle</u>
Fuel, oil and tires	46.4¢	67.7¢
Wages	<u>31.2¢</u>	<u>31.2¢</u>
Total variable cost	77.6¢	98.9¢
Variable cost/bushel-mile	0.26¢	0.2¢
Variable cost/bushel-mile x 10 miles	2.6¢	2.0¢

Mr. Peter indicated that increasing amounts of grain are being hauled from the farm directly to the subterminal.

The Roland Cooperative has leased 50 jumbo covered hopper cars. These cars are matched with 25 railroad owned cars to make up the 75-car train. Mr. Peter indicated that his cooperative has experienced fewer problems and has been able to transport significantly larger amounts of grain than nearby elevators that are not using the subterminal system.

Mr. Peter indicated that originally there was some resistance by cooperative members to the idea of discontinuing the fight to preserve the branch rail line and to build the subterminal on the mainline. Now, however, almost all the cooperative members agree that it was a good move to build the subterminal. The members agree that they must accept change in the way grain is transported just as they have accepted change in the way they grow their grain.

Managers of grain elevators in other areas of Iowa report as much or even more success with the subterminal concept than the Roland Cooperative. While it has not solved all their car shortage and turn-

around problems, it has enabled them to transport more grain with fewer problems and enabled them to pay higher grain prices to farmers than those elevators not utilizing the system. Moreover, the railroad companies report higher earnings on these shipments than in single car shipments. So the concept is useful to farmers, elevators and railroad companies.

The subterminal concept is not unique to Iowa. A large number of subterminals have been constructed in Illinois, Indiana, Ohio, Minnesota and more recently in Nebraska.

Some members of the grain trade have expressed uncertainty about the value of this concept in wheat producing areas where the density of grain production is less than in the corn-soybean producing areas. A few multiple-car rates have been published for wheat shipments and a few elevators that handle wheat are loading multiple-car rail shipments of wheat. One of these elevators is the Pierre Farmers Elevator Association at Pierre, South Dakota. This cooperative invested \$150,000 to provide additional siding for 25-car grain shipments from a new elevator located on a main rail line. Mr. Herb Sibson, manager of the Pierre Cooperative reported that his cooperative had 25 shipments of 25-cars each from the Pierre elevator in 1979.

Recently he obtained 25-car rates to Gulf ports on corn, soybeans and milo. He indicated that these Gulf rates have enabled him to increase his bid to farmers on milo by about 25¢ per hundredweight.

The current Ex Parte 375-A single and multiple-car rail rates from Pierre, South Dakota to Duluth, Minneapolis and Gulf ports are presented in Table 4.

Table 4. Ex Parte 375-A Rail Rates for Shipping Wheat, from Pierre South Dakota to Duluth, Minneapolis and Gulf Ports in Cents per Hundredweight.

<u>Size of Shipment</u>	<u>Destination</u>		
	<u>Minneapolis</u>	<u>Duluth</u>	<u>Gulf</u>
Single-car	\$1.02	\$1.325	\$2.115
25-cars	0.765	0.795	1.63
50-cars	0.74	0.755	1.55

Source: Chicago and Northwestern Transportation Company.

The rate reduction from the single-car to the 25-car shipment to Minneapolis is about 25¢ per hundredweight, and about 53 cents per hundredweight to Duluth. These reductions are sufficiently large enough to reduce the amount of grain trucked long distances to market, to pay for loading facilities on a main line or upgraded branch line and for additional trucking by farmers to the subterminal. More importantly, the multiple-car shipments increase the capability of both elevators and railroad companies to transport grain. The Chicago and Northwestern Transportation Company reported average turnaround times of about 14 days on 25-car shipments from Pierre to Duluth, Minneapolis and Sioux City. Turnaround times for single-car shipments from Pierre to Minneapolis was reported to be about 25 days. Based on these numbers, almost twice as much grain could be transported out of South Dakota with a fixed number of cars under the subterminal system than under the existing single-car system. At the present time, few country elevators in wheat areas or wheat milling or exporting facilities are equipped to handle multiple-car shipments. If more country elevators, wheat milling and exporting facilities were equipped to handle multiple-car wheat shipments, railroad companies could combine two or more 25-car wheat shipments into unit trains and reduce

turnaround times even further. The originating railroads would, however, need to negotiate with terminal switching companies to keep the units together to achieve the maximum benefits of the multiple-car units.

Although there are still some problems with multiple-car shipments, Mr. Sibson has become increasingly enthusiastic about his subterminal operation. His grain volume has doubled and he would like to expand his facilities. He said that you can't stop progress and that the subterminal system will help to save the railroads.

It is fairly clear that the low density of wheat production will not support 75-, 100- or 125- car unit trains from country elevators. The Pierre elevator example clearly indicates that 25- car units are feasible. In some areas, where wheat yields are relatively high, 50-car units might be feasible.

While the low density of wheat production will not support large unit-train operations out of country elevators, the same lack of density production and therefore low freight volume prevents many branch rail lines from being economically viable. Thus, the subterminal system provides a method to ship grain to market by rail efficiently and economically by elevators located on low density branch lines that may be abandoned.

Most of the discussion of the subterminal system focuses on the problems of shipping grain out of grain producing areas to export ports. Multiple-car rates are now being published for shipping grain to grain processing plants. The same concept can be used in areas that receive grain to be fed to livestock and poultry. These areas include the

states in dairy areas like New York as well as poultry producing states like Delaware, Maryland, Georgia, Alabama, Mississippi and Arkansas. At the present time, grain is shipped to these areas in single or 3-car shipments at relatively high rates. If subterminal receiving facilities were built in these states to receive grain in low cost multiple-car or unit trains and the grain was distributed by truck to small users, these areas would benefit from lower transport costs and at the same time be assured of a supply of grain stored in the receiving subterminal. Both the grain and railroad industries would benefit from the more efficient utilization of the railroad equipment. Similar types of warehouses located on mainlines or upgraded branch lines could be used to receive fertilizer by rail in areas that no longer have rail service.

HR 2968 proposes low cost loans or loan guarantees to build subterminals and to purchase or lease transportation equipment. It can be argued that cooperatives do not need this type of federal loan or loan guarantees because the Banks for Cooperatives adequately provide loans for these types of investments. The Banks for Cooperatives have done an outstanding job of providing financing for farmer cooperatives. However, small independent elevator owners do not have access to the types of financing provided by the Banks for Cooperatives. Table 5 presents the number and size of subterminals in Iowa by type of firm. These data indicate that cooperatives dominate the subterminal operations. Smaller independent elevators have not utilized the subterminal concept as extensively as have cooperatives and major grain firms. If we wish to have small independent elevators remain as a viable, growing part of the grain in-

dustry, it is important that financing be made available to these firms to enable them to adjust to railroad abandonment and to be able to utilize the efficiencies of the subterminal system.

Table 5. Number of Multiple Car Grain Shippers in Iowa, by Size of Shipment and Type of Firm, January 1980.

<u>Type of Organization</u>	<u>Size of Shipment</u>	<u>Number of Shippers</u>	<u>Percent of Total</u>
Farmer-owned			
Cooperatives	75-cars	21	72
	50-cars	25	
	25-cars	57	
Independent			
Firms	75-cars	0	11
	50-cars	0	
	25-cars	16	
Major Grain			
Firms	75-cars	7	17
	50-cars	14	
	25-cars	<u>3</u>	
Total		143	100

Trucks undoubtedly use more fuel under the subterminal system than under the single car system. However, rail operations are more fuel efficient under the subterminal system than under the single car system. Just as automobiles are more fuel efficient under highway driving conditions than when operating under stop and start driving in town, rail operations also are more fuel efficient under multiple-car and unit train operations than under single-car operations stopping and starting at each elevator on a branch line. Most fuel studies indicate that unit trains consume about 300-350 btu's per net ton mile while the average way and through train consumes about 750-800 btu's per net ton mile. Moreover, by properly locating subterminals, rail mileage can

be reduced significantly. For example, the rail distance from the Roland Farmers Cooperative Elevator subterminal to Des Moines--the gateway to Louisiana and Texas Gulf ports--is about 100 round trip rail miles shorter than from the original elevator before the branch line was abandoned. Similar reductions in rail distances can be achieved by proper location of subterminal facilities. Table 6 shows the round trip rail distances for the current routing and six alternative rail routings for hauling grain from Palmer, Iowa to Des Moines. Palmer is located on the Rock Island Lines.

Table 6. Round Trip Distances from Palmer, Iowa to Des Moines, Iowa via the Rock Island Routing and Six Alternative Routes.

<u>Routing to Des Moines</u>	<u>Round Trip Rail Miles</u>	<u>Miles Saved Over Present Route</u>
Present Rock Island routing	478	---
Rail north to Webb and south on the Milwaukee	330	148
Rebuild the line from Manson to Palmer, rail west on the Illinois Central Gulf to Iowa Falls and south on the Rock Island Line	308	170
Rail north to Laurens and south on the Chicago and North- western	292	186
Truck 15 miles to Fonda and rail south on the Milwaukee	228	250
Rebuild the line from Manson to Palmer, rail west on the Illinois Central Gulf to Webster City and south on the Chicago and Northwestern	210	268
Truck 14 miles to Pioneer and rail south on the Chicago and North- western	192	286

All six alternative routings reduce the rail distance to Des Moines under the present route by 148 to 286 round trip miles. One elevator manager said to me "who cares how many miles the railroad must haul the grain?" The answer, of course, is that over time, the railroad must recover its full cost--including the cost of inefficiencies--or go bankrupt.

The fuel efficiencies of multiple-car shipments combined with reducing long distance trucking and circuitry of branch lines would more than offset the higher fuel consumption of trucks and therefore reduce total fuel consumption.

The exact number and best locations of subterminals vary from region to region. It is important that analyses be made for each state so that the subterminals will not be too far apart or too close together and not be able to obtain enough grain to achieve the maximum cost and fuel efficiencies. A planning activity is needed to provide guidelines to improve the decision making of individual firms.

The Rural Transportation Advisory Task Force in its final report to Congress on January 4, 1980 recognized the cost and fuel efficiencies of multiple car and unit train shipments. The Task Force report states, "the service benefits of multiple-car and unit trains should be encouraged wherever economically feasible for any agricultural commodity."

Co-operative Feed Dealers Inc.

P. O. Box 670 • BINGHAMTON, N. Y. 13902
TEL. CHENANGO BRIDGE, N. Y. • 607-648-4191



TESTIMONY ON HR 2968

My name is Jerone Kunkle and I represent Co-Operative Feed Dealers, Inc. located in Chenango Bridge, New York.

As a point of reference, let me attempt to explain the what, where, how, and why of our business. Our Corporation is a full service co-operative formed in 1934 and chartered to serve it's member independent feed dealer-manufacturers in New York and Northern Pennsylvania. We operate strictly on the wholesale (feed dealer) level purchasing agriculturally oriented supplies for resale to both member and non-member customers.

Our membership and customers number approximately 200 separate small businesses. They range in size and scope from the small tack shop selling only specialty items to the complete feed mill providing all agri-services to it's farmer customers and distributing in excess of 50,000 tons of mixed feed per year. The majority fall into the small to medium size category of feed manufacturers. Our area of operation encompasses all of New York State except the Hudson Valley and New York City Metropolitan areas, and includes the Northern Tier of Pennsylvania. We are the largest representative of the independent feed dealer-manufacturer in this area.

Due to the diversity of the products that we supply, we have three separate divisions to better handle our customer's needs. The Specialty Division, offering in excess of 3,000 agriculturally oriented items ranging from hardware to Agri-Chemicals maintains an inventory at our Chenango Bridge, New York warehouse. The products are distributed by our own trucks on regular shipping schedules.

Our Nutrition Division, specializing in both micro and macro Nutritional Feed Additives, complete feed mineral mixes, and formulation services also uses the warehousing and distribution system previously mentioned. In addition, we sell truckloads of bulk and sacked Nutritional ingredients shipped directly to our customers facilities in New York and Pennsylvania. This relates directly to the subject of these hearings in that one of these ingredients will be coming from a newly completed intermodule facility in Waverly, New York. Although small in size, and limited to one base ingredient, the facility owned by International Stock Foods Corporation, will provide a needed service for our customers. They are scheduled to receive bulk rail shipments of feed grade Phosphorous which can then be off-loaded directly into trucks for delivery to customers within the region, or stored and shipped by truck at a later date. Previously, this delivery has been accomplished by direct shipment from the Florida origin by truck.

Our third division, our Feed Ingredient Division as the name suggests, provides both major and minor feed ingredients for sale throughout our region. The vast majority of these products are sold in bulk and shipped directly from the origin, be it country elevator or manufacturer, to the customer's feed manufacturing facilities.

There are two distinct categories of ingredients provided. The whole grains, Corn, Oats, Barley, are shipped by truck from the local origins in New York and Penna. In many, if not most, of the sales these products move directly from the farm to the feed manufacturer, with Corn being the greatest by far in overall volume.

The list of by-products used in the manufacture of dairy and poultry feed is much more varied than the whole grains. The prime by-products are Soybean Meal, Wheat Midds, Wheat Bran, Hominy Feed, Distillers Dried Grains, Corn Gluten Feed, Brewers Dried Grains, Linseed Oil Meal, Soybean Millfeed, and Oat By-Products. There are many other minor ingredients in use, but they are on a specialized or infrequent basis.

I've taken the time to detail the size, scope and complexity of our business in hope that the background may help you to better understand our problems.

No one major section of the American Agricultural Community more desperately needs or justly deserves the attention of Congress. The Dairy and Poultry Feed Manufacturers of the North-East are faced with the increasingly difficult task of having to provide the most essential link in the successful operation of the largest single industry of all.

Although the multi-plex of problems faced by the feed manufacturer are both varied and dynamic, they can be broken down into a few basic categories, the most important one being adequate supply. In recent years, the grain growers of the midwest have managed to provide the industry with more than adequate supplies of the raw materials needed. This trend, although becoming more difficult to maintain, will in all probability continue. The problem for us lies in the transportation of the raw material or manufactured by-product to the North-Eastern Feed manufacturer.

Over the last several years, it has become increasingly obvious that rail transportation, as we have known it, will all but disappear. The number of well maintained mainline tracks has dwindled to two in upstate New York. The secondary lines and spurs are in most cases beyond the point where they can be economically restored to a full-use state. Along virtually all of these spurs and secondary lines in New York and Penna. are located hundreds of rural feed mills. Service has been reduced in most cases and curtailed totally on an ever increasing number. Although we are fighting this planned erosion, we are painfully aware that the trend will in all probability continue until the rail system has been pared to a revenue generating base in the eyes of railroad management.

As I stated, many of our member/customers have already faced this plight and survived. Greater utilization of truckload shipments from the point of origin and from small inefficient rail/truck transfer points have kept them alive. These stop-gap measures will in time

prove too costly. Longhaul truckload shipments are rapidly pricing themselves out of reach. Truck fuel surcharges in the last twelve months total 13.5¢ for Interstate shipments and most assuredly will continue to rise.

Railroad plans for the future, readily available in recent testimony before other committees, include a planned rate charge schedule that will all but eliminate single car shipments to individual destinations. Their contention that the costs are too high to allow them to continue single car service, remains a difficult point to refute.

A system is needed that incorporates the economics of multi-car long haul shipment to a single destination and the short haul flexibility of truckloads. The problems associated with constructing and operating a subterminal facility, or facilities in New York and Penna. will prove substantial in today's economic climate. However, the alternatives, steady decline in the number of feed manufacturing facilities and resultant loss of farm productivity, are unacceptable.

Co-Operative Feed Dealers, Inc. as a co-operative of independent feed dealers is ideally located at the junction of east-west and north-south interstate highways, as well as mainline Conrail and Delaware and Hudson Railroad systems. When the needs of our membership demands it, we will be involved in operating or participating in the operation of an Inter-module Sub-Terminal Facility. With appropriate legislation to assist New York State and organizations such as ourselves in developing and operating such facilities, the results we all desire can be achieved without undue economic hardship.

STATEMENT OF SENATOR GEORGE S. MCGOVERN, A U.S. SENATOR FROM THE
STATE OF SOUTH DAKOTA

The Agricultural Subterminal Storage Facilities Act constitutes a vital key to the economic future of farmers throughout the Nation.

The bill would enable grain and other bulk agricultural commodity producers and small shippers to harness rather than be victims of the vast and inevitable structural changes that are occurring in the Nation's rapidly shrinking railroad system.

It is for this overriding reason that I introduced the legislation in the Senate, where it has been approved with amendments, and my good friend, Tom Daschle, introduced it in the House.

Implementation of its provisions will give grain farmers, country elevator operators and other small bulk agricultural producers and handlers the means to rid themselves of disastrously inadequate rail service by establishing modern storage and multiple car and unit train shipping facilities in conformance with rail system changes in their States and regions.

The legislation furnishes planning and financial assistance mechanisms which will alter the process of change in the Nation's rail network in ways which will result in better service not only to farmers but to the economy of rural America as a whole.

In a very real sense, the bill will help to boost the competitive ability of grain farmers and other bulk commodity producers by assisting them to have the kind of modern storage and shipping systems now utilized almost exclusively by large grain and other agriculture conglomerates which dominate many commodity markets.

Moreover, it should be noted that the Agricultural Subterminal Storage Facilities Act would promote construction of the framework to carry out major recommendations of the rural transportation advisory task force report, which is also being considered at this hearing. That task force was composed of a broad cross section of the Nation's farming community, agricultural shippers and processors, transportation representatives and officials of Federal and State agencies. The recommendations in question focus on the advantages of multiple car and unit trains and the use of rail rate and service contracts. Storage and shipping facilities which would be established through this legislation directly lend themselves to implementation of the recommendations.

The bill essentially consists of two sections. The first would establish a grant program to be administered by the Secretary of Agriculture to fund State and regional planning efforts aimed at determining the need for subterminals and to designate their most efficient location on railroad mainlines and viable branchlines for all available transportation options. Their design and location would reflect not only shipments to domestic processors and to points of export, but the receipt and storage of fertilizer, fuel and other bulk commodities and products used in agriculture production. The benefits of leasing or owning rail cars, trucks and barges would be evaluated.

The second section of the bill would authorize the use of insured and guaranteed loans under the Consolidated, Farm and Rural Development Act for construction of subterminals when borrowers are unable to obtain adequate credit under reasonable terms. Such financial assistance to borrowers would be available only if subterminal proposals complied with state rail restructuring assistance plans under the Department of Transportation Act, and if they otherwise met the approval of the Secretary of Agriculture.

For purposes of expediting enactment of the bill, I recommend that the subcommittee approve the Senate amendments. In my judgment, these changes improve the legislation and otherwise enhance its acceptability.

I would like to emphasize that this bill will not jeopardize local country elevator operations—in fact, the reverse is true. Without the construction of subterminal elevator facilities several elevators in my State of South Dakota may well go out of business. Many elevators are presently located on Milwaukee Railroad branchlines that are receiving no service and will ultimately be abandoned. Unless these elevator operators can band together and locate a joint facility on a viable rail line, they may not survive.

Such a joint facility would serve to load and unload unit trains, while preserving existing local elevator capacity for storage. Grain would be trucked from these local elevators to the subterminal for unit train shipping.

Absent the construction of a centrally located subterminal, these elevators would be forced to rely on trucks whose rates will skyrocket with increasing fuel prices. Not only will such a situation place a grave hardship on their businesses, but it will also impact the price the farmer receives for his commodity.

In considering this legislation, I urge members of the subcommittee to bear the following thoughts uppermost in mind. The bill relies almost entirely on State and local initiatives to implement its planning and financial assistance provisions. There is absolutely no opportunity for imposition of Federal demands against local wishes. The bill requires that priority for ownership and operation of subterminals be given to grain producers and small capacity elevator operators who would be directly impacted by subterminal complexes. It requires that maximum benefits from subterminals be made available to local producers. This includes the continued use of existing on-farm storage facilities and access to subterminal facilities by country elevator operators.

It also should be clearly acknowledged that the subterminal storage and shipping concept by no means originated with this legislation. Rather, it is based on the highly successful experience of grain producers and small cooperatives in Iowa where subterminal programs have been in existence for several years. A few similar efforts are underway elsewhere. The point I want to make is that this approach has been tested over time and works well. The purpose of the legislation is to make it possible to apply the concept as widely and as quickly as possible so that benefits can be enjoyed by the greatest number of producers and shippers throughout our agriculture industry. Prevailing economic circumstances in general and the deplorable economic and physical condition of much of the Nation's rail system in particular are forcing major structural changes in this transportation mode. The bill is meant to be a vehicle by which agriculture can both adopt to and beneficially influence these changes.



**NATIONAL
GRAIN & FEED
ASSOCIATION**

April 23, 1980

The Honorable Richard M. Nolan
Chairman, Subcommittee on Family Farms,
Rural Development, and Special Studies
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The National Grain and Feed Association is a voluntary association of grain and feed firms, independents and cooperatives, ranging in size from the smallest country elevator to the largest grain and feed complex. Included in its members are country and terminal elevators, merchandisers, processors and exporters covering the wide spectrum of the grain and feed industry. Our membership is comprised of 1200 companies and 46 state and regional grain and feed associations that include upwards of 10,000 grain and feed companies nationwide.

The National Grain and Feed Association is strongly opposed to the enactment of H.R. 2968, the Agricultural Subterminal Facilities Act of 1979 for the following reasons:

1. The authority for the expenditure of \$20 million is contrary to the government's efforts to balance the budget and lessen inflation. This needs no elaboration;
2. Authority already exists within the Farmers Home Administration and the Federal Railroad Administration for funds for grants or loans for construction of subterminal facilities. Thus the authorizations and procedures in H.R. 2968 would duplicate and complicate the on-going activities of the Farmers Home Administration and the Federal Railroad Administration;
3. The government's involvement in grain merchandising and marketing has been extensively extended as an aftermath of the embargo of grain to the U.S.S.R. and further involvement in the grain marketing system is unwarranted. The Commodity Credit Corporation has purchased 94.4 million bushels of wheat from farmers and 16 million bushels of wheat and 33 million bushels of corn from grain elevators. Further government activity in the planning for distribution of grain is unnecessary; and

4. Marketing forces do not necessarily follow planning predictions. It is well known that terminal facilities in Iowa have been over-built and have not operated to projected through-put. Furthermore the chronic shortage of grain carrying freight cars is an illusive matter. We were advised only yesterday by the Association of American Railroads that there exists a surplus of covered hopper cars. The Burlington Northern reported an over supply of covered hopper cars and other grain carrying railroads did not request the use of the cars.

Mr. Chairman, for the foregoing reasons we strongly urge the rejection of H.R. 2968.

Because of the short notice of these hearings I was unable to adjust my plans to appear in person. However I would be happy to respond in writing to any questions.

It is requested that this letter be considered by your subcommittee in its deliberations on H.R. 2968 and that the letter be made part of the hearing record.

Sincerely yours,

Richard W. Goldberg
Chairman, Agricultural Policy Committee

RWG/ccj

American Farm Bureau Federation



WASHINGTON OFFICE
425 13TH STREET, N.W.
WASHINGTON, D. C. 20004
AREA CODE 202 - 637 - 0500
CABLE ADDRESS: AMFARMBUR

April 23, 1980

Honorable Richard Nolan, Chairman
Subcommittee on Family Farms, Rural Development
and Special Interests
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Nolan:

Re: H. R. 2968, Subterminal Facilities Act

The American Farm Bureau Federation generally supports H. R. 2968; however, we suggest several amendments that we believe will make this legislation more effective.

We believe that the United States has, for too long, taken our food distribution and transportation system for granted. We are proud of the fact that we have the most efficient and productive agricultural system in the world, as well as one of the best transportation and marketing systems. However, the availability, cost, and quality of transportation are becoming serious limiting factors in our ability to market the volume of food and fiber needed to satisfy our domestic market and growing exports.

American agriculture and the transportation system are in the midst of considerable turmoil and change. The general condition of the economy at the present time, coupled with the embargo on grain exports to the Soviet Union, a rapidly deteriorating rail situation in the East and Midwest, and broad changes in the economic regulation of motor carriers and rail carriers have created a situation that calls for some new approaches in seeking solutions to these problems.

Every effort should be made to identify those rail lines that can be made economically viable in the future and to develop plans to rehabilitate them; but we have to face the fact that many low-density lines will not continue in operation.

Plans need to be developed in an orderly fashion to adapt our present marketing system for bulk agricultural commodities to the restructured rail system that is emerging, including consideration of all available modes of transportation, and the ways in which they can be coordinated to maximize the efficiency and availability of transportation for agriculture.

The adaptation to rapid change on the part of producers and shippers in the agricultural community will not be easy. Many have invested millions of dollars in marketing facilities that are located on low-density rail lines. Public policy needs to take that investment into consideration so as to minimize any losses that may occur as a result of restructuring the marketing and transportation facilities.

We recommend the following specific changes in H. R. 2968:

- (1) We favor the changes made by the Senate Committee that are now a part of S. 261 as passed by the Senate.
- (2) Amend Section 4(a)(5) to add a new paragraph (I) as follows:

"(I) An assessment of the overall transportation system in the state or region and future plans for that overall system, including the adequacy of highways and bridges."

Explanation: It is essential that the planning process include a careful look at the overall transportation system in the area involved, with particular reference to highways and bridges. It makes no sense to develop new subterminal facilities if access to them by highway is not assured. Most railway and barge movements are preceded or followed by movements on highways.

- (3) Amend Section 4(a)(5) to add a new paragraph (J) as follows:

"(J) Consideration of the feasibility and advisability of the ownership and operation of rail branch lines by farmer-owned cooperatives, and the role that such cooperatives might play in any overall planning for the restructuring and rehabilitation of rail service and marketing facilities within the state or region for which a plan is developed under this Act."

Explanation: The planning process envisioned in this legislation presents a good opportunity to examine the concept of the ownership of rail branch lines by farmer-owned cooperatives. Such consideration may lead to further need for an in-depth study of this concept.

- (4) Amend Section 4(b) by substituting the following language:

"(b) The State or regional plan shall be developed with the advice and consent of a state or regional plan review commission composed of local producers, local elevator operators, representatives of affected motor and rail carriers, and other interested individuals. A majority of the members of the commission shall be appointed from nominees submitted by local producer associations in existence at least one year prior to the effective date of this Act.

"No application for planning assistance shall be submitted until the plan review commission recommends to a Governor or Governors that a need exists for the development of a state or regional plan. The commission shall consider the information and analyses developed by state and federal agencies in the development of a state or regional plan and may utilize other sources of information in the development of such a plan. The commission shall also make recommendations for the most beneficial location of subterminal facilities."

Explanation: The role of the review commission would be strengthened by this proposed amendment, since the commission would be appointed as the first step in the planning process. The first job of the commission would be to determine whether or not there is a need for a planning process and an application for a federal grant. The amendment would spell out in more detail the makeup of such review commissions. Also, such commissions would be free to seek other sources of information, rather than relying solely on the information developed by a state or regional planning agency.

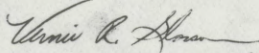
- (5) That Section 5 be amended by adding a new paragraph as follows:

"The Secretary shall make no loan or loan guarantee under this section, until he has affirmed that a plan review commission, provided for in the Agricultural Subterminal Storage Facilities Act of 1980, has approved the plan for the proposed new facilities."

These amendments would make the bill more acceptable to Farm Bureau by assuring that those most affected by the ongoing changes in the transportation and marketing system have a major role in the planning process and in the development and ownership of any new facilities that may be developed through this legislation.

We will appreciate your consideration of our views on this bill, and the specific amendments we have recommended.

Sincerely,



Vernie R. Glasston, Director
National Affairs Division

...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...

...the ... of ...

...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...

...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...
...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

