Chapter I — Introduction

The Emerging Importance of Agricultural Transportation Issues

The past year was a trying time for many agricultural shippers, particularly those who ship by rail in the western United States. Starting in the second half of 1997, a cascading service failure on the Union Pacific/Southern Pacific (UP/SP) snarled traffic and brought freight shipments in some areas to a complete halt. Eventually, other railroads also experienced service problems because of UP/SP's inability to interchange traffic. While railroad shippers in all industries located in the western United States were affected, agricultural shippers seemed to be affected the worst. Many grain shippers experienced delays in railcar deliveries of 30 days or more, while some grain shippers in the Panhandle of Texas did not receive a single railcar for 3 months. Transit times for rail movements of wheat from Kansas to the Gulf of Mexico topped out at over 30 days — four to five times longer than normal. With the inability of shippers to move grain, well over 100 million bushels of grain had to be stored on the ground. Livestock and poultry feeders shifted to truck transportation and alternative sources of supply to bring in needed feed supplies. Operations at a number of lumber mills in Oregon were curtailed because the lumber could not be shipped out. The Surface Transportation Board (STB) eventually determined the western railroad operating situation constituted a transportation emergency and ordered the UP/SP to open parts of its system to competitors to help ease the rail gridlock. Nine months later, after a series of regulatory and Congressional hearings and repeated promises by railroad representatives that normal service was just around the corner, railroad service in the western United States has yet to recover completely.

Although America's farmers and agribusinesses have always depended upon an efficient, timely, and competitive U.S. transportation system, the past year's rail service crisis illustrates just how heavily U.S. agriculture relies upon adequate transport services. If U.S. agriculture is to enjoy continued prosperity into the 21st century, a number of long-term transportation and infrastructure challenges will have to be addressed. For example, the increasing concentration in the U.S. rail industry, evidence of inadequate rail capacity, the current condition of the rural road and bridge infrastructure, and the need to rehabilitate the U.S. waterway infrastructure are all issues of vital concern to U.S. agriculture. Moreover, the reliance of U.S. agriculture on adequate transportation services is increasing with the changes the 1996 farm bill made in basic farm policy. To take advantage of opportunities, both in international and domestic markets, farmers need responsive and cost-effective transportation services. The future structure of U.S. agriculture and the ability of U.S. producers to compete in world markets depend on how the infrastructure and transport challenges of U.S. agriculture are addressed.

In fact, it increasingly appears as if the real challenges facing farmers in the future will not be in producing crops for domestic and export markets — U.S. farmers are the world's most productive. Instead, the real challenge for U.S. agriculture will be whether the transportation services and infrastructure will exist to market what is produced effectively. Events over the past year are causing many to question whether the transportation system can keep pace with the

agricultural sector in the future.

A Long-term Agricultural Transportation Strategy

Because of the western rail crisis and the recognition of these interrelated long-term agricultural transportation issues, the United States Department of Agriculture's (USDA) Assistant Secretary for Marketing and Regulatory Programs, Michael V. Dunn, announced in November 1997 that by mid-1998 the USDA would develop a framework for a "multifaceted plan to address the long-term transportation needs for all agricultural commodities." This plan was to be proactive, identifying and addressing the systemic, long-term transportation needs of U.S. agriculture. In order to prepare this plan, subsequently termed the *Long-term Agricultural Transportation Strategy* (*LATS*), the USDA initiated a program of constituent outreach, information dissemination, research, and policy development. In more specific terms, *LATS* consists of a number of components, namely: (1) working with constituents to identify major agricultural transportation issues, (2) preparing a report that "frames" the long-term agricultural transportation issues facing U.S. agriculture, (3) conducting research on the long-term agricultural transportation issues facing U.S. agriculture, and (4) better monitoring current transportation conditions for agricultural shippers. Each of these components is described below.

Constituent Outreach — The USDA is working closely with constituents to identify the long-term transportation needs of U.S. agriculture, to prioritize the relative importance of those needs, and to discuss how those needs could be addressed by *LATS*. We are reaching out to our constituents in three ways:

- First, the USDA has conducted "peer review" meetings with farm-group representatives to identify the salient transportation issues and concerns of U.S. agriculture. Three "peer review" meetings have been held in 1998, and more are planned.

- Second, the USDA is sponsoring a national agricultural transportation summit, *Agricultural Transportation Challenges for the 21st Century*, July 27-28, 1998, in Kansas City, Missouri. This summit marks the formal kickoff of the USDA's efforts to develop *LATS*, through which the systemic long-term transportation issues of U.S. agriculture will be identified, prioritized, and addressed. The objectives of the summit are to introduce and frame the long-term agricultural transportation issues that U.S. agriculture will face in the 21st century and to provide a forum through which *LATS* can gain additional input from agricultural stakeholders.

- Third, the USDA is conducting a series of listening sessions on agricultural transportation issues around the United States. So far eight listening sessions have been held on grain transportation issues in the Midwest, and additional sessions are being considered for some of the "nongrain" agricultural constituents who have also experienced transportation problems.

A Framework Report for the National Agricultural Transportation Summit — This report is

the second component of *LATS.* The USDA seeks to frame agricultural transportation issues for a general audience by providing background information on the importance of transportation to agriculture, the economic and service characteristics of the different transportation modes, and the transport services used by U.S. agriculture.

By taking a preliminary look at the major transportation and infrastructure issues that will affect U.S. agriculture in the 21st century, the USDA hopes to generate productive discussions among attendees at the national agricultural transportation summit and its followup listening sessions. The USDA will be listening very carefully to the issues and concerns raised by this report and will be using this feedback to refine its policy analysis and research agenda on the long-term agricultural transportation issues. This is the first step in the development of an agricultural transportation strategy by the USDA that will identify and address the systemic, long-term transportation needs of all of U.S. agriculture.

Research on Long-term Agricultural Transportation Issues — At the national agricultural transportation summit, the USDA will announce a preliminary policy and research agenda to address the long-term agricultural transportation issues that will affect U.S. agriculture in the 21st century. Among these issues are the transport implications of the industrialization of U.S. agriculture, the transport implications of biotechnology and the marketing of speciality grains, and the relationship between transportation and infrastructure investments and the international competitiveness of U.S. agriculture. Workshops at the summit will provide a forum for constituents to suggest additional issues for long-term policy analysis and research by the USDA. A status report on this long-term research is the third component of LATS and will be published as a separate report in 1999.

Increased Monitoring of Current Transportation Conditions — Over the past year, rail congestion has severely affected the movement of grain to market. Recognizing the possibility that additional information could lessen the severity of these logistical disruptions, several members of Congress have called upon the USDA to increase the information flow on the current grain logistics situation to farmers and grain shippers. In response, Secretary Glickman signed a Memorandum of Understanding (MOU) with Linda Morgan, Chairman of the STB, to set up a grain logistics task force. This task force will identify and disseminate information to the general public on the current grain logistics situation.

The MOU will result in increased monitoring by the USDA of current rail transportation conditions that are of particular importance to agricultural constituents. The USDA is especially interested in developing information that will provide an early warning of potential service and congestion-related problems that would affect the ability of farm operators to market their crops. This increased monitoring of current transportation conditions constitutes the fourth component of *LATS.*

The Organization of this Report

This report, *Agricultural Transportation Challenges for the 21st Century: A Framework for Discussion*, is the second component of LATS and is designed to describe the importance of transportation to agriculture, the economic and service characteristics of the different transportation modes, and several of the long-term issues that may reshape agricultural transportation.

Chapter I describes the actions the USDA is taking to develop a multifaceted plan to address the long-term transportation needs for all agricultural commodities.

Chapter II describes the relationship among transportation, trade, and U.S. agriculture by focusing on the unique importance adequate and cost-effective transportation has for U.S. agriculture as a result of certain characteristics of agricultural production, commodities, and marketing.

Chapter III lays the groundwork for the long-term transportation issues facing U.S. agriculture, by describing the economic and service characteristics of the different transportation modes in the domestic and international transportation system.

Chapter IV identifies some of the long-term transportation challenges that face U.S. agriculture. The list of issues is certainly not definitive or all-encompassing, and the USDA expects to learn more about each of these and additional issues as it continues to reach out to and work with its constituents.