Waterways

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As river temps drop…

All eyes on Washington budget talks

Overnight water temperatures at locks on this end of the Upper Mississippi are in the 30s and UMWA members are preparing for the end of the 2011 navigation season. But in addition to watching the weather and the calendar, shippers and operators are keeping an eye on Washington where the congressional "Super Committee" is trying to hammer together a combination of spending cuts and revenues (taxes) for the next decade. As everyone knows, if the committee doesn't come up with a package by Thanksgiving, automatic cutting or "sequestering" of about $1.2 trillion a year is mandated by an earlier agreement.

Potential lose-lose

But for the waterway industry it's a potential lose-lose situation: If the committee reaches an agreement, the package might include the Obama administration's "Plan for Economic Growth and Deficit Reduction," which includes a waterway user's fee that the administration has been pushing for more than two years.

If, on the other hand, the Super Committee doesn't reach agreement, the $1.2 trillion in cuts would be split between domestic and national security programs (mainly the military) and would put downward pressure on an already inadequate Army Corps of Engineers budget.

A viable alternative

This dilemma is especially frustrating because an industry/government group has produced and disseminated a workable plan for funding infrastructure needs on the country's waterways.

(Above) A grain barge on the Minnesota River becomes a tourist attraction for two recent Asian visitors. Recent FTAs will mean even more demand for Midwest Commodities from that region and others.

Objective criteria

Called "The Inland Waterways Capital Development Plan," the blueprint was designed to, "Apply objective criteria to the prioritization of essential construction and major rehabilitation projects, revise current beneficiaries' cost sharing for these projects, reform the Corps of Engineers internal project delivery

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From the Executive Director…

(**Editor's note:** Executive Director Russ Eichman is taking a break from his column this month, so we thought we'd bring you one from early last year that seems both timely and timeless)

There's an old adage among historians that "what goes around comes around"; this time it took just over 75 years.

Recently, two Minnesota agencies – the Department of Agriculture and the Department of Transportation – teamed up to determine if competitive relationships between rail and water transport results in Minnesota grain shippers paying excessive rail rates in locations with low levels of competition. The answer was an unequivocal Yes!

In a study released in January (2010), these agencies seem to have taken a page out of the 1932 radio address by C. C. Webber, president of Deere and Webber Company of Minneapolis, the forerunner of today's John Deere & Company.

The problem in 1932, according to Mr. Webber, was that while the nation had an excess of everything grown, produced or manufactured and had coffers bulging with gold, unemployment and stagnation were increasingly threatening "the very foundation of our social fabric."

Transport is controlling factor

Webber observed that transportation is so closely interwoven in the modern process of production and distribution that it affects every article of commerce. It controls the exchange of products between various parts of the country and the world, thus the purchasing power of the workforce. He further reasoned that since one part of society cannot prosper while others are deprived of income, the task of restoring lost equilibrium and removing inequalities that drive a wedge between production and consumption belongs to transportation.

In his radio address, Webber noted that from the flagpole on the Agricultural College campus at Fargo, it is over 1,500 miles to the Atlantic and Pacific Oceans, to Hudson Bay and to the Gulf of Mexico. To be of any value, Midwestern industrial and agricultural products must reach consumers located on the seacoast or in foreign lands, he said.

Mr. Webber went on to illustrate how, because of the Panama Canal and high inland rail freight rates, the only way his Rock Island-based company could match prices with Atlantic seaboard competitors in shipping to the west coast, was to back ship by rail 1,000 miles eastward to Baltimore, then by vessel through the Panama Canal to San Francisco. Even with the added distance and extra transloading fees, his combined rail-water freight bill was 31 percent less than the all-rail rate from Rock Island.

Clearly, according to Webber, the only avenue of escape for landlocked shippers handicapped by distance and high rates to the seaboard is an outlet to the sea; in this case, the Mississippi River.

Department of Agriculture's 2010 Study

That said we'll fast forward 78 years to the 2010 findings of the Minnesota Department of Agriculture. Using the 2007 Surface Transportation Board's Rail Waybill Sample for Minnesota, the Study considered over 63 thousand movements of corn, wheat and soybeans. It should be noted at the outset that rate comparisons in this Study are between rail rates facing water competition and rail rates free from such constraints; it does not compare rates between different modes.

Water constrains all-rail rates, but unequally

The study finds that the further a shipment originates from barge transportation, the higher the all-rail rates. For example, wheat shipments originating 100 miles from a barge terminal pay rail rates that are 8.7% higher than if originating only 50 miles from water; increase that to 200 miles from water and the penalty is 18.1%; an increase of over 9 percentage points.

Change the example to corn and the percentages change to 6.6 and 13.7, respectively confirming that rail rates on both corn and wheat are constrained by water, but more so for corn.

However, the Study also indicates that the distance-from-water penalties can be lessened by shipping larger tonnages longer distances by rail.

The Study also shows that competition between railroads varies as the distance from river transport increases.

For example, if a terminal has access to 1 or 2 railroads and is within 50 miles of the river, the river's influence will be close to zero. Shrink that distance to

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only 25 miles, and the rail rate will drop 4.5%; increase that distance to 200 miles from water and the rail rate will increase by almost 10%.

If 2 or 3 railroads compete for that terminal's corn, at 50 miles, the river's influence is still close to zero; however, at 25 miles rail rates will drop almost 3% while the 200 mile distance from water will allow rail rates to increase by 5.5%. Apparently 3 railroads are not as likely to reduce rates as much, but on the upside, they are not likely to increase them, either, as they fight each other for the long haul.

Summary of Study

Wheat. Wheat shipments pay the highest revenue per ton mile when compared to corn and soybeans – 7% higher than corn and 32% higher than soybeans.

• The average miles to the nearest barge loading station is 182 miles; significantly further than for corn or soybeans.

• Wheat has the lowest tonnage which greatly affects the rate as unit train service provides lower rates.

• Wheat is shipped the shortest distance compared to corn and soybeans by all carriers in the route.

Corn. Corn shipments had the 2nd highest revenue per ton mile.

• The inter-rail competition is the lowest of the 3 grains.

• The corn regions generate slightly less grain volume than soybean regions.

Soybeans. Shipments of soybeans pay the lowest revenue per ton mile compared to corn and wheat.

• Soybeans generate more regional volume than corn or wheat.

• Soybean regions have the highest concentration of inter-rail competition indicating there is more competition in rail rates than in corn and wheat regions.

• Since soybeans have the longest distance traveled, this may indicate that most soybean shipments are for the export markets.

From Mr. Webber's time, through the Navigation Study some 60 years later and now with the recent study by Minnesota's Department of Agriculture, waterway advocates have promoted the same message: low water rates charged directly to barge shipments, or rail rates that are compelled to reflect the presence of lower barge rates, produce positive results in the economy, to agriculture and to our national interests.

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process, and suggest a revenue enhancement – a thirty to forty-five percent increase in the existing diesel fuel tax – to pay for these vital infrastructure investments." Industry leaders have been working to make members of the committee aware of the problem, asking them not to implement the administration's Inland Waterways Capital Investment Act (IWCIA).

As Waterways Council Inc., (WCI) President Michael Toohey pointed out in a letter to the chairs of the committee, the IWCIA would, "neither create economic growth nor meaningfully contribute to deficit reduction…"

Many other beneficiaries

And as a new brochure from the National Waterways Foundation (NWF)* makes clear, the nation's waterways are job creators, an economic engine in their own right and also a competitive brake on all transportation rates.

Among the often overlooked benefits of a reliable waterway system, says the brochure, are flood control, recreational boating, hydropower generation, industrial and municipal water supply and waterfront economic development.

It is not just industry people who believe that waterways are vital to the nation's strength, the United Soybean Board (USB) recently completed a transportation study which shows that Panama Canal cargoes are going up and will go up sharply when the new, wider locks come online in 2014, creating more export demand for Midwest farm commodities.

The USB study says 2011 cargoes through the canal were up more than seven percent and beat the all-time previous record set in 2007. Estimates are that grain and soybean volumes through the newly widened canal will go up 30% by 2020-21.

New FTAs mean business

After the Free-Trade Agreements with South Korea, Columbia and Panama were signed into law recently, the President of the National Corn Growers Association, Garry Niemeyer said that while free trade agreements are great, improving the country's outdated infrastructure, especially locks and dams, is vital to make those agreements work for American farmers.

(*"Waterways: Vital to the Nation" is available for viewing or order at www.nationalwaterwaysfoundation.org)