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THE IMPACT OF THE SOVIET GRAIN EMBARGO ON RAIL AND BARGE TRANSPORTATION

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

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SUBMISSIONS FOR THE RECORD

MONDAY, FEBRUARY 4, 1980

THE IMPACT OF THE SOVIET GRAIN EMBARGO ON RAIL AND BARGE TRANSPORTATION

MONDAY, FEBRUARY 4, 1980

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 5110, Dirksen Senate Office Building, Hon. George McGovern (member of the subcommittee) presiding.

Present: Senators McGovern and Jepsen.

Also present: Philip B. McMartin, professional staff member; Betty Maddox, administrative assistant; Mayanne Karmin, press assistant; and Peter Turza, minority professional staff member.

OPENING STATEMENT OF SENATOR MCGOVERN, PRESIDING

Senator MCGOVERN. The subcommittee will come to order.

On January 4, following the invasion of Afghanistan by Soviet troops, the administration announced the embargo of 17 million of the 25 million metric tons of wheat and feed grains projected for sale to the Soviet Union this year. The embargoed Soviet grain represents more than 15 percent of all grain expected to be exported in 1980.

The administration subsequently committed itself to the purchase of embargoed grain which remains unsold in order to protect grain producers and dealers from financial loss. Nothing was said about shielding the Nation's transportation industry from the impact of lost grain traffic.

A traffic loss of this magnitude would constitute serious problems for some marginal railroads as well as independent barge companies that, with Government support and encouragement, have made heavy equipment investments in anticipation of continued expansion of the national grain market, with the Soviet Union playing a major role in these movements. For example, over half the Mississippi River system barge fleet, some 5,000 barges, have come into existence since the large Soviet grain purchases of several years ago. Over half of that total, some 3,000 barges, presently stands loaded and idle on the lower Mississippi largely because of the embargo and the International Longshoremen's Association refusal to load Soviet ships.

Since the administration's embargo announcement, additional anticipated sales to countries other than the Soviet Union have been projected for the year. The effect of these estimates along with adjustments in actual sales commitments is to reduce the net anticipated loss of export grain sales from 17 million metric tons to 7 million tons. It remains to be seen whether this level of increased export grain sales will actually be achieved.

Even if they are achieved, the net sales reduction represents a loss of some $200 million in traffic revenue for the Nation's rail and barge industries, with most of this loss, $147 million, falling on mid-Western railroads and Mississippi River system barge companies. Failure to achieve these increased estimated sales could prove disastrous for some railroads and barge companies.

Beyond the immediate situation, it seems reasonably clear that our grain and transportation industries face the prospect of long term if not permanent loss of the Soviet grain market, absent a willingness on the part of the Soviet Union to withdraw from Afghanistan.

Our purpose here this morning is to begin the effort to assess both the immediate and longer term impact of the embargo and the uncertainties it has produced on major elements of our transportation system. This includes the possibility that the rail industry itself may end up shouldering both its own as well as a significant portion of the revenue losses of the barge industry, given the capacity of barge companies to underbid rail competition for grain traffic.

In addition, the prospect of immediate reduced equipment purchases on the part of both modes must be acknowledged with a view toward estimating possible additional equipment shortages in the years ahead in the event that sustained increased export sales to countries other than the Soviet Union are in fact realized. Depending on the depth of these problems, equity and fairness may demand consideration of financial assistance not only to grain producers and dealers but to railroads, barge companies, and their suppliers.

It should be noted that this is nöt an advocacy situation. The primary aim of the hearing is to obtain a realistic assessment of the situation from representatives of appropriate Federal agencies and the rail and barge industries.

Now with this thought in mind, I will ask all of our witnesses to take their seats at the table now. We will begin with Vice Chairman Gresham and then proceed to the testimony of Messrs. Schrader, Dempsey, Conlon, and Verona, and then we will question all of you together. So if all of you gentlemen will come forward now, we would appreciate it.

I understand that there are several other representatives of the barge industry present. After we have heard the summarized statements of the witnesses, I will invite these witnesses to join Mr. Verona at the witness table for the question and answer period.

I will also ask all of the witnesses to summarize their statements to 10 minutes, bearing in mind that the complete statements—prepared statements—will be made a part of the hearing record.

Mr. Gresham, if you will proceed, we will be happy to hear from you now.

STATEMENT OF HON. ROBERT C. GRESHAM, VICE CHAIRMAN, INTERSTATE COMMERCE COMMISSION, ACCOMPANIED BY JOHN R. MICHAEL, CHIEF, RAIL AND PIPELINE OPERATIONS

Mr. Gresham. Thank you, sir. I appreciate the opportunity to be here today to discuss the impact of the Soviet grain embargo on rail and barge transportation. With me is John Michael, who is our expert on railcar service and supply. I have a prepared statement which I would like to submit for the record.

At the outset I want to point out that because of the fluid nature of the embargo, definite projections and statistical information are hard to come by. While we can draw some tentative conclusions from historical data and from preliminary statements made by the administration, at this point our conclusions can only be regarded as tentative. I would add that our information on barge traffic is not complete because the movement of grain by barge is not subject to our regulation, and thus our analysis there is mostly speculative.

After analysis of the available information and contact with railroad and water carrier industry representatives, we believe that there will be little immediate impact on their operations as a result of the administration's embargo. Rather than seriously reducing carrier revenues, the embargo seems more likely to reduce railcar and barge shortages.

This is because grain exports are likely to be above or equal to 1979 levels without the Soviet sales. If this is true, 1980 is apt to be an average year rather than a very good year. Also, actions proposed by the administration may ameliorate some adverse effects of the embargo.

Rather than go through the rest of the prepared statement, I will simply address the six questions contained in your letter of invitation of January 24.

One: What will the revenue loss for carriers be if no alternative markets are found in the near future for most of the embargoed grain?

We have estimated revenue loss only for rail carriers. The worst case scenario posed by your question could create a loss of roughly $139 million in 1980 if all 17 million tons of grain were never to be transported by rail.

However, we believe it is unlikely that the grain will never be transported. For comparison's sake, $139 million is a little more than 0.5 percent of expected rail gross revenues for 1980.

Two: What is the current supply and demand situation regarding grain railcars and barges? Could idle capacity result from the embargo?

The most recent figures available to the Commission are for the week ending January 11. At that time there was a 7,000-cars-per-day shortage of covered hopper cars. Demand remains fairly constant for this time of year, although some unit train orders have been canceled. At the same time last year, there was a 14,000-per-day shortage of covered hoppers. Car loadings of grain in the first 2 weeks of this year were about 60,000 compared to about 44,000 for the same period last year.

We feel that it is unlikely that any significant surplus of railcars will develop in the near future.

Three: Which railroads and barge companies are likely to be seriously impacted? What is their present financial condition?

The Commission had identified four carriers which, because of their financial condition and volume of grain handled, are more likely to be seriously affected by the grain embargo than other carriers. They are the Milwaukee, the Rock Island, the Illinois Central Gulf, and the Chicago and North Western.

As far as financial condition goes, the ICG and C & NW are viewed as marginal carriers. The Milwaukee, as the subcommittee is well aware, is in bankruptcy. The Rock Island is also in bankruptcy and its lines are being served by a directed service carrier, the Kansas City Terminal. All of these carriers move substantial quantities of grain, both domestic and export.

Each carrier could conceivably suffer losses of considerably more than the 0.5 percent of revenues which the industry on average could lose. For example, the ICG in 1978 moved about 8 million tons of corn and derived over 9 percent of its total revenues from this traffic.

Of course, the Commission will continue to monitor closely the operations of these carriers.

Four: What are the consequences of permanent decline in U.S. grain sales to the Soviet Union with no alternative sales?

I believe that some of your other witnesses here today are better equipped to answer the question of permanent consequences.

Five: What type, to what degree, and under what conditions should Federal assistance be made available to impacted carriers—for example, investment tax credits, refundable tax credits, temporary payment of loan interest and/or principal payments, et cetera?

Because we do not at this time see significant adverse impacts from the grain embargo, we will not offer today any suggestions for Federal assistance. However, we would be glad to respond to any specific proposals which the subcommittee may develop.

Six: What effect could the embargo have on future carrier investment decisions?

If the embargo represents a one-time drop in exports, it should not significantly alter investment decisions. Such decisions are determined by expectations of future demand, not current demand. Also because the embargo presents an opportunity loss rather than an actual revenue decline, we feel that investment policy is not likely to be completely redirected.

However, if carriers must place greater emphasis on evaluating the political climate when making their economic forecasts and in planning future investments, then such decisionmaking may become more difficult, uncertain, and possibly overcautious in result. One of the things that the Commission has been trying to do in the last few years has been to encourage innovative and dynamic management of railroads. Permanent or repeated embargoes could tend to have a chilling effect on such actions.

That concludes my remarks. I would be happy to try to answer any questions which you may have.

Senator McGovern. Thank you very much, Mr. Gresham, for your testimony, and as I indicated earlier, we will give everybody a chance to make oral statements, and then we will have questions.

[The prepared statement of Mr. Gresham, together with an attachment, follows:]

Prepared Statement of Hon. Robert C. Gresham

Senator McGovern and members of the subcommittee, I appreciate the opportunity to be here today to present the views of the Interstate Commerce Commission on the impact of the Soviet grain embargo on rail and barge transportation.

At the outset I want to point out that because of the fluid nature of the embargo, definite projections and statistical information are hard to come by. While we can draw some tentative conclusions from historical data and from preliminary statements made by the Administration, at this point our conclusions can only be regarded as tentative. I would add that our information on barge traffic is not as complete as that on railroad traffic because the movement of the commodities involved by barge is not subject to our regulation.

After analysis of the available information and contact with railroad and water carrier industry representatives, we believe that there will be little immediate impact on their operations as a result of the Administration's embargo of the 17 million metric tons of grain sales to the Soviet Union. Rather than seriously reducing carrier revenues, the embargo seems more likely to reduce rail and barge shortages. Also, actions proposed by the Administration may ameliorate some adverse effects of the embargo.

SCOPE OF EMBARGO

We understand that Russian grain sales would have been 25 million metric tons this year with no embargo, and would have made up roughly 10 to 13 percent of total grain exports. Of this, 17 million metric tons (about 7 to 9 percent of expected exports) have been embargoed. An additional three to four million metric tons has been effectively embargoed by the International Longshoremen's Association's refusal to load grain bound for the USSR which is now enroute to or at East coast or Gulf ports.[1]

The embargo primarily covers wheat and corn. Of the 17 million metric tons, about 12.6 million (or 500 million bushels) is corn, and about 4.1 million (or 150 million bushels) is wheat. The embargoed grain is 74 percent corn by weight and 24 percent wheat by weight.

The Administration has also taken action that effectively cuts off exports to Russia of soybeans, barley, and rice as well. The amounts involved are relatively small; for example, 1.2 million metric tons of soybeans. We feel this action will not significantly affect the overall situation, so I will confine my comments to wheat and corn. I will deal first with impacts on barge transportation and then turn to a discussion of railroads.

BARGE IMPACTS

40 to 45 percent of U.S. corn exports, and about 25 percent of wheat exports, move by barge. Currently, according to sources at the Federal Maritime Commission, there is a backup of some 2,500–2,900 barges on the Mississippi. However, because barge demand normally exceeds capacity every year, some backlog is normal. While it persists, this backup tends to increase the effective barge rate due to demurrage charges. Shippers wanting to avoid demurrage charges, may avoid shipping now or may be more favorably disposed toward the use of some other mode of transportation.

If the embargoed grain never finds its way to port for export to other countries, this will also have the effect of reducing the demand for barges, and will tend to keep rates down. In that case, barge owners would see reduced profits. However, if the embargo means only that the grain will move later, then its effect will be to allow the current backlog to diminish without as great a likelihood of serious revenue impacts.

Estimates made prior to the embargo were that barge grain exports would be 6 to 7 percent higher than last year. If all grain eventually is exported, this remains a good estimate. Revenues would be earned somewhat later, with no drastic effect on profits. However, if the embargoed grain is not exported, barge movements may be at, or just below last year's level. Profits could actually fall, however, if much of that volume moves at lower rates than it did last year. I would again remind the Subcommittee that our conclusions on barge impacts are speculative in nature.

RAILROAD IMPACTS

As a result of the embargo, there has been some drop in railroad grain car orders and some unit train orders have been cancelled. Additionally, other requests for unit trains have not been made. But demand has not dropped to the point where shortages have been eliminated. In 1979, 1,428,170 carloads of grain were loaded compared to 1,340,254 during 1978. In the first two weeks of 1980, 60,434 carloads of grain were loaded compared to 43,987 for the same period in 1979. Thus, grain shipments have been viewed by the railroads as a growth area.

Most grain movements are in jumbo covered hopper cars. The shortage of these cars as of January 11, 1980 was about 7,000 daily compared to a shortage of about 14,000 at this time last year. The shortage has been decreasing over the last

[1] Apparently a New Orleans court has issued a temporary injunction against the ILA with respect to one Russian ship. To our knowledge this is the only Russian ship now being loaded by the ILA.

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several weeks, even without considering the embargo. The general downturn in the economy and the increasing car pool have probably had a greater effect on reducing the car shortage than the grain embargo.

Traffic problems which do exist arise largely from congestion at the ports. There are presently seven export elevators under embargo—two at Norfolk, and one each at Portland, Tacoma, Port Arthur, Houston and Galveston. For example, Houston Public Grain Elevator has been under embargo for one reason or another since October 31, 1979, but these embargoes are revised constantly to permit acceptance of specific types of grain. All the other embargoes have been imposed since January 7, 1980, but here again the Soviet grain embargo does not appear to be significantly involved. For example, West Coast port congestion appears to be primarily because of the increased volume being shipped out of the Northern Plains states to the Pacific rim nations.

There is some concern within the industry over the ILA's refusal to load any USSR-bound shipments at the Eastern and Gulf Coast ports. This action could cause continued traffic snarls and could overburden port storage facilities for shipments not affected by the Administration's embargo orders.

We have not yet been able to detect any shifting of grain transportation from normal patterns as a result of the embargo. For example, there is no appreciable increase in movements to interior storage points. The large interior shorage points are wheat houses, not well located or designed for corn. Historically, corn is handled in more or less continuous movement from farm storage to ultimate destination. Based on our knowledge of available storage for corn, we believe it unlikely that this pattern can be easily changed.

However, if the administration should purchase and require the transportation to storage facilities of substantial quantities of wheat, the picture could change. Such action would likely be helpful to the revenues of rail and barge carriers, although the contribution to profit will be dependent on freight rate levels as well as the impact of transit provisions. However, there is some danger that such movements would not tie in well with normal movements. For example, the movement of grain from farm or country storage should not be timed to coincide with the normal peak demands of the wheat harvest in May and June or the corn harvest in September and October.

It appears now that Mexico may be purchasing several million tons of grain. In the past there have been some problems with prompt return of cars from Mexico, due in large part to insufficient line-haul capacity. In fact, late last week two major rail points of entry into Mexico were embargoed to further traffic. This leads us to believe that based on current performance, the Mexican rail system could have problems with handling significantly increased grain shipments. Of course, the Commission will be alert to any problems which may develop.

The administration's gasohol program is likely to have little effect on rail or barge carriers because it is proposed to involve small local refiners which would probably not require substantial long-distance movements of grain.

An important question involves the possibly adverse financial impact of the embargo on the railroads. In order to consider this problem fully we have broken down our discussion into short-, medium-, and long-term possible effects.

The short-term impact—one or two months after announcement of the embargo—will be to reduce the backlog of orders for grain cars. The volume of traffic, and carrier revenues and profits should be relatively unaffected during this period.

Over the medium term—the rest of the 1979–80 marketing year—the effects depend on what happens to the grain that is not going to Russia. If it eventually is exported during the period, then the term "revenue delays", rather than "revenue losses" might best describe the impact.

Of course, carriers lose the return they could have earned on their income during the waiting period, and that can reduce profitability to some degree. However, it is also possible that carriers will move the grain twice because of the embargo—once to temporary storage—or that it will move at higher non-unit train rates when it does move. In this case it is not likely that the overall change in both revenues and profits would be dramatic.

If the embargoed grain is not exported, the story changes. One pre-embargo forecast was that rail grain shipments would be up 4 to 5 percent over last year. If the embargoed Russian grain is not moved at all, traffic could instead fall 2 to 4 percent below last year, with a revenue loss of about $139 million dollars.[2]

Being regulated, rail rates are not as flexible as barge rates. Unlike barge rates, rail rates have not dropped so far. The relatively lower price of barge transportation could thus cause a greater percentage of the remaining export grain to move by barge, thus lessening the overall impact on barges and increasing the problems for railroads. If this is true, railroads may find it in their own interest to seek to reduce their rates to retain more of the traffic. However, this might not happen if the actual relative cost of barge transportation is equivalent to present rail rates as a result of large demurrage charges on barge traffic. Additionally, some grain shippers are tied to railroads by unit train contracts, and cannot switch to barge without paying large penalties.

Long term impacts of the embargo—beyond this marketing year—are difficult to predict. If the embargo is still in effect when farmers make their next wheat and corn planting decisions, and if the government decides not to buy a quantity of that crop equal to what the Russians would have purchased or farmers generally believe the government will not, then less grain will be planted. In this case, there would be less grain for the railroads to carry next year. A government program to reduce production because of the loss of a part of our foreign sales program, could have a chilling effect on investment in what many carriers have viewed as an expanding line of business.

The Subcommittee should not be left with the impression that grain traffic always contributed to profit for all carriers providing this service. If some traffic is in fact not compensatory, the embargo could improve the railroads' financial position rather than threaten it. Such a determination is difficult to make because of the cost allocation problem, and the variety of economic circumstances for individual carriers and freight movements. In any case, our comments assume a situation where the contribution of grain movements to profit is at least in proportion with or greater than its share of gross revenue.

It is important to recognize that if there are losses as a result of the embargo, they will not be borne equally throughout the rail system. Eleven Class I line-haul railroads, mainly Midwestern roads, account for 67.4 percent of total railroad corn and wheat revenues, and 55.8 percent of total railroad corn and wheat tonnage. However, because grain movements in 1980 are expected to be equal to or greater than 1979 grain movements even without the additional sale of 17 million metric tons of corn and wheat to the Soviet Union, the embargo should serve to lower demands on the already strained grain transportation system rather than to damage seriously carrier profitability.

Four of these carriers may require special attention, the Milwaukee, the Illinois Central Gulf (ICG), the Chicago and North Western (C&NW), and the Rock Island. Grain shipments revenue for each railroad is a significant part of their total revenues. In 1978, for example, the ICG moved about eight million tons of corn and derived over nine precent of its total revenues from this traffic. Of course, the Commission will continue to monitor closely the operations of the Milwaukee, the ICG, the C&NW, and the Rock Island's directed service carrier, the Kansas City Terminal.

REGULATORY ACTIONS

The last area I will mention involves regulatory actions. First, the Commission recently received a petition seeking relief from unit train or consecutive train tariff requirements. Normally, such tariffs require a certain number of consecutive trips by unit trains before the rate may be applied. With reduced export sales,

[2] Our estimate is based on average rail rates per metric ton for exported wheat and corn, calculated first from the Commission's 1977 Waybill Sample and then updated to reflect general rate increases from 1977 to 1979. Our estimate of the railroad's total revenue loss assumes that all of the embargoed corn and wheat essentially vanishes. We estimate that the rail share of the 17 million metric tons originally affected is 9.6 million metric tons (6.9 mil. MT corn, and 2.7 mil. MT wheat). Not moving this grain would mean lost revenues of approximately $139 million, which is about .5 percent of projected gross revenues. We view this as the "worst case" figure. However, we feel the likelihood that worst case is realized is extremely low.

As a comparison, if, instead of 17, we use the 10 million metric tons figure projected by USDA, the revenue loss would be around $82 million if the grain mix remains unchanged. For our estimate we used as the average rate of the mix of embargoed grains a rate of about $14.50 per metric ton.

shippers have been unable to sustain the agreed to number of trips on many of the trains running at the time of the embargo. Many such trains have been, or will be cancelled. When a train is cancelled before the required number of trips is completed transportation charges revert back to the higher single car rates on all shipments made up to the time of cancellation. The Commission has granted the petition in part and is allowing the railroads to deviate permissively from the tariff requirements, thus allowing the lower volume rate to be effective.

The application of single car rates was unanticipated cost to shippers at the time sales contracts were consummated. While carriers are now authorized to provide relief they may be unwilling to do so because the economics of multi-trip unit-train movements are lost when the trains are cancelled short of the tariff requirements. Thus, either the shipper or the carrier may suffer loss in a situation over which they have had no control.

In another area, demurrage charges, the Commission is watching the situation carefully and stands ready to take action when needed. We are receiving information that demurrage charges are accumulating due to port congestion which is preventing unit trains from being unloaded. In some respects the present situation is similar to that which developed during the winter months of 1976-77. At that time inclement weather was causing unloading problems such as frozen coal or unserviceable switch tracks. A number of railroads petitioned the Commission to permit them to waive or refund some part of the demurrage payments. After granting the petition in a formal case, the Commission used simple informal procedures to allow carriers to reduce the demurrage payments which were accumulating. Upon petition, a similar procedure could be instituted here should events require it.

Finally, I will mention one other regulation-related subject, peak and seasonal rates. There has been much discussion of this concept of rail ratemaking flexibility, not all of it favorable. Critics have argued that railroads only use seasonal pricing to raise rates to the detriment of shippers. However, a surplus or potential surplus of cars caused by the embargo could prompt rail carriers to lower rates in order to keep expensive rail equipment running. While it is uncertain whether an actual surplus of grain cars will result from the embargo, it can be argued that the market can best make the necessary adjustments to rates which demand or lack of demand requires. We will, of course, continue to monitor this situation as well. Also, the Commission will issue shortly a decision designed to facilitate the filing of such rates on short notice.

That concludes my prepared remarks. I would be happy to try to answer any questions which you may have.

Attachment.

STATEMENT OF COMMISSIONER GEORGE M. STAFFORD

I believe that the Commission's statement fails to reflect the demise of the Rock Island and the consequent disruption in normal grain transportation. The Rock Island is a major factor in movement of grain in the midwest. The transportation of grain provides the railroads with substantial revenues. Unfortunately, the Commission may end directed service over the entire Rock Island system on March 2, 1980.

Furthermore, I disagree with the implication in the statement that peak and seasonal pricing will result in lower rates for shippers.

Senator McGOVERN. Mr. Schrader, please proceed.

STATEMENT OF RONALD F. SCHRADER, DIRECTOR, OFFICE OF TRANSPORTATION, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JAMES LAUTH, DEPUTY DIRECTOR; AND ROBERT TOSTERUD, CHIEF, RESEARCH AND ECONOMIC ANALYSIS DIVISION

Mr. SCHRADER. Thank you, Senator. It's a pleasure to be here to discuss the impact to the transportation industry resulting from the suspension of agricultural exports to the Soviet Union. I have with me today Mr. James Lauth, Deputy Director of the Office of Transportation.

Secretary Bergland has appeared before this subcommittee already to discuss this aspect of President Carter's response to the Soviet Union's invasion of Afghanistan, the impact on agricultural producers and the marketing chain, and actions taken to offset potentially serious repercussions throughout the agricultural sector of the economy. Please let me review very briefly the overall impact of the President's decision on total agricultural exports to provide perspective for estimating impacts on transportation.

The terms of the 1975 5-year agreement between the United States and the Soviet Union permit the Soviets to purchase up to 8 million metric tons per year of U.S. grains, with greater amounts subject to negotiation and prior approval by our Government. In October 1979, just 4 months ago, we announced the latest agreement which would permit the sales of 25 million metric tons to the U.S.S.R. during the fourth year of the agreement, which ends September 30, 1980. This was a 10-million-metric-ton increase over the immediately preceding figure and 17 million metric tons more than provided in the terms of the 5-year agreement.

We are scheduled to have about 150 million metric tons of all U.S. exports in 1980 compared to 137 million last year, and most of that increase is in export grain.

These numbers illustrate an important point. While the Soviet Union has been a major U.S. customer for the past few years, it is by far not the most important market for U.S. farm exports. The Soviet share of our export market can more clearly be understood by recognizing that exports to the rest of the world have accounted for more of the growth in our export sales, and those are steady, sustainable growing markets that are less dependent on the rapidly shifting currents of weather and international politics.

Without intending to suggest that the potential impact to the carrier industries is insignificant, it is important to recognize the nature of that impact, which does differ from the potential impact to the farmer. The impact to the farmer would result from permitting a sudden glut of grain in the market, causing the price to plummet. The program which Secretary Bergland outlined for you previously is intended to prevent such oversupply.

Transportation is a service and cannot be stored, except in the sense of creating idle capacity. We in the Department have no indication that any of the carrier industries have committed themselves to an investment program which will result in near- or long-term capacity which will be idle because of the suspension of export sales to the Soviet Union. With strong export growth projected over the long term with or without the Soviet market, with domestic manufacturers of railcars perennially backlogged in filling orders for equipment, and with record-setting exports projected for this year which, though lower than immediately prior to the suspension, are still at the level projected just 6 months ago, there is no reason to predict a long-term impact upon the carrier industries.

There are short-term problems, however, Senator. The suspension caused some disruptions in shipments in the days immediately following the January 4 announcement. Congestion on the lower Mississippi increased as loaded barges arrived but could not be unloaded into ocean vessels. The Association of American Railroads imposed embargoes on several export elevators as congestion developed. The spot market on barge rates dropped markedly. Some shippers were unable to satisfy the tariff requirement for a specified number of consecutive round trips in unit trains to gain the lowest rate. The railcar shortage decreased slightly, reflecting some lessening in demand.

Presently, most of these operational indicators have returned to or near their previous trends, which are at record levels. For the first 4 weeks of this year, railcar loadings are up 43 percent; barge loadings, up 19 percent; and inspections for export are up 40 percent compared to 1 year ago.

If you will look at the tables at the end of my prepared statement, Senator, you will find a number of statistical pieces of information, all of which indicate that the levels did drop slightly during the week of January 12, right after the announcement, but now are back up to record levels.

USDA is quite concerned about problems in the transportation industries which may impede their ability to meet agriculture's demand. Many such problems have been outlined and some recommendations offered in the final report of the rural transportation advisory task force released just last month.

A primary transportation problem, particularly for grain, continues to be adequacy and availability of service to meet domestic and export demand. From agriculture's point of view, sufficient capacity still seems a greater concern than excess capacity, the suspension of export sales to the Soviet Union notwithstanding.

In closing, Senator, let me emphasize that the program which Secretary Bergland has outlined for you, while directed at the agricultural sector, will indirectly benefit the transportation industries. Commodity price maintenance policies and development of new markets for our agricultural products insure stable, steady growth in agriculture's demand for transportation services.

Senator, this concludes my oral remarks. I will try to answer any questions.

Senator McGOVERN. Thank you for your testimony, Mr. Schrader. We will see that all of the material that you submitted is made a part of the record.

[The prepared statement of Mr. Schrader, together with attached tables, follows:]

PREPARED STATEMENT OF RONALD F. SCHRADER

Senator McGovern, and members of the committee, it is a pleasure to be here today to discuss the impacts to the transportation industries resulting from suspension of agricultural exports to the Soviet Union. Secretary Bergland has appeared before this committee already to discuss this aspect of President Carter's response to the Soviet Union's invasion of Afghanistan, the impact on agricultural producers and the marketing chain, and actions taken to offset potentially serious repercussions throughout the agricultural sector of the economy. Please let me review very briefly the overall impact of the President's decision on total agricultural exports to provide perspective for estimating impacts on transportation.

The terms of the 1975 5-year agreement between the United States and the Soviet Union permit the Soviets to purchase up to 8 million tons per year of U.S. grains, with greater amounts subject to negotiation and prior approval by our Government. In October, 1979, just 4 months ago, we announced the latest agreement which would permit the sales of 25 MMT to the U.S.S.R. during the 4th year of the agreement, which ends September 30, 1980. This was a 10 MMT increase over the immediately preceding figure and 17 MMT more than provided in the terms of the 5-year agreement.

At the time the President ordered the suspension, the Soviet Union had contracts for U.S. grains totaling 21.8 MMT—6.7 MMT of wheat and 15.1 MMT of corn—for delivery in the fourth year of the 5-year agreement. We still intend to honor our 5-year agreement with the Soviet Union and allow the remaining 2.5 MMT of the 8 MMT covered by the agreement to be loaded and shipped. Because of the International Longshoremen Association's refusal to load some of this grain, this, so far, has not been completed.

Therefore, the result of the decision to suspend sales to the U.S.S.R. of all volumes above 8 MMT is an immediate loss of not more than 17 MMT, and perhaps less since not all of the 25 MMT had been committed by contract. Expected increases in other export markets offset some of the loss of the Soviet market for a net loss of approximately 10 MMT for the year. The 10 MMT loss in 1979–80 export grain projections is a decrease of less than 10 percent, based on projections immediately prior to the suspension—from 109 MMT to 99 MMT.

Despite the loss of sales to the Soviet Union, 1980 should still be a record year. U.S. agricultural exports should total almost 150 MMT—compared to 137 MMT in 1979: the increase is in grain—99 MMT in 1980 compared to 89 MMT last year.

These numbers illustrate an important point. While the Soviet Union has been a major U.S. customer for the past few years, it is by far not the most important market for U.S. farm exports. The Soviet share of our export market can more clearly be understood by recognizing that exports to the rest of the world have accounted for more of the growth in our export sales—and those are steady, substainable growing markets that are less dependent on the rapidly-shifting currents of weather and international politics.

Without intending to suggest that the potential impact to the carrier industries is insignificant, if is important to recognize the nature of that impact, which does differ from the potential impact to the farmer. The impact to the farmer would result from permitting a sudden glut of grain in the market, causing the price to plummet. The program which Secretary Bergland outlined for you previously is intended to prevent such over supply.

Transportation is a service and cannot be stored, except in the sense of creating idle capacity. We in the Department have no indication that any of the carrier industries have committed themselves to an investment program which will result in near- or long-term capacity which will be idle because of the suspension of export sales to the Soviet Union. With strong export growth projected over the long term with or without the Soviet Market; domestic manufactures of rail cars perennially backlogged in filling orders for equipment; and record-setting exports projected for this year which, through lower than immediately prior to the suspension, are still at the level projected just 6 months ago, there is no reason to predict a long-term impact upon the carrier industries.

The suspension caused some disruptions in shipments in the days immediately following the January 4th announcement. Congestion on the lower Mississippi increased as loaded barges arrived but could not be unloaded into ocean vessels. The association of American railroads imposed embargoes on several export elevators as congestion developed. The spot market on barge rates dropped markedly. Some shippers were unable to satisfy the tariff requirement for a specified number of consecutive round trips in unit trains to gain the lowest rate. The railcar shortage decreased slightly, reflecting some lessening in demand.

Presently, most of these operational indicators have returned to, or near, their previous trends, which are at record levels. For the first 4 weeks on this year railcar loadings are up 43 percent; barge loadings, up 19 percent; and inspections for export, up 40 percent compared to 1 year ago (as the attached tables show), reflecting the increased level of export activity. Our unshipped balance of export sales is much higher at the beginning of 1980 than it was 1 year ago—higher by half, approximately 43 mmt compared to 28 mmt as of the first of the year.

USDA is quite concerned about problems in the transportation industries which may impede their ability to meet agriculture's demand. Many such problems have been outlined, and some recommendations offered in the final report of the rural transportation advisory task force, released just last month.

A primary transportation problem, particularly for grain, continues to be adequacy and availability of service to meet domestic and export demand. From agriculture's point of view, sufficient capacity still seems a greater concern than excess capacity, the suspension of export sales to the Soviet Union notwithstanding.

In closing, Mr. Chairman, let me emphasize that the program which Secretary Bergland has outlined for you, while directed at the agricultural sector, will indirectly benefit the transportation industries. Commodity price maintenance policies and development of new markets for our agricultural products ensure table, steady growth in agriculture's demand for transportation services.

Mr. Chairman, this concludes my prepared remarks. I will try to answer any questions.

U.S. DEPARTMENT OF AGRICULTURE—GRAIN TRANSPORTATION, JAN. 28, 1980

Week ending	1979–80	Comparable week, 1978–79
Rail carloadings:		
Dec. 22	33,921	26,146
Dec. 29	20,628	20,142
Jan. 5	30,884	18,608
Jan. 12	29,550	25,379
Jan. 19	30,138	21,055
Jan. 26	32,803	21,176
Barge loadings (1,000 bu):		
Dec. 21	31,960	27,005
Dec. 28	19,239	20,531
Jan. 4	22,149	20,139
Jan. 11	29,354	21,935
Jan. 18	26,080	17,331
Jan. 25	26,743	27,971
Inspections for export (1,000 bu):		
Dec. 20	116,743	77,129
Dec. 27	70,723	53,239
January to December	4,565,102	4,197,165
Jan. 3	84,675	50,311
Jan. 10	95,506	67,685
Jan. 17	98,395	646
Jan. 24	86,501	67,623

CASH GRAIN PRICES

[Per bushel]

	Wheat	Corn	Soybeans	Wheat	Corn	Soybeans
Dec. 14	$4.51	$2.69	$6.43	$3.38	$2.25	$6.76
Dec. 21	4.51	2.66	6.42	3.37	2.24	6.92
Dec. 28	4.57	2.72	6.33	3.35	2.25	6.75
Jan. 4	4.45	2.63	6.18	3.32	2.24	6.88
Jan. 11	4.07	2.41	5.88	3.38	2.26	6.80

Note: Wheat No. 1 HRW—ORD., Kansas City: Corn No. 2 yellow, Chicago; SB–1 yellow, Chicago. The daily closing prices for Jan. 1–24, 1980 were, wheat 4.45; corn 2.54 ¼; and soybean 6.28½.

MAJOR EXPORT SALES[1]

[1,000 metric tons]

Week ending	1979–80			1978–79		
	Wheat	Corn	Soybeans	Wheat	Corn	Soybeans
Dec. 16	10.731	26,743	7,456	6,796	14,399	6,738
Dec. 23	10,815	26,395	7,211	6,879	14,090	7,565
Dec. 30	10,686	25,782	6,967	6,633	13,883	7,322
Jan. 6	10,536	25,227	6,968	6,409	13,327	7,205
Jan. 13	11,327	25,963	7,430	6,601	13,219	7,162

[1] Unshipped balances—Current and next marketing year.

GULF COAST OCEAN GRAIN VESSELS

	In port	Loaded 7 days	Due next 10 days	In port	Loaded 7 days	Due next 10 days
Dec. 26	0	50	110	38	51	96
Jan. 2	72	51	105	41	45	83
Jan. 9	68	65	98	38	45	97
Jan. 16	45	72	90	49	45	87
Jan. 23	42	64	93	54	37	79

GRAIN CAR OWNERSHIP

[1,000 cars]

	Railroads		Private covered hopper [1]	Railroads		Private covered hopper [1]
	40 ft ND box	Covered hopper [1]		40 ft ND box	Covered hopper [1]	
Sept. 1	62.9	103.6	73.5	72.8	98.5	58.5
Sept. 15	62.4	103.9	74.2	72.0	98.5	58.6
Oct. 1	61.8	104.7	75.1	71.0	98.9	58.9
Oct. 15	61.0	104.9	74.8	70.3	99.2	59.1
Nov. 1	60.4	105.2	75.9	69.2	99.6	59.6

[1] Jumbo covered hoppers only.

OCEAN FREIGHT RATES

U.S. loading port	Destination	Range of freight rates (per ton) [1]	Dates of movement
Gulf	Japan	$21.50 to $22	Late January to February.
Pacific Northwest	do	$20 to $21	Do.
Gulf	Antwerp/Rotterdam/ Amsterdam.	$14.50 to $15	Do.
Pacific Northwest	Korea	$32.50 to $33.75	February.
Do	China	$30	Do.

[1] Basis vessel size.

GRAIN CARLOADS OF MAJOR GRAIN RAILROADS

	Week ending Dec. 22		Week ending Dec. 29		Total grain		Week ending Jan. 5, 1980		Week ending Jan. 12, 1980		Week ending Jan. 19, 1980	
	1979	1978	1979	1978	1979	1978	1980	1979	1980	1979	1980	1979
CR	2,145	1,469	780	1,060	69,431	65,322	1,856	1,236	1,423	1,326	1,779	1,371
NW	1,311	1,116	1,330	930	68,154	65,791	1,098	1,045	1,601	1,444	1,617	1,189
ICG	2,416	1,890	911	847	82,972	80,119	2,124	1,038	1,792	1,728	1,568	1,435
LN	1,317	950	575	957	47,542	43,698	1,199	735	1,141	867	1,137	695
SCL	305	276	172	85	13,887	9,693	206	154	154	246	156	210
SOU	1,112	953	759	806	52,892	50,127	1,267	839	1,059	1,065	1,032	1,058
ATSF	2,910	2,575	1,912	1,608	140,092	135,943	2,742	1,527	2,714	2,025	2,825	1,652
BN	5,990	5,183	3,707	3,933	249,350	245,000	5,072	3,377	4,500	4,692	4,925	3,936
CNW	3,200	2,049	1,955	1,699	120,503	103,654	2,904	1,562	2,258	1,825	2,938	1,146
MILW	1,276	1,190	1,115	863	64,718	63,714	1,330	547	1,108	1,004	1,449	512
MP	2,244	1,704	1,351	1,550	95,280	89,268	2,334	1,182	1,956	1,646	2,209	1,397
RI	2,074	1,559	1,494	1,512	82,927	95,471	2,095	1,170	1,985	1,479	1,772	1,116
SOO	1,275	1,128	665	773	57,731	58,324	910	739	878	1,377	1,103	1,085
SSW	109	81	49	87	7,590	7,554	126	91	108	65	105	63
UP	3,097	2,062	1,952	2,065	148,850	114,853	2,662	1,737	3,525	2,306	2,914	2,033
Total, 15 railroads					1,301,919	1,228,531						
Total, all railroads					1,428,170	1,340,254						

Note: Total 1977, 1,241,158.

Source: AAR.

Senator McGOVERN. Mr. Conlon, please proceed.

STATEMENT OF JEROME W. CONLON, SENIOR VICE PRESIDENT, PLANNING AND PUBLIC AFFAIRS, CHICAGO & NORTH WESTERN TRANSPORTATION CO., CHICAGO, ILL.

Mr. CONLON. Thank you, Senator. I want to thank you very much for having me here today to share my views with you about the grain embargo and its effect on transportation in our region of the country and a little about my railroad, the Chicago & North Western Railroad.

We operate 9,000 miles in 11 Midwestern States. We operate considerable track mileage in South Dakota and Iowa and are a very large corn-hauling railroad. That is a very important commodity to us, and though we are attempting, and have attempted over the years, to change our commodity mix, we are still one of the major Midwest grain-hauling railroads, and we are committed to continue. We want to continue because we think it can be a profitmaking enterprise to add to the strength of our railroad and the people we serve.

The productivity of the American farmer has led us to that decision of staying in that market, and that productivity has led us here today. The question for this subcommittee, Senator, is, What effect will the embargo of grain sales to the Soviet Union have on the grain-hauling railroads, barges, and other transportation arms of the American farmer?

The briefest possible answer to that question is that we're not sure of the exact effect it will have, but we can definitely see a potential problem. We see the possibility that the Government may solve the grain shippers' problems in the short run and leave the problem of the grain-hauling railroads, barges, and other transportation units untouched.

For example, suppose the Federal Government decides to purchase grain or grain contracts at a certain minimum price per bushel up to a certain quantity—say that the grain or a significant portion of it—is designated for on-farm storage. The grain producing sector is thus made whole in the short run, but the grain transport companies are not able to sell their service.

Another possible effect of the embargo is worth mentioning. Normally, when you have a succession of good harvests, as we have had for the past several years, the current crop tends to push the grain of the previous years out of storage. The railroad then can count on a certain amount of grain moving when available storage is tight, as it is currently. If the Federal Government were to begin building additional storage, which it may feel compelled to do, this, too, could relieve the back pressure and adversely affect our expectation of a normalized grain movement.

Furthermore, any plan that uses the grain without at the same time using the transportation that has been set up to haul the grain is bound to have an adverse effect on the grain carriers.

The present grain embargo places the North Western in an ironic position. In 1973 when the first large sales of grain to the Soviet Union occurred, the North Western was one of the first railroads to install low incentive rates for the movement of grain in multiple car units or jumbo hopper cars. Even before that, we had encouraged grain shippers to build large country terminal elevators, capable of loading multiple grain trains of 25, 50, and 75 cars at one time.

When the grain crunch came in 1973 and thereafter, following through to today, we invested heavily in 100-ton covered hopper cars. We were then in a position to offer our grain shippers the advantage of economies of scale and were able to move unprecedented quantities of grain at a reasonable cost in a relatively short period of time.

Just briefly, I would like to state some of the investments the North Western has made to try to come up to its responsibilities as a grain-hauling railroad. From October 1979 to September 1980, we will acquire 85 diesel locomotives, costing $57 million. The North Western has expanded its covered hopper fleet in recent years. We have acquired more than 3,000 of these cars since 1973, and this year we have on order 600 more at a cost of over $24 million.

The most important expenditure you can make on a railroad today is whether or not to spend money on track maintenance and where to spend it. We have in the past dedicated every nickel we have gotten to either equipment or to track. Since 1972, we have paid no dividends. Every nickel we have spent has gone back into our plant.

There are other areas of investment. I believe this is very important because the question we are talking about today is, are we going to have an atmosphere for reasonable, prudent investment—and that means a stable atmosphere where people can anticipate the return on their investment.

We are working with shippers in the State of Iowa to upgrade areas, and we are currently rebuilding our line down to St. Louis to handle grain.

The most important thing I would like to point out is the investing environment. This was brought to us very, very poignantly because at the same time the uncertainty was injected into the grain markets, we were currently studying whether or not to make an investment in lines of the Milwaukee and the Rock Island Railroad, and those investments are justified by the grain market and the grain-carrying capacities of those markets to pay off the debts we would incur. We have decided to go forward. We have decided to go forward very, very carefully, and it has not been easy, because we do not really know whether grain will continue as a political weapon.

We really are going forward because we believe this hearing and others like it will lead to some kind of answer, how this could affect the midwestern railroads.

Honestly, my company isn't sure where to go next. We are currently reviewing our 1981 budget, and I hope we will stay back and be cautious until we can really tell the effects. Short term, the grain effect on my company has not been apparent. In the long term, I think it could be very, very adverse because it adds an uncertainty which is a disincentive to investment.

What we need in our area of the country is investment—not the rail system we have today but the rail system we should have tomorrow which is better.

Briefly, there are a few things I think you could consider. One of these is a refundable investment tax credit for rail or other transportation companies that would be considered appropriate. Senator, I know that you have submitted this. I think it is a fine idea, and it gets us parity. It is a source of cash, an incentive to investment, and I believe it would be a very stabilizing influence in the Midwest. It gives us parity with the richer, more favorable, more lucky railroads who are not paying taxes because of geography, and it would get the incentive of the investment tax credit in their investments. We would like to enjoy the same thing, and I think it is a fine idea.

Finally, the title V programs which have been enacted, I think, have been administered responsibly. I think they need to be strengthened. I think they need to be made more dynamic, and I would encourage consideration of adding strength to those programs.

Thank you very much.

Senator McGovern. Thank you, Mr. Conlon, for your testimony.

[The prepared statement of Mr. Conlon follows:]

Prepared Statement of Jerome W. Conlon

My name is Jerome W. Conlon. I am senior vice president, planning and public affairs, Chicago and North Western Transportation Co., which has its corporate headquarters at 400 West Madison St., Chicago, Ill.

At the outset, I would like to thank the members and staff of the subcommittee on economic growth and stabilization for inviting me to be here and to share these views with you.

My railroad operates 9,000 miles of right-of-way in 11 Midwestern States. Of most significance for the inquiry presently before this subcommittee, however, is the fact that the North Western is one of the largest, if not the largest, corn-hauling railroad in the Nation. We have more trackage in Iowa than any other railroad. Although we have been diversifying our commodities mix as much as possible during the past 20 years, we are still one of midwestern granger railroads. We don't much like the term because of its association with the old fashioned "boom or bust" cycle of agriculture, and with railroad deficits during bad crop years. But farmers are a lot smarter now than they used to be, and a lot more productive.

That very productivity has brought us here today. The question before this committee is: What effect will the embargo on grain sales to the Soviet Union have on the grain-hauling railroads?

The briefest possible answer to this question is that we are not sure of the exact effect on the railroads, but we see a potential problem for both the farmers and the railroads. We also see the possibility that the Government may solve the grain. shippers' problem, and leave the problem of the grain-hauling railroads untouched.

For example, suppose the Federal Government decides to purchase grain or grain contracts at a certain minimum price per bushel up to a certain quantity. Say that the grain, or a significant portion of it, is designated for on-farm storage. The grain producing sector is thus made whole, but the grain transport companies are not able to sell their service.

Another possible effect of the embargo is worth mentioning. Normally, when you have a succession of good harvests, as we have had for the past several years, the current crop trends to push grain from previous years out of storage. The railroad, then, can count on a certain amount of grain moving when available storage is tight, as it is currently. If the Federal Government were to begin building additional storage, which it may feel compelled to do, this too could relieve the back pressure and adversely affect the railroads.

Furthemore, any plan that uses the grain without at the same time using the transportation that has been set up to haul the grain is bound to have an adverse effect on the grain carriers.

The present grain embargo places the North Western in an ironic position. In 1973, when the first large sales of grain to the Soviet Union occured, the North Western was one of the first railroads to install low incentive rates for the movement of grain in multiple-car units of jumbo hopper cars. Even before that time, we had encouraged grain shippers to build large country terminal elevators capable of loading multiple units of 25, 50, and 75 cars at one time.

When the grain crunch came, we invested heavily in 100-ton covered hopper cars. We were then in a position to offer our grain shippers the advantage of economies of scale and were able to move unprecedented quantities of grain at a reasonable cost within a relatively short period of time.

The success of multiple-car grain unit trains has changed the nature of grain shipping. It has helped to place grain on the world market more rapidly and at lower cost. At the same time, it has called for a heavier investment by the grain hauling railroads in specialized equipment and in track. This heavier investment, in turn, demands that we keep our grain cars moving in revenue service to the fullest extent possible.

Let me briefly cite some examples of the kind of investments we have made and are continuing to make:

Locomotives—from October, 1979 to September, 1980, the North Western will acquire 85 diesel locomotives costing $57 million. We estimate that 45 of these high-horsepower units will be used exclusively for grain traffic. Since there are not many trains on our lines in the grain belt that move without some grain cars, virtually all the diesel units in our fleet are partially involved in moving grain.

Covered hoppers—the North Western has greatly expanded its covered hopper fleet in recent years. We have acquired more than 3,000 of these cars since 1973, and we have another 600 on order for 1980 at a cost of $24,210,000. The North Western is paying $6 million annually in debt service and rents on these cars, which are used almost exclusively for carrying grain.

Track—the North Western has spent millions on track maintenance and upgrading largely to expedite grain traffic. In 1979, we invested approximately $3 million to upgrade the Ames to Des Moines to Kansas City line to help move grain to the gulf. The grain movement played an important role in our decision to upgrade the Sioux City to Missouri Valley in western Iowa, the Eau Claire to Spooner line in northern Wisconsin and the Nelson, Illinois to St. Louis line in central Illinois. In 1979, the North Western spent more than $97 million on track maintenance and upgrading projects. We have budgeted almost $138 million for track maintenance and upgrading projects in 1980. These are given as examples, not as a complete list of system-wide projects related to grain.

In addition, the North Western is working with shippers and State agencies on many track improvement projects for 1980. Under negotiations or study currently are the upgrading of lines from Norwood to Madison, Minnesota, at $10,550,000; from Blunt to Onida, South Dakota, at $3,550,000; from Algona to Burt, Iowa, at $2,200,000; from Rolfe to Grand Junction, Iowa, at $8,300,000; and from Marathon to Dakota City, Iowa, at $6,300,000.

The decision to make investments of this magnitude reflect our best estimates of future demand. They depend upon certain assumptions. Frankly, we did not forsee the possibility of dislocations in the export grain market through the cancellation of large grain sales to the Soviet Union.

It is apparent that there are no longer any safe, comfortable assumptions. The embargo has introduced a large uncertainty which will force all carriers to review their commitment to grain transportation. Obviously, future investmant decisions will have to be made in the light of the perceived market stability. Perhaps this can best be illustrated by attempting to view railroad grain-hauling from the perspective of a potential investor. The Chicago and North Western is currently attempting to purchase large parts of the Milwaukee and Rock Island Railroads. This is a very large commitment for us and depends to a large extent on a reliable grain export market. While we have decided to continue this effort, the decision has been made very difficult by the fact that we really do not know whether grain will continue as a political weapon or what steps Government will take to ameliorate the effect the embargo may have on transportation.

We and the other investors must view the grain market judiciously. If grain is a weapon to be selectively offered or withheld from world markets, then investment decisions become far more complicated.

Farmers must decide whether or not to proceed with plans to boost grain production. The railroads must decide whether or not to place orders for more covered hopper cars and locomotives and make track improvements. These are not idle, hypothetical questions. They are real, hard and immediate. The decision whether or not to buy, say, 1,000 new covered hopper cars at a cost of about $45 million, to haul next year's corn, soybean, and wheat crops to gulf ports for export, can't wait until next year. It must be made now * * * right this minute.

I'll tell you honestly, my company, the North Western, frankly isn't sure where to go at this time.

What can Congress do to forestall the possibly severe adverse effects of the grain embargo on the rail industry?

Congress has already enacted several pieces of landmark legislation during the 1970's whose effect was to redress the imbalance created by heavy subsidies to modes of transportation that compete with the railroads. One thing Congress should consider is the strengthening of sections 505 and 511 of the 4R Act of 1976. These are the sections under which railroads can qualify for low-cost loans and loan guarantees and for the sale to the Government of preference shares to obtain funds for track upgrading, equipment rehabilitation and other projects that are sometimes difficult to finance.

Congress should also, in my opinion, give consideration to making railroad tax credits refundable. This would eliminate a tax inequity that now exists within the railroad industry. Briefly, under existing law, a railroad that has the cash or the credit to do so, receives an increment of tax relief with each piece of equipment it purchases and each mile of track it installs. It also receives the money earned by those cars. This situation deals a double disservice to those railroads that are less well off. Not only do they lose the tax advantage they might have by investing in the cars they need, but they also become debtors in effect to the creditor roads from whom they must rent the cars.

For instance, two railroads each make an investment decision and each buys a $40,010 boxcar. The more profitable railroad receives a $4,000 reduction in its federal taxes. The less profitable railroad, however, because it hasn't earned enough to pay that much in taxes, receives no benefit from the investment tax credit. We propose that this be changed so that the less profitable railroad receive the same benefit from its investment in the form of a specific rebate from the government.

Finally, the Congress ought to consider those elements of the railroad deregulation package that would give the railroads something resembling the pricing freedom enjoyed by other industries.

I would, of course, be happy to try to answer any questions committee members may have on any of the matters I have raised, and again, want to thank this committee both for the attention it is giving to a problem heretofore largely ignored, and for providing me the opportunity to appear before it and present these views.

Senator McGOVERN. Mr. Dempsey, please proceed.

STATEMENT OF WILLIAM H. DEMPSEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASSOCIATION OF AMERICAN RAILROADS, WASHINGTON, D.C., ACCOMPANIED BY RICHARD BRIGGS, EXECUTIVE VICE PRESIDENT

Mr. DEMPSEY. Thank you, Senator. I am glad to be here to present the views of the Association of American Railroads on this very important question.

I agree with the other witnesses that one cannot predict with accuracy what the impact of the embargo will be on the transportation industry, but I am not by any means as sanguine as evidently the Commission and the Department of Agriculture are. I find it very difficult to believe that an episode of this sort, given the magnitude of the shipments in question, will not have a significantly adverse, negative impact on the railroad industry.

So far as income is concerned, as the Commission indicated, we're talking in terms of something in excess of $100 billion of potential losses. Of course, we hope that eventually we will be carrying a good part of that traffic, but still we're talking about a lot of money. And even more significant, I think, as Mr. Conlon has indicated, is the impact that this action is going to have on investment decisions that have already been made by the industry and that we will be called upon to make in the future.

And all of this, I think, has to be measured against the background of the chronically weak financial condition of this industry. We had a rate of return of 1.6 percent in 1978. That was the 4th year in a row in which our rate of return on investment has been less than 2 percent. And this is not a transient phenomenon. We have not had a rate of return as high as 4 percent since the mid-1950's.

In terms of capital, the Department of Transportation has estimated that by 1985 our industry, putting aside the Conrail problem, will be facing a capital investment shortfall of between $13 billion and $16 billion.

Now, unless that situation can somehow be remedied, this industry may not survive as a private enterprise industry, and all shippers, of course, suffer when the capital investments necessary to provide good service cannot be made.

Grain is an enormously important commodity for the railroads; 1979 was not quite a record year; it fell slightly—I think 2 percent—short of the record year of 1973 in terms of total tonnage of grain transported. But that was basically because of the terrible weather conditions that we saw in the Midwest winter. As a matter of fact, at the start of the harvest season, June through the end of the year, we carried—the railroads—carried more grain than they ever did before over a comparable period of time. And a good part of that—somewhat over 50 percent—is export grain.

We are talking basically about the Western carriers—in terms of substantial adverse impact although, Conrail and the Norfolk & Western are among eastern carriers that do transport an increasing and significant quantity of grain. The Western railroads that have carried the most grain—beginning in order with the largest—are: the Burlington Northern, the Union Pacific, the Santa Fe, the Chicago & North Western, the Missouri Pacific, and the Rock Island and the Milwaukee.

But I suppose one really ought to look at it somewhat differently in terms of not the total tonnage of grain carried, but how much the grain represents in relation to the other commodities carried by the various railroads. And there, then, you have to look first at the Rock Island, with grain representing about 25 percent of its traffic, then the North Western, then the Milwaukee and the Union Pacific, the Burlington Northern, and the Katy. Those are the railroads then that are most likely to be affected.

The fact that we are able to carry all of this grain is attributable to the rapid expansion of the car fleet, the covered hopper fleet, that we have seen recently. Last year we added 24,000 covered hopper cars, and that increased the fleet by 15 percent. That was an all-time record. And in consequence of that, the grain car shortages that we have been experiencing in recent years has been greatly alleviated. The grain car supply situation in the last few weeks is the best it's been in 1½ years, despite all of this increased traffic. Last year we had an average daily shortage ranging from between about 13,000 to about 27,000 covered hopper cars. That is down to about 7,200 today.

And as we look forward to the future—and this is where we are becoming quite alarmed at the possible consequences of this order—we are looking at some 33,000 cars that are now on order. And that would continue this rapid rate of expansion of the fleet through 1980. We are talking about huge capital investments here, $7.5 billion, for the current covered hopper car fleet. And the 33,000 cars we have on order represents an additional investment of over $1.3 billion. All of that was posited on the prediction of full grain exports to Russia in 1980.

I think it is relatively easy to see what the nature of our concern is. Just the interest costs on the additional grain cars that we have on order amount to some $120 million a year.

We look forward, then, to the very distinct possibility of car surpluses, having this enormous capacity that we have on order and that we have invested, that enormous capacity not being used. As one of the witnesses has noted, you can't store transportation; either it is used or it is lost.

What can be done? Mr. Conlon has supported the desirability of a refundable investment tax credit. The association has long been on record in support of that proposal. We are a capital-intensive industry. We're looking at a capital shortfall of about $1 billion a year, and anything that can be done to encourage the investment of capital in the railroad industry will be, in our judgment, in the public interest.

We have, unfortunately, about one-half of the industry that has no taxable income. Accordingly, the investment tax credit, while it has been of great utility to many of our railroads, has not been utilized to its fullest extent, by and large. We have about $600 million of unused credits now that are attributable to railroads with insufficient earnings.

I would support, for the association, any measure that could be taken by the Congress to safeguard the industry against any losses that can be directly attributable to the embargo. I think that, as one looks to the future, you are going to see inevitably more conservative decisions made by railroads with respect to expansion of the covered hopper fleet. As Mr. Conlon has indicated, that will be the only prudent way in which the industry can respond to a situation in which a new and very important imponderable has been introduced. That unfortunately will result in a decrease in the quality of service that the industry will be able to offer their shippers, the farming community.

Thank you very much, Senator. I would be glad to respond to any questions you might have.

Senator McGOVERN. Thank you very much, Mr. Dempsey.

[The prepared statement of Mr. Dempsey, together with an appendix, follows:]

PREPARED STATEMENT OF WILLIAM H. DEMPSEY

My name is William H. Dempsey. I am president of the Association of American Railroads (AAR), with headquarters in Washington, D.C. The railroads which are members of the Association operate 92 percent of the line-haul mileage, employ 94 percent of the workers, and produce 97 percent of the freight revenues of all railroads in the United States.

I appreciate this opportunity to appear before this Subcommittee on behalf of the AAR to discuss the impact on the railroad industry of the recent action taken by the President on January 4, 1980, in suspending the delivery to the Soviet Union of any U.S. grain exceeding the 8 million tons the U.S. is obliged to supply under a five-year agreement which runs to September 30, 1981. The Department of Agriculture estimates that the immediate impact of the suspension is that approximately 13 million tons of corn and 4 million tons of wheat that had been expected to go to the Soviet Union will not be shipped to that country. That is a total of 17 million tons, more than half of which the railroads had expected to transport in the coming months.

In addition, an estimated 2.5 million of the 8 million tons the U.S. was obligated to ship under contract is not being shipped due to the action taken by the International Longshoremen's Association in refusing to load any grain bound for the Soviet Union. That part of the 2.5 million tons already in the transportation system presents a problem since, for the present, it has "nowhere to go". The remainder of the 2.5 million tons which has not yet entered the transportation system represents an additional loss, or at least a potential loss, of traffic. All told, the Soviet Union is being denied persmission to purchase 19–20 million metric tons of grain. In the long term, this suggests the railroads will not be transporting approximately 10 million tons of grain which would have been destined to the Soviet Union, absent any unexpected increase in grain sales to other countries. That represents a sizable potential loss of $100 million on anticipated traffic.

Some have argued that since there was a substantial shortage of grain cars during much of 1979, the losses due to the Russian embargo will only eliminate demand the railroads could not meet in any event. Such a simplistic conclusion flies in the face of the facts.

The peak shortages of 1979 have disappeared in large part, mostly because of a 15 percent expansion of the grain car fleet in the last 12 months. Over $1.3 billion worth of grain car orders have been made to provide another large jump in capacity in 1980. These future investments were designed to meet the anticipated splurge in grain exports which the Russian embargo cut back by an estimated 15 percent. Absent either a cancellation of a large part of the 33,000 grain cars on order and/or an increase in currently unanticipated exports, much of this new investment will be surplus causing substantial losses to those who have obligated hundreds of millions of dollars on the promised Russian grain.

I come before you today not to comment on the appropriateness of the grain embargo, but simply to encourage the Committee and the Congress to seriously consider the railroad industry's role in grain exports and to request that any action taken by the U.S. Government in ameliorating the effects of the embargo on the farming community and other elements of the U.S. economy also consider equitable protections for the railroads.

THE INDUSTRY'S CAPITAL NEEDS

The railroad industry operates on a very slim margin. The industry earned a return on net investment of only 1.6 percent in 1978 and, while early indications are that 1979 earnings are a bit higher, not since 1974 has the rate of return exceeded 2 percent, which itself is a meager figure. The achievement of a fair rate of return, which we calculate to be 12.6 percent, the Department of Transportation suggests should be 11.6 percent, and the Interstate Commerce Commission indicates may be close to 10.6 percent, is essential if the industry is to be able to secure additional needed capital.

While the industry's recent earnings are, of course, reduced by the operations of some deficit carriers, the alarming facts are that in 1978 even the strongest regional group of railroads achieved less than half of the necessary 10.6 percent, only one major railroad managed to earn more than 8 percent, and only two others earned as much as 7 percent.

Unfortunately, low earnings are not a recent phenomenon in the railroad industry. In no one year since 1955 has the industry's rate of return been as high as the cost of its debt capital.

The Department of Transportation in its October 1978 Report entitled "A Prospectus for Change in the Freight Railroad Industry", estimated the industry's capital needs (excluding ConRail) over the ten-year period of 1976–85 to be $28.3 billion and concluded that the industry faces a potential capital "short-fall" of between $13.1 and $16.2 billion during that period. The railroad industry's survival as private enterprise may not be possible with inadequate rates of return such as those experienced in recent years. All rail shippers—including shippers of agricultural products—suffer under such circumstances. Any unanticipated shocks to the industry, such as it may experience under the grain embargo, could worsen the situation—absent appropriate counterveiling moves by the government.

The full effects of the grain embargo on the railroads must be considered as an important element in any congressional action which may be taken in coming months as those effects become more certain.

IMPORTANCE OF GRAIN TRAFFIC

The railroads transport enormous quantities of grain year after year, with an ever-increasing amount of that grain bound for export. The capital investment in facilities and, especially, freight cars to transport this grain is staggering.

In many respects, 1979 was the most impressive grainhauling year in railroad history. While the volume of grain handled was 2 percent less than in the record-breaking year of 1973, this was principally due to severe and prolonged weather conditions which disrupted railroad operations throughout the upper Midwest last winter. But from the start of the grain harvest season in June to the end of the year, the railroads handled an average of 95.2 million bushels per week compared with an average of 89.4 million during the like period of 1973. That was the most grain ever hauled by the railroads over a similar period of time and was accomplished despite service interruptions and the failing resources of two major grain carriers—the Rock Island and Milwaukee.

The total volume of 4.42 billion bushels moved in 1979 was the second greatest in history; up 7 percent over the previous year. Of that amount the railroads moved a record 2.46 billion bushels of export grain to ports. The rail exports, which were

10.8 percent above the previous record set in 1978, represent 53.9 percent of total U.S. grain exports in 1979 and amounted to 55.8 percent of the total volume of grain handled by the railroads. Attached to this statement is a table detailing the rail transportation of grain from 1971 to 1979.

Grain traffic is, obviously, not spread equally throughout the industry—the western roads haul most of it, though some eastern roads, such as Conrail and the Norfolk & Western, carry considerable and increasing quantities. But it is in the West where any major impacts of the President's embargo will be felt. The railroads loading the largest number of cars with grain during 1979 were (in descending order) the Burlington Northern, Union Pacific, Santa Fe, Chicago & North Western, Missouri Pacific, Rock Island, and Milwaukee. Predictably, the larger roads carried more grain than the smaller roads. But when grain is considered as a percentage of total car loadings, the list of railroads is considerably changed. Heading that list is the Rock Island, the grain carloadings of which constitute fully 25 percent of that road's traffic. Next comes the Chicago & North Western, with grain accounting for 18 percent of its total carloads. Next come the Milwaukee and the Union Pacific with 14 percent, followed by the Sante Fe (13 percent), and the Burlington Northern and the Missouri-Kansas-Texas (Katy) (11 percent). These are the railroads most likely affected by a serious down-turn in grain traffic.

CAR SUPPLY

The ability of the railroads to transport the ever-increasing quantities of grain is attributable primarily to the expansion of the covered hopper fleet and the increased predominance of these cars in grain transportation. In 1979, the number of covered hoppers in service increased from 161,762 to 185,952 cars or about 15 percent. The 24,000 covered hopper car increase is the largest yearly increase ever registered for that equipment. The overall capacity of the grain car fleet increased from 682 to 749 million bushels in the same period. The growth of the rail grain fleet, including covered hopper cars and boxcars, during the years 1978–79 is as shown.

RAIL GRAIN FLEET

Year	40 ft. boxcars	Covered hoppers	Total grain cars	Capacity in bushels
January 1978	86,460	148,696	235,156	678,486,400
January 1979	66,186	161,762	227,948	682,362,800
January 1980	58,506	185,952	244,458	749,248,800

The larger capacity has made it possible to transport ever-increasing tonnages of grain over longer distances without putting a heavy strain on the system.

The grain car supply the past few weeks is the best it has been in a year and a half—despite the increasing traffic. Last year the average daily shortages of jumbo covered hopper cars ranged from 13,592 in the first week of the year to 26,875 in the 29th week. As more and more of the 24,000 hopper cars added to the fleet in 1979 came on line, the shortages began to shrink. In the face of continuing high demands and record carloading of grain in the latter part of 1979, the shortages of covered hoppers decreased to 7,423 in the final week of 1979 and stand at approximately 7,200 today.

Augmenting the freight car additions were the installation of approximately 1,700 new and rebuilt locomotives—the biggest addition in any year since railroads were converting from steam to diesel power more than 25 years ago.

In addition to the increased capacity of the rail fleet in 1979, another sign of the optimistic appraisal of the future of rail transportation of grain is the fact that new car orders for the fleet have continued to mount. A sufficient quantity of covered hoppers are on order to continue the current expansion of the fleet through 1980.

The decision of railroads and shippers to increase the capacity of the grain car fleet has been and will always be made based on the best estimates available for agricultural transportation needs. When those estimates prove wrong, the result can be that that equipment, representing a sizeable capital investment, sits idle—producing a drain on, rather than a source of, revenue.

The present covered hopper car fleet represents an investment on the order of $7.4 billion in replacement value. The 33,000 cars on order represent an investment of over $1.3 billion, an investment posited on the prediction of full grain exports to Russia in 1980.

Now, even while the total effects of the Russian grain embargo cannot yet be known, it is not difficult to understand the industry's concern over the future of grain exports.

IMPACT OF THE GRAIN EMBARGO

In recent years the railroads have been called to task for whatever car shortages affecting transportation of agricultural commodities were being experienced at the time. In our testimony time and again, we have informed various Congressional Committees of the industry's massive investment in agricultural and grain-related facilities and equipment. I have reviewed those investments very briefly today. In addition, we have responded in the past to such charges that it is not the railroads which should be looked to for explanations of car shortages in most instances—rather it is the rigid system of regulation under which the railroads must operate as well as the seasonal nature of the grain market itself. At this point I should add that it is just for these reasons that the industry opposes recent Congressional efforts to remove grain from those commodities subject to the seasonal, regional, peak-demand rate provision of the Interstate Commerce Act.

Quite simply, the railroads cannot afford to invest in equipment on a scale necessary to handle the highest anticipated period of demand only to see an unacceptably large portion of that equipment sitting idle for lengthy periods of time during periods of low or "slack" demand.

Today, another unpredictable element has been added to what was already an uncertain environment due to the wholly unanticipated government action taken by the President. The result could be large numbers of idle equipment draining rather than supplying needed revenues for the railroad industry.

If grain-related rail equipment sits idle as a direct reault of the Russian embargo or any other embargo—we would support Congressional initiatives to hold the damage to the railroads to a minimum. The costs of such surpluses can can be very significant, for example, just the interest costs on the additional grain cars already ordered amount to $120 million a year. Although the railroads have not had time to develop an industry position on what assistance might be appropriate, one possible step worthy of consideration would be to provide federal assistance to cover equipment costs incurred on rail equipment, such as covered hopper cars, made idle and non-revenue producing as a direct result of a sales embargo.

The subcommittee also required our views on the value of refundable investment tax credits to assist the railroads in obtaining expansion of their grain carrying abilities. We strongly support such a provision. While a large portion of these incentives would apply to grain equipment and track over which such traffic flows, we believe it should be applied across-the-board for all rail investments in plant and equipment.

As noted earlier, the railroad industry has chronically inadequate earnings. Its annual projected cash flows and borrowing capacity are at least $1 billion less than what is needed to provide adequate service. In a capitally-intensive industry—one which requires three times as much net investment per $1 of annual gross revenues as the average manufacturing industry—continuation of this situation can only lead to under-investment, deferred maintenance and lost opportunities. These consequences in turn lead to lower business, poorer earnings and a further decline in investmant and service.

The investment tax credit (ITC) has been of immeasurable help to some profitable railroads. But, since, one-half of the industry has little or no taxable income, its beneficial effects have been curtailed. Presently there are over $600 million unused credits attributable to railroads with insufficient earnings. Use of those monies could be a shot in the arm for these carriers whose earnings are already so low, and that list of railroads includes a number of key grain carriers.

At present, non-taxpaying railroads can obtain part of the ITC indirectly for equipment acquisitions through lower lease charges passed on by the lessor who uses the ITC. But such arrangements recoup only part of the intended benefits and equipment leasing has certain drawbacks.

On the other hand, investments in track and other plant improvements generally do not have even an indirect method of recapture. The property is owned by the railroad, cannot easily be used as collateral by outside investors because of existing mortgage liens and thus there are few practicable ways for a non-taxpaying road to obtain the 10 percent discount on investments in such facilities. Yet it is clear the facilities of these roads arejin the strongest need of such improvements.

An appropriate refundable tax credit would go a long lay toward helping the marginal railroads improve their track and car fleets. It would be a major step in meeting the $1 billion annual capital shortfall discussed earlier. And it could not help but provide a large boost to rail grain transportation in particular.

Finally, in response to the question of the effect the embargo may have on future railroad equipment investment decisions, I suggest that capital investments, which have been made readily prior to January 4, 1980, based on steadily-increasing grain trade, will now be subjected to a more conservative review process. In recent years enormous investment has been made to permit rail transportation of ever-increasing quantities of grain. Now in new, wholly-unanticipated factor has been thrown into the equation. An on-again, off-again federal policy of grain embargoes based on political considerations is sure to have a negative, long-term impact on decisions to invest in grain related rail equipment, particularly if those earlier commitments produce substantial grain car surpluses in 1980.

The loss of grain sales in admittedly a harsh blow to the producers and current owners of grain. Part of the damage will be lessened by the quickly announced Administration offer to purchase the displaced grain so as to prevent a drastic decline in prices. Also, some of the grain can be stored for future sales in the vastly expanded facilities recently built (often with low interest government loans) to meet the year-to-year fluctuations in the international grain trade. But for those who have committed hundreds of millions of dollars in rail grain equipment in 1978 through 1980, it is a different story. Transportation capacity cannot be stored—it is either used when available or it is lost. When it is lost, the car owner must still pay for this investment.

To date there have been no administration offers to mitigate the apparent transportation losses caused by the Russian Embargo. In fact, past pronouncements suggest the Executive Branch foresees little immediate or long run damage to the railroad industry. I suggest that such a perspective is seriously flawed and applaud the efforts of this Subcommittee in investigating the realistic consequences on transportation of grain embargoes.

Appendix

EXPORT GRAIN TRAFFIC AS PERCENT OF TOTAL RAIL-HAULED GRAIN AND AS PERCENT OF TOTAL U.S. EXPORTS

Year	Total grain moved by rail (billions of bushels)	Moved to port (billions of bushels)	Export percent of rail total	Total U.S. exports (billions of bushels)	Rail percent of U.S. exports
1971	3.345				
1972	3.697	1.153	31.2		
1973	4.501	2.298	51.1	3.360	68.4
1974	4.210	1.620	38.5	2.783	58.2
1975	4.065	1.613	39.7	2.828	57.0
1976	4.108	1.658	40.4	3.533	46.9
1977	3.920	1.645	42.0	3.382	48.6
1978	4.125	2.220	53.8	4.187	53.0
1979	4.413	2.461	55.8	4.564	53.9

Senator McGovern. Our final witness is Dominic Verona, who is vice president of the American Barge Co., Inc., Greenville, Miss. He is here to speak for the barge interests in this matter.

Mr. Verona, I understand you are accompanied by several representatives of the barge industry. When you get to the question period, if you are so inclined and want to refer some of those questions to your associates, that would be fine.

STATEMENT OF DOMINIC VERONA, ON BEHALF OF THE AMERICAN WATERWAYS OPERATORS, INC., ACCOMPANIED BY TONY KUCERA, PRESIDENT; NEIL SCHUSTER, VICE PRESIDENT; AND DAVID CAMPBELL, JACK LAMBERT, AND LESS SUTTON, MEMBERS

Mr. Verona. Thank you, Senator. It is a pleasure to be here, and we appreciate the invitation to appear with you.

I have directly behind me some of the folks you mentioned. Left to right, I have David Campbell, who is the executive vice president of Flowers Transportation Co. Next to Mr. Campbell is Jack Lambert, who is chairman of the board of Twin Cities Barge Line as well as Twin Cities Shipyard. On his right is Less Sutton, who is president of Dravo-Mechling Corp., out of Pittsburgh. On his right is Tony Kucera, who is the president of the AWO. Directly behind Mr. Kucera is Neil Schuster, who is a vice president with the AWO.

Our industry is unique in that it is made up of a lot of diverse companies. We have individuals who may have one little towboat with an investment of $200,000 to $500,000. We have investors who may have 1 or 2 barges, and we have major carriers who have 20 and 30 towboats, and 600 to 1,000 or 1,200 barges. So, when something like the unprecedented measure that President Carter took on January 4 takes place, there are a lot of things that happen to our little industry.

We have an awful lot of people affected. It is not just the bargelines; it is the little tug companies, it is the fleeting companies, it is the independent truckers.

You know, the President talked about the farmer and he talked about the exporter, but how does it get from the farmer to the exporter? You have independent truckers that may have spent $40,000 or $50,000 or $60,000 on a rig to move that grain there. We have steel companies who manufacture not only the towboats, but the barges also.

In our industry, a lot of people are affected. We are an integral part of the agribusiness community, and we have, quite honestly, been gearing up to the USDA projections for substantially increased exports. That's why today, with the exports that we were going to move, we feel in our industry we had the capacity to handle that. We didn't feel we had a shortfall, because we had been gearing up for this.

Grain is very important to our country in that it is exported, helps us to maintain the balance of payments. Most importantly, it has given us an agribusiness distribution system that we feel is good. We're not saying it's the best, but we feel it is good, and that includes all of us sitting here at this table, from the transportation standpoint.

I agree with the gentleman at this table that we have to move the grain. We have to find new and perhaps more creative markets for the movement of this grain. We also have to, when looking for these markets, determine whether or not they have their own distribution system or the ability to handle that grain. Some countries may or may not have that ability, so it doesn't do us much good—we are really limited, I should say, to what we really can sell to them.

We in our industry, as our colleagues on the railroads, came off three severe winters. We are kind of used to those things in that we have to adjust to uncertainties, but we know most of the time what most of those uncertainties are and when they're going to happen. The embargo was an uncertainty we really hadn't anticipated. As a result, we, too, don't know the results or the detrimental impact of that yet. We can guess, but we really don't know how serious it is, because what is happening right now and what may continue to happen for a while is a rippling effect. It may get worse or it may get better; we really don't know.

Because our industry is so diverse and because it's made up of so many small companies, different segments of our industry have greater or lesser degrees of severity in impacts to them. Our industry is not inclined to view subsidies favorably. We feel, as does the agribusiness community that we spoke with, that the movement of grain is extremely important to our economy, and we strongly support the development of new foreign markets for our export grains. This action, to us, is more desirable than Federal assistance to our industry.

On the other hand, should a worse case arise, it is very likely that the entire aggregate distribution system, that is, railroads, truckers, and barge lines, may need assistance. We don't know that.

The gentlemen that are with me are very capable of answering any questions that may come up. Should any questions arise, I am going to ask them at this time to just feel free to speak up in answering that question.

Senator, thank you very much for inviting us.

Senator McGOVERN. Thank you, Mr. Verona, and those accompanying you today, for being here.

[The prepared statement of Mr. Verona, together with attached tables, follows:]

PREPARED STATEMENT OF DOMINIC VERONA

The American Waterways Operators, Inc. is the national association of the domestic barge and towing industry, an industry which has been proven energy-efficient, cost effective and safe.

The barge and towing industry plays a vital role in the transportation system, not only in the movement agricultural products, but in distributing other raw materials vital to the nation's economy as well.

Barge transportation, inland and coastal, carries 12 percent of this country's intercity freight at roughly 2 percent of the nation's freight bill. Commodities shipped by water are important to the overall economy and include export grain, petroleum products, coal, steel, chemicals, sand, gravel and rock, and fertilizers.

The barge and towing industry serves 87 percent of those U.S. cities with populations of 100,000 and over, including industrial centers and agricultural hubs along the Mississippi, Ohio, Tennessee, Colombia-Snake, Missouri, Delaware and other rivers as well as the Houston Ship Channel, Illinois Waterway, and the Atlantic and Gulf Intracoastal Waterways. Barges ply the waters off the Pacific coast to Alaska and Hawaii, and serve Puerto Rico and the Virgin Islands from major ports on the East and Gulf coasts.

Barges moved over 640 million tons of essential commodities in 1977, valued at about $30 billion. The cost to the shipper to move this cargo averaged approximately 5 mills per ton-mile, lowest for any mode with the possible exception of pipeline.

The embargo of 17 million tons of Soviet-bound grain several weeks ago could result in potentially substantial impacts to the barge and towing industry.

The barge grain-carrying fleet has been expanding rapidly in the past few years in response to increased grain exports (see attachment).

The grain fleet consists of some 9,000 barges, of which roughly 56 percent have been added since 1972. Roughly 270 towboats are utilized to move this fleet. At today's prices, the replacement cost of this fleet is approximately $3.5 billion.

Additions to the grain fleet from 1972 to 1979 include some 5,000 barges and 150 towboats, a total capital investment of $1.6 billion. Title XI loan guarantees administered by the Maritime Administration amounted to some $250 million during the same time period for grain-carrying equipment.

The barge grain fleet has been expanding substantially in the past seven years in response to this nation's rapidly increasing grain exports and government policies designed to export increased volumes of grain.

Grain exports have grown from $9.4 billion in 1972 to $34.7 billion in 1979. The barge and towing industry has been expanding its fleet in response to the need to move that grain from the producing areas in the midwest to export ports along the Gulf and West Coast.

In 1973, the barge industry moved 20 percent to the total U.S. grain export. This market share has risen rapidly, reaching 39 percent in 1978 (see attachment).

Agricultural exports are extremely important to this nation's economic well-being, representing approximately one-fifth of total U.S. exports and making a significant contribution to our balance of payments.

Although it is too soon to fully assess the impact of the Soviet grain embargo, it has been estimated that of the projected 1980 export movement of five billion bushels, barges would have moved approximately 1.95 billion bushels. The embargoed Soviet grain could reduce that volume to 1.65 billion bushels, a reduction of 300 million bushels of grain, or roughly 16 percent of barge grain movements for the market year.

The potential traffic reduction has already had an impact in the water transportation industry. Idle equipment was reported by many operators shortly after the embargo took effect, most notably due to ocean-going Soviet vessels departing the Gulf without cargo. On January 9, approximately 2,800 bargeloads of grain were tied up on the Mississippi River between Baton Rouge and New Orleans, representing some four million tons of cargo.

Our industry estimates that, if as a result of the embargo, some 6,000 bargeloads of grain do not move, this will represent the loss of some nine million tons of freight. At an average rate of approximately $12.50 per ton, the potential revenue loss to the barge industry could be as high as $112.5 million.

Additionally, the sharp decrease in demand has resulted in reduced rates for all grain related equipment due to reduced traffic levels and uncertainty, representing a further impact to the industry.

If a substantial portion of the fleet is idled by the elimination of Soveit export movement and a lack of adequate substitute export markets, the annual debt service obligation, now estimated at well over $200 million, could be impossible to meet with remaining revenues. Substantial loan defaults could result, this forcing barge operators into bankruptcy.

In 1979, the industry placed some 1,200 new jumbo barges into the export grain service, representing a capital outlay of $300 million. Another 1,200 grain barges are currently on order at shipyards for delivery in 1980 at an estimated cost of $330 million.

If the embargo affects orders for new barges, shipyards could be impacted. The construction of a jumbo covered hopper barge requires approximately 310 tons of steel and at least 3,300 man-hours of labor. Thus, the 1,200 grain barges currently on order for 1980, represent the utilization of some 372,000 tons of steel and nearly four million man-hours of labor.

The barge and towing industry is a diverse and complex industry composed of some large multi-service companies as well as independent, small business operators who may have a significant amount of personal net worth tied up in one vessel. The impacts of the embargo, which we are monitoring on a continual basis, will vary by company. These impacts will be based on individual firm's financial position, dependence on grain movements, and contractual arrangements with shippers. Companies relatively new to the indistry, and those whose basic service is in the grain trade, will be affected to a greater degree.

For years, the entire inland water transport industry has been responding to government plans for increased movements of agricultural exports. Substantial fixed investment obligations have been assumed as a result. Thus, the entire industry will be impacted by the embargo. Thus long-term impacts of the embargo cannot be fully determined at this time.

The barge and towing industry has been able to grow and attract capital without any special government incentives or treatment. We hope that the extent of the impact of the Soviet grain embargo will be short lived and will not necessitate specific requests for any forms of assistance. However, should the impact of the embargo be of great magnitude, the barge and towing industry might require some form of relief.

The most satisfactory solution to the nation's economic well-being, to the farmer, and to the transportation modes, would be the exportation and movement of the embargoed grain.

We will continue to monitor the impact of the embargo and discuss the possibility of relief with the Congress and the Administration if the need for relief becomes a reality.

The barge and towing industry is very capital intensive with a high level of fixed costs. Prolonged inability to productively employ assets may have a pronounced impact on the financial viability of some companies, seriously affecting adequate cash flow.

Future carrier investment decisions will be more carefully weighed in light of the embargo. Towboats and barges have useful lives of twenty to twenty-five years and require construction lead times of up to one to two years, depending on the business cycle. The industry has historically moved through periods of imbalance in supply and demand and the use of the embargo against the Soviets has injected one more factor in the planning process. Higher equipment costs and expensive capital costs require some prospect of earnings to justify investment and risk. That risk is today higher than it was thirty days ago.

Our major concern is to see that embargoed grain is sold abroad through the development of new markets and increased credits for foreign buyers. Bold moves by the Administration in this regard would help the entire agri-business community restore confidence in the future of export sales and return some semblance of balance to the transportation system.

This nation is blessed with one of the most productive food systems in the world, a food system which is capable of making substantial contributions to our balance of payments through agricultural export.

Our nation's best interests are served by a heavy emphasis on increased agricultural exports. With an embargo of Soviet-bound grain, it becomes incumbent upon the Administration to develop new markets for agricultural production.

TABLE 1.—*Currently operating fleet of open and covered dry cargo barges*

Year:[1]	*New barges*	Year:[1]	*New barges*
1950	24	1966	237
1951	36	1967	334
1952	40	1968	225
1953	80	1969	192
1954	105	1970	172
1955	123	1971	299
1956	178	1972	604
1957	112	1973	486
1958	256	1974	874
1959	277	1975	993
1960	151	1976	859
1961	100	1977	933
1962	193	1978	916
1963	246	1979	1, 551
1964	314		
1965	295	Total fleet	11, 195

[1] Years 1950 through 1973 from Transportation Series 4, U.S. Army Corps of Engineers, the following years from Twin City Shipyard annual industry survey.

TABLE 2.—FLEET PROFILE AGE GROUPS, 1950–79

	Age	Percentage of total
Years built:		
1950–54	29 to 25	2. 5
1955–59	24 to 20	8. 4
1960–64	19 to 15	8. 9
1965–69	14 to 10	11. 5
1970–74	9 to 6	21. 8
1975–79	5 to 1	46. 9

TABLE 3.—GRAIN MOVEMENT ANALYSIS, 1973–79

[1,000 bushels]

	1979	1978	1977	1976	1975	1974	1973
Great Lakes	510, 498	554, 963	366, 102	309, 063	320, 444	271, 917	474, 670
Atlantic ports	585, 821	507, 763	462, 066	534, 495	430, 836	362, 410	389, 091
Pacific ports	689, 125	517, 143	316, 757	387, 887	366, 361	360, 869	397, 954
Gulf ports	2, 779, 658	2, 617, 296	2, 222, 468	2, 329, 015	2, 041, 807	1, 884, 933	2, 250, 167
Total, grain exports	4, 565, 102	4, 197, 165	3, 367, 393	3, 560, 470	3, 159, 448	2, 880, 129	3, 511, 822
Barge grain shipments	1, 622, 203	1, 636, 517	1, 274, 439	1, 264, 185	987, 646	776, 897	716, 275
Barge percent of total U.S. grain export	35. 5	39. 0	37. 8	35. 5	31. 3	27. 0	20. 4

Note: The above figures do not reflect the movement of beet pulp pellets, soybean meal, and other grain products.

Source: Grain Market News, Grain Division, Department of Agriculture.

Senator McGOVERN. Mr. Gresham, in your prepared statement, in commenting on the impact on the rail industry, you point out that even if all of the grain that was originally slated for the Soviet Union were not moved, the net impact would only involve about 0.5 percent of the expected rail gross revenues, but as you go on to point out, the impact on some railroads would be much greater than that; presumably regarding railroads like the Rock Island and the Milwaukee and the Chicago & North Western.

I wonder if you have information that would enable you to quantify that statement more specifically; that is, how much of a drop in grain car orders has occurred? Do you have that information? And how many unit train orders have been canceled?

Mr. GRESHAM. No.

Mr. MICHAEL. Senator, the cancellation of unit trains has been somewhat minimal. There are some smaller producers who have dropped out after they have completed the cycle of one group. There has not been a substantial drop in the operation of the unit trains as yet.

Senator MCGOVERN. So there is no evidence of appreciable cancellations of orders at this stage?

Mr. MICHAEL. Well, it is a little hard to say what will happen in the future, but at the moment most of the shippers of grain have been able to sustain most of their trains.

Mr. GRESHAM. We do have a problem, Senator, with respect to the demurrage charges. The grain which is now on the railroads is unable to be loaded because the port facilities can't take care of it. This is occasioned by the embargo. Some of these shippers are reluctant to pay the demurrage charges, and most of the railroads—all except one, I believe—have been cooperative in working out some kind of an arrangement whereby these charges won't accrue against the farmer and the company who is shipping the grain. The railroads are trying to be very cooperative with the shippers because they're caught in a situation not of their own making.

The unit trains are still running, to the extent that they can get to the ports.

Senator MCGOVERN. Most of the grain, whether it's moved by rail or by barge, that's bound for the Soviet Union goes through the Gulf ports; does it not?

Mr. GRESHAM. Yes, sir.

Senator MCGOVERN. So that's where the greatest impact is?

Mr. GRESHAM. And that is where the glut is right now. The ports are very heavily loaded with grain, and have been unable to move it. The ILA refused to move grain, but the Federal court in New Orleans last week ordered them to move grain which was under the contract of 1978, not the 1979 grain. They have loaded two ships, or are in the process of loading the second one now, so some of it is moving to the Soviet Union. Other grain for other countries of the world is moving on a day-by-day basis.

The UP is hauling grain to the west coast. I believe the Milwaukee had some going out there. So except for the Soviet Union, the grain movements are taking place.

The problem is, you have such large volumes of grain in the export market at the ports, the southern ports, that they are unable to unload it and get it on the ships because it is destined for the Soviet Union, and the President, of course, has announced the embargo. Whether that grain can be redirected to some other country, I am not in any position to say, but something will have to be done to relieve the railroads of the cars that are tied up there.

Senator McGOVERN. Well, I share your hope—I am sure all of us do, Mr. Gresham—that there will be alternative markets found for some of the grain that was otherwise designated for the Soviet Union. I understand substantial progress has been made in increasing our exports elsewhere.

You go on to point out, concerning the balance of the grain, that it might be desirable to move it back up the transportation system for storage. Don't we have a problem there on storage facilities? That is, most of embargoed grain is corn, as I understand it. Do we have the storage capability to deal with it?

Mr. GRESHAM. I don't think so, Senator. That is the real problem. There are substantial storage facilities available on the farm and in the country elevators, but those elevators are all full at the moment from last year's crop, corn; and the new wheat crop is coming in to be harvested in May of this year. Something has to be done. Some storage facilities have to be found or else the grain has to be moved in export to get it out of the way because I don't know where they're going to put the wheat crop in May. There are no facilities available; they are all full, all up and down the Mississippi River and other rivers and also along the railroads.

So, it creates a real problem for the farmer, for the country elevator, as to where they're going to put this grain. In times past, as you well know, a few years when we had a real glut in the markets, it was stored on the ground until such time as it could be moved. Last year we had the largest crop that we have ever had, and we anticipate an even larger one this year.

Senator McGOVERN. Last year the Senate acted favorably on a measure that I introduced, providing for some terminal storage facilities located along rail rights-of-way. The House, it is my understanding, is going to act on that fairly soon this year. Wouldn't that be one desirable way to deal with this overall problem?

Mr. GRESHAM. It certainly would, Senator, and the sooner, the better, because, as I said before, the wheat crop will be coming on in May, and there are no facilities available for any further storage at the moment. So unless they're going to have storage on the farm or new facilities built along the rights-of-way, we're going to have a real critical problem taking care of this grain.

As you know, most corn has a high moisture content, and we have some loaded on barges in New Orleans, destined for feed for livestock, but the moisture content is high enough that it is not doing well in the barges and they have been unable to unload it. So, that may be a loss.

I saw in the Washington Post on Saturday that the Agriculture Department is proposing to spend between \$2¼ billion and \$2½ billion to buy this grain, but after they buy it, where they're going to put it, I don't know. It has to go somewhere.

The President, I understand has proposed that some of it would be used for the food for peace program, but whether they can dispose of 17,000 metric tons of grain in the food for peace program, I don't know. Someone from Agriculture might be able to answer that.

Senator McGOVERN. You indicate that 2 of the 11 major grain-hauling railroads, the Illinois Central Gulf and the Rock Island, may require special attention because of the possible effects of the grain embargo. What could the Commission do if the embargo significantly reduced the revenues of either of those lines or the Milwaukee or the Chicago & North Western and some of the others, to the point that it generates serious problems? That is, how much of the revenue loss would have to occur before the Commission would be prepared to act?

Mr. GRESHAM. There isn't a great deal that we can do without money. Under the Milwaukee Restructuring Act, as you know, some funds were provided under ERSA, and we are forbidden to direct service over that line. We are now presently directing service over the Rock Island, and we have spent, or will have spent on March 2, some $70 million for that directed service. We have a total of $80 million, and if the railroad is to be shut down, it will take some part of the additional $10 million to winterize the equipment out there.

In terms of financial help to the railroads, there is almost nothing the Commission can do unless Congress in its wisdom sees fit to provide the funds to help them along. We can safely say that the Federal Government is deeply into the railroad business already. We have ConRail, with several billion dollars that it has cost; and we have Amtrak that I am sure is well over $1 billion, maybe $2 billion now.

If Congress feels the need to provide some additional assistance to the railroads in the Midwest and the West that are in trouble, I think it would be a wise thing to do, but we have no money for that purpose. There would be little we could do other than urge other railroads to assist them in their time of travail.

Senator McGOVERN. Mr. Schrader, I just want to ask you one question. Then I want to yield to Senator Jepsen. Then I will have further questions for the other witnesses the second time around, but I am going to try to hold myself to 10 minutes on this first go-around.

You are the director of the Department of Agriculture's Office of Transportation. Were you or your associates— was Secretary Bergland and others—consulted at the time the decision was made on the embargo about the possible impact it would have on the Nation's transportation industry? Was that factored into the decision to go ahead on the embargo?

Mr. SCHRADER. Well, Senator, I am not privy to whether or not Secretary Bergland was brought into the decisionmaking. We at the Office of Transportation were not.

Senator McGOVERN. You were not?

Mr. SCHRADER. We were asked the next day to start assessing, and we are continuing to assess the impacts on transportation of this move.

I think Secretary Bergland was involved, but I am not certain about that.

Senator McGOVERN. It occurred to me, just listening to Mr. Gresham's observation, that we are heavily involved, as a matter of Federal policy, in ConRail and other rail operations. One of the ways the need for this commitment was sold to the Congress was that it was essential to national defense and national security. I wonder sometimes if we pursue a policy in one area of the Government that is at variance with something we do elsewhere, if we are, in effect, weakening our defense structure with the grain embargo and the lack of any contingency planning as to what would be done to counter that.

It would seem to me that this does run in contradiction to other things we're trying to do with Federal funds to strengthen our rail and transportation system.

Well, I do have a number of questions for the other witnesses, but, Senator Jepsen, I will yield to you for such questions as you may care to place.

Senator JEPSEN. Thank you, Senator. I will put my watch up here to keep to the 10-minute time limit and will yield back to you.

Just for the record, when did the ICC know of, or when were they advised about the embargo?

Mr. GRESHAM. I didn't hear you, Senator.

Senator JEPSEN. Just for the record, when was the ICC advised about the grain embargo?

Mr. GRESHAM. When we read it in the newspapers. I can't tell you what day it was, but that was when we first heard of it.

Senator JEPSEN. In your remarks, which I read with interest, you touched upon the possibility of additional exports being made to Mexico this year and the possibility that the Mexican rail system would have some problems carrying it. Would you elaborate on that?

Mr. GRESHAM. Yes. They have light lines, Senator. It is not heavy rail. It is much lighter than what we have in this country, and they can't accommodate the fully loaded covered hopper cars; they can, however, use the 40-foot boxcars, as I understand it. There are plenty of 40-foot boxcars available which can be used for grain, but most grain shippers don't like to use them because they don't load as heavy.

The biggest problem with the Mexican sale is the return of our cars to the United States. We have had considerable difficulty getting them back.

Senator JEPSEN. You have the same gage, then, of track?

Mr. GRESHAM. It is the same gage, but the track is much lighter, and it will not accommodate the 100-ton covered hopper cars.

Senator JEPSEN. I think I heard you say that when they go down there you sometimes have trouble getting them back?

Mr. GRESHAM. We have no way of policing, no way of going down there and assuring that they come back, and we are at the mercy of the National Railways of Mexico to return them. They don't always return them as rapidly as we would like.

Senator JEPSEN. Well, I agree with the general consensus that has been, in some cases, very ably presented here. We've got this grain embargo. I don't think there is any question of how I felt about it. That is water under the bridge, so to speak. It's like being a little bit pregnant. We've got it, and where do we go from here in the development of export markets and renewing those efforts. That is the name of the game, and I think the producers as well as the shippers, hopefully, agree. I know the producers do. The marketplace provides the farmer and not the Government on that basis.

Is the Department of Transportation, Mr. Schrader, working with the ICC and the people in Mexico to look into this in the interest of developing export markets, this problem of getting whatever grain they do buy? Depending on whose figures you listen to, I know they are buying more grain than they are probably committed to—not quite the figure that was put out. What are we doing to facilitate that?

Mr. SCHRADER. Senator, you're talking about the Office of Transportation of the USDA now?

Senator JEPSEN. Yes, sir.

Mr. SCHRADER. Yes, Senator, we are working with the Mexican Government right now, with the Office of the General Sales Manager of the USDA on various methods of transporting this new sale of grain to Mexico. There are some problems. I wasn't aware of the fact that the 100-ton covered hopper cars weren't able to move on the track. That is very likely true, but I wasn't aware of it.

We do know that there is a lack of water ports in Mexico; therefore, much of the grain that goes to Mexico will have to go by rail, at least for the immediate future. We're working with them on unit trains.

Of course, one of the important factors is getting unit trains back into the United States. We have about 25,000 railcars stranded in Mexico now, and it is important that we get those cars back. If, in fact, the preliminary statistics that we have are correct, it will take about 12 80-car unit trains a week to handle the grain over a 16-month period for 1½ million metric tons.

Senator JEPSEN. Well, you know, I am a country boy from Iowa, but it seems that we have a neighbor next door who is willing to increase his purchases. We have some problems with backup and loading of grains, but somehow or other if you apply a little commonsense logic, there might be a place, if everybody is working together, to divert grain to and relieve some of the backups we have. If we need some water ports picked up down there, this would be something to work on. I saw someone shaking his head as if he didn't totally agree with your statement that the railroads were the only way they could get down there—why don't we switch to that option? Is that accurate? Can the barges help on this?

Mr. CAMPBELL. Senator, the usual barge mechanism is usually by oceangoing vessel. In the past and on occasion they have brought large grain through New Orleans and traveled westward to Brownsville, Tex.; but at that point, Senator, it has to be offloaded and put into railroad cars, and therein lies your constraint once again. So, effectively, that method in the last several years, I don't think we have seen much in the way of Mexican grain exports out of the U.S. ports going by barge; it is basically by oceangoing vessel. Their ports are basically limited to 25,000- to 30,000-ton size vessels.

Senator JEPSEN. Back to the ICC. Mr. Gresham, on January 31, you decided not to extend directed service on the Rock Island Railroad. Is that a firm decision?

Mr. GRESHAM. Yes, sir. It can be reconsidered, and may be reconsidered, but we are in a very difficult position, Senator. We have expended, or will have expended all of the funds we have for directed service on March 2, and we are under some admonition from the House and Senate Appropriations Committees not to incur any obligations without funds appropriated.

Senator Boren of Oklahoma, and Congressman English of Oklahoma have introduced resolutions which would provide for financing of the Rock Island under the ERSA program, as was done for the Milwaukee restructuring; but at the moment, in view of the admonition which we have from the Appropriations Committees on both sides of the Capitol, together with the fact that we have no money, I don't believe that we have any choice but to discontinue directed service. We are hoping—hoping against hope—that those railroads that are interested in taking over the Rock Island and operating it, will come forward immediately with reasonable proposals.

I might say that the Kansas City-Southern is interested in the core, which is up in Iowa and Illinois, and the Missouri Pacific is interested in the southern tier, the southern end, of the north-south line. No one at the moment is interested in the east-west line, which runs from Tucumcari, N. Mex., over to Memphis, Tenn.

Senator JEPSEN. The embargo has had something to do with the decision, because, in the middle of the short-term effect—which has been to depress prices, regardless of what anyone says, regardless of what reports come out, and regardless of what the papers say—back at the ranch, the small shippers and the elevators are bidding 10, 15, or 20, and as high early on as 45 and 60 cents a bushel less. So the farmer is out there on the firing line, knowing what's happening.

Now, the depressed prices, a combination of all factors, and the fact that 20 percent of Iowa's export grain is carried by the Rock Island Line are the reason that I was probing. I think you have answered the question. I want to feed it back so I can get some perspective on it because there will be meetings on the subject, as you might guess. We are concerned in Iowa about this. Mr. Conlon is interested, I think, and others. Like most anything else, if we can just find out what the facts are, we can proceed from there.

Is it primarily the ICC's decision to do this, because of a lack of funds?

Mr. GRESHAM. I think that's the only reason for doing it. We simply have no money to continue the directed service. We do have a legal opinion that says that we may go ahead and do so. That is from the Comptroller General of the United States. If we did so and Congress did not see fit to appropriate funds, then those railroads involved in the directed service, some 12 of them in the consortium, would have to go to the U.S. Court of Claims and sue the U.S. Government for payments of the moneys they had expended on behalf of the Rock Island plus the 6-percent return that they are supposed to get as a profit.

If we had the money, I suspect that the Commission probably would continue the directed service.

Senator JEPSEN. I am running out of time, and I would like to pursue this further. Will I have another opportunity?

Senator MCGOVERN. Surely.

Senator JEPSEN. Just one last question, then, to keep within this 10-minute period, and I am going to come back to this Rock Island matter later on.

Mr. Schrader, Vice President Mondale publicly announced and promised that $100 million would be put into the Rock Island Railroad corridor between Minneapolis and Kansas City. How will that money be used, what planning has gone into that funding from the DOT and the administration, and what were their efforts?

Mr. SCHRADER. Well, Senator, most of that work was done by the Department of Transportation. We were involved in a peripheral way. The $100 million will be used to rehabilitate that track so you can have high-speed trains of grain going from the upper Midwest into Kansas City and then out to export.

Senator JEPSEN. How many dollars per mile of track does it take to essentially replace track, just to start?

Mr. SCHRADER. The figures range—maybe I could turn this over to our railroad friends to answer—but the figures have ranged anywhere from $70,000 to $190,000 per mile. Most of the discussion I have heard has been on the branch line rehabilitation, which may be different than the main line.

Senator JEPSEN. Mr. Dempsey or Mr. Conlon.

Mr. DEMPSEY. I would ask Richard Briggs, our executive vice president, to answer.

Mr. BRIGGS. Senator, if you rebuilt the track from the subgrading up, it would cost you about $280,000 per mile to put it in class one condition, with 132-pound rail. That's about the heaviest rail we use. There are alternatives at lesser amounts. That judgment would be made based upon the volume of traffic you expected to move. If the track was in seriously bad shape, it would be very difficult to put it back in good shape for less than $100,000 per mile on a long-term basis.

Senator JEPSEN. OK. Thank you.

Just one last question to summarize, because I don't want to lose the train of thought. May I, Senator?

Senator MCGOVERN. Surely.

Senator JEPSEN. I am trying to figure out what this $100 million means. What does it mean? I am interested now in getting the job done, getting the grain moved, and getting it to the markets. What does it mean? Does it mean that those people who are now bidding on Rock Island can look forward to $100 million? Does it mean that track has been improved already and that it is past due? It sounds good, but I don't know what it means.

Mr. SCHRADER. It means that the Federal Government has involved itself to the extent of $100 million to rehabilitate that track. It will be used by all of the railroads involved—I think there are five railroads in that area who may use that rack—hopefully, to decrease the time spent from elevator to port.

There are 25,000 miles of trackage in that midwest area that are under slow order today, meaning that the trains can't travel more than 7 to 12 miles per hour. This should help that situation.

Senator JEPSEN. Let me ask an operating train person—they were very specific: It was from Minneapolis to Kansas City. Now, what does that mean to you, Mr. Conlon?

Mr. CONLON. I think Mr. Schrader is essentially correct. It means the Department of Transportation is committed to try to develop in Iowa a structuralized spine of high capacity to move grain, and they have said that they would make it available in a program which is yet not specific in my mind, and it would be predicated upon coordination of the railroads. It is unclear as to who would be the owning railroad and how that coordination would take place.

What is really involved is $100 million, as a beginning to improve a line that has fallen into less-than-good operating condition. We know that from our experiences as a directed rail carrier, one of the directed rail carriers of the team.

However, that line, as a matter of geography and topography, is a very, very good line, and one that deserves that kind of investment.

I would be happy to answer anything more specific.

Senator JEPSEN. My time is up. I will come back to this subject.

Thank you, Senator.

Senator MCGOVERN. Thank you, Senator Jepsen.

Mr. Conlon, this is also a question that Mr. Dempsey may want to comment on. Vice Chairman Gresham has estimated that if the embargoed Soviet grain doesn't move at all—and, of course, we hope part of it will—that traffic for grain-hauling railways affected would fall in the range of 2 to 4 percent below last year. Is that a fair measure of what would happen to the Chicago & North Western? And, to your knowledge, would other railways, grain-hauling railways, be affected in what seems to be a rather minimal way if it is only a 2- to 4-percent falloff?

Mr. CONLON. I think it is a fair number. Mr. Dempsey would probably have more to do with that in a macrosense.

We have considered the potentiality for effect upon the North Western to be possibly greater than that because we are corn-oriented. As you know, we serve South Dakota, Minnesota, and Iowa, and that is corn territory. So, we fear that it might be greater with us, but I really can't comment on the greater numbers.

Mr. DEMPSEY. It certainly would have a greater impact on the Middle West railroads than it would on the Nation's railroads as a whole. You take the Rock Island. As I think was indicated, grain car loadings amounted to 25 percent of that railroad's car loadings. So a great deal of that is export grain. So you can see that for a railroad like the Rock Island, that would be quite severe. For the North Western, grain traffic represents 18 percent of the total; the Milwaukee and Union Pacific 14 percent; the Sante Fe 13 percent; the Burlington Northern and the Katy, 11 percent.

So those are the railroads that would be most severely affected, and obviously to a greater degree than the Nation's railroads as a whole.

Senator MCGOVERN. Just to keep this in perspective, Mr. Schrader, you indicated that the Soviet grain market was not the most important part of our export grain sales. But what percentage does the Soviet Union occupy in terms of total U.S. grain exports? What would you have projected the 1980 exports to be to the Soviet Union as a percentage of the total?

Mr. SCHRADER. Between 12 and 15 percent, Senator.

Senator MCGOVERN. I had information indicating it was higher than that. Are you talking about the 17 million tons, or our total projected export sales to the Soviet Union? We had some USDA figures, and I'm wondering if you can either verify or correct this, that shows the Soviet share of 1980 export market, that is, prior to the embargo, would have been on a range of 22 percent.

Mr. SCHRADER. I'm going to turn it over to Bob Tosterud.

Mr. TOSTERUD. I'm not familiar with those particular figures, but that's corn? Is that strictly the corn market?

Senator MCGOVERN. No, it is the total grain package.

Mr. TOSTERUD. And that's excluding the 17 million additional metric tons?

Senator MCGOVERN. The figure we had is that, had there been no embargo, 22 percent of all the grain exported from the United States in 1980 would have gone to the Soviet Union.

Mr. TOSTERUD. So that includes the 17 million metric tons?

Senator MCGOVERN. That's correct.

Mr. TOSTERUD. The traditional market to the Soviet Union is in the area of 12 to 17 percent. Now, the additional 17 million metric tons was more or less a flash in the pan for 1980, and we fully expect it to stabilize again next year, to go down to a traditional average of about 15 percent. So the 17 million tons is in addition to the average.

Senator McGOVERN. Mr. Conlon, it would appear that the Government has entered into a new phase of foreign policy with our agricultural industry. We are hearing more and more talk that we're going to use our food, our grain, as a foreign policy weapon. I am not sure that is a wise course, but I recognize that is the trend. That is the drift. If that's the case, what programs, in your judgment, should the Government hold in readiness to protect rail and other modes of transportation in the event they are going to be damaged by grain that is withheld to serve foreign policy objectives?

Mr. CONLON. Well, as I stated earlier, I think that the problem will be the ability to get capital for investment, and I think the greater chance of disaster to the American farmer and the agricultural community, rather than the transportation companies. But I would say that one of the programs obviously is the credit, and the other would be the title V program, and by that I refer to the guaranteed preference share program and the guaranteed loans.

I think the real problem, though, is if a market is perceived as one that doesn't justify investment, the people who really get harmed are not really the transportation companies, though they may; but they will, of course, seek other markets and invest in those other markets. And we will have an example in the future of a transportation policy or a transportation system which we have seen today needs to be improved.

The farmers have legitimately said that this service hasn't been what they wanted, that the car shortages do exist. Those are all indications of not having the right kind of investment. And that is what I believe would happen, because I believe the railroads themselves or the barges or the trucks would then seek to decrease their commitment to this agricultural arm of our economy, and that a program like that——

Senator McGOVERN. Well, just to bring that down a little more specifically, you stated in your prepared statement that in the period ending in September this year, that the Chicago and North Western will require 85 diesel locomotives at a cost of some $57 million; and you further state that the company has on order for this year 600 covered hopper cars, at a cost of $24 million.

Now, it's my understanding that all of the cars and most of the locomotives will be dedicated in one way or another to grain movements. In the event of a significant reduction in grain traffic on your line, can most or all of this equipment be dedicated to other traffic, or what is the impact?

Mr. CONLON. A lot depends on the economy, I guess is the answer. I think we would have a very real possibility of car surpluses. In 1975 when the grain did not move after the 1973 rush, we stored an average of 5,000 cars on my railroad. So I think there is the potentiality of surplus equipment and storage, with the continuing obligation to pay off the debt that is incurred to purchase this equipment.

Senator McGOVERN. Mr. Verona, if we could turn to you for a few minutes, as you know, the American Association of Railways, Mr. Dempsey and his colleagues, have estimated that the rail industry may lose $100 million in revenue if most of the embargoed grain is not sold in alternative markets. Do you know what the revenue loss would be for the barge industry in that event? Has there been any effort to calculate that?

Mr. VERONA. Senator, one thing I forgot to mention is, we did supply a prepared statement, and that does tell a lot of that. To answer your question, what we did is, we came up with what actually was exported last year versus what was to have been exported this year, on the waterway only. And we took the rate that it most likely would have moved at, based on the conditions, timing and atmosphere prior to the date of the embargo, and calculated approximately, assuming no new markets were found, a $112.5 million loss to our industry.

Senator McGOVERN. What was that figure again?

Mr. VERONA. $112.5 million.

Senator McGOVERN. That would be a potential loss?

Mr. VERONA. Yes. That is based on how things were at 3 p.m., and how things were at 3:30 on January 4. That's the best way we can answer that question.

Senator McGOVERN. Well, as you know, some of the barge companies have indicated that even though they may recover these losses over a period of 1 year or more, they could have quarterly revenue drops that would affect their operational capability and their debt retirement capacity. Is that an area of major concern throughout the industry? How much of a revenue drop would pose a serious problem over the period of a quarter, and how many companies would fall into the category of being seriously affected if such a drop in revenue occurred?

In other words, let's assume that maybe over a period of 1 year or so you recovered, the barge industry recovered some of the volume that is lost in any given quarter. Are there serious problems, and to what extent are those problems serious that would result from a disruption over a period of a quarter or more?

Maybe you would want to defer that.

Mr. VERONA. I'll have Mr. Lambert answer that.

Mr. LAMBERT. Senator, my name is Jack Lambert from St. Paul, Minn.

We estimate that our current debt service on the fleet put in place just since 1972 is about $200 million annually. And quite obviously, we could sustain a short period, perhaps a quarter, with a substantial portion of the fleet idle. Our concern is going into a second quarter if that should be the case.

This is a very capital intensive industry, as is all transportation, railroads and trucking.

Senator McGOVERN. Isn't one of the problems, Mr. Lambert, that the industry may face, is that you not only get a fall-off in volume, but as a consequence of the embargo or any slowdown, you may get a depression in the rates?

Mr. LAMBERT. Well, yes, sir, that is a factor.

Senator McGOVERN. Hasn't that already taken place?

Mr. LAMBERT. There has been some falloff in the rate structure for those carriers who operate on the basis of what may be called the spot market. A good bit of the industry operates on the basis of firm long-term contracts with shippers. Those carriers would not be affected from the rate standpoint. But if those shippers don't have the grain to move and they invoke a force majeure and we don't have the revenue, then again we face this problem of trying to come up with enough cash flow to match our debt service obligations.

Senator McGOVERN. It has been said that there are an estimated 3,000 idle loaded grain barges tied up in that area between Baton Rouge and New Orleans. How much of that pileup—and this question can go to anybody on the panel that's capable of answering it—is due to the embargo or to the International Longshoremen's refusal to load Soviet ships, that is, a combination of those two things? And what effect has that pileup had on the volume of barge traffic on the upper reaches of the river?

Mr. LAMBERT. Well, Senator, I'm not sure as I can tell you which one of those issues is cause and effect. It is sort of like backing into a buzz saw; you don't know which tooth caught you first and it doesn't really matter. The ILA and the embargo issue have both tied up barges down there, and it is sort of like putting a cork in a pipeline. It has backed up a number of barges, some of which maybe weren't destined for the Soviet Union.

There was some hesitancy on the part of the ILA to load Greek ships bound for Soviet ports. We have about 2,200 barges there.

Senator McGOVERN. The point I was getting at is that we've had these backups before and I just wondered to what extent it has been worsened by the embargo and the longshoremen's position.

Mr. LAMBERT. Somebody else may have a figure on how many barges we had last year there at this time, and that may give you a relative answer.

Mr. CAMPBELL. If I may, Senator, on January 1, as I understand it, the Russians were intending to take about 1 million plus tons of grain, long tons, which it appeared to be about 60 to 70 percent—and don't hold me exactly to the number—of capacity. When this occurred, there was just a tremendous backup. People did not load barges.

Mr. Schrader alluded to the fact that the barge loadings were up 19 percent this year versus last year. Well, last year we were in the depths of the worst winter possible, and we had hardly any barges on the river system. So we had an opportunity to run a little bit and move the grain. And then the embargo came along.

At one time the talk was that there were 20 to 25 Russian vessels en route or filed at the customhouse in New Orleans to load grain. The most recent one is this Greek vessel that was loaded, I think, last Thursday or Friday, and that's been the first one to be loaded.

Senator McGOVERN. Mr. Dempsey, is there similar congestion at the rail export terminal points as a consequence of the embargo or other factors?

Mr. DEMPSEY. Yes, there has been serious congestion, and we have embargoed ourselves, and that has caused a diversion of the grain to the other ports. That accounts for the fact that, for example, Conrail and the Norfolk & Western are hauling export grain. They don't usually haul export grain, but they haul grain when the Gulf ports get clogged up.

Now, I can't give you any estimate as to what part of that is due to the embargo or the longshoremen situation.

Senator McGOVERN. Mr. Verona.

Mr. VERONA. Senator, two things. Just to elaborate a bit on what Mr. Dempsey said, really, New Orleans is geared for river and not necessarily for rail, primarily because of the nonavailability of land. Of the 47 ships in New Orleans on January 4, 15 were for the Soviet Union. So if you assume that each ship would carry 30,000 tons, that would give you an idea of what didn't move up until recently when, I believe it was, the *Julia L* loaded last Thursday.

Senator McGOVERN. Thank you, gentlemen.

Senator Jepsen.

Senator JEPSEN. Thank you, Senator.

While we have a combination of government officials and rail and barge people here, I would like to ask some questions about some of the things that affect the entire transportation system. Specifically, to start out with, I have learned there are still some problems with the construction of Lock and Dam 26. It was my understanding a long time ago that that was to be underway.

Mr. Schrader, could we start off? Could you tell me where it is at this time?

Mr. SCHRADER. Senator, the bill for Lock and Dam 26 passed about a year and a half ago. Until 4 or 5 months ago, the courts had held up construction. There was an injunction, I believe, on construction of that facility, because of a suit by the environmentalists and the railroads on environmental grounds and the inadequacy of the environmental impact statement.

I believe it was in September or October, somewhere around there, the court ruled against the environmentalists and railroads and contruction did start. It will take about 8 to 10 years to complete that facility.

Senator JEPSEN. Has the first step in the construction begun yet?

Mr. SCHRADER. As I understand it, the day after the court ruled, the Corps of Engineers began some preliminary work.

Senator JEPSEN. And there are no legal barriers preventing progress of the lock?

Mr. SCHRADER. Not at this time. I know the railroads have filed another suit, but I don't think an injunction was filed to stop construction.

Senator JEPSEN. Mr. Conlon, are you at liberty to ascertain whether the railroads intend to file any suit against stopping further progress of Lock and Dam 26?

Mr. CONLON. I think that probably would be a better question for Mr. Dempsey.

Mr. Dempsey. The status of that litigation, Senator, is, as Mr. Schrader indicated, the district court ruled against the plaintiffs, the railroads, and the environmentalists. The injunction was dissolved, and I've forgotten the exact date, but it was in the fall sometime. There has not been a new lawsuit filed, but that judgment has been appealed to the U.S. Court of Appeals. That is the status.

Senator JEPSEN. Then, since it has been appealed, has the construction begun?

Mr. DEMPSEY. There is no injunction outstanding, as Mr. Schrader indicated; so there is no court order inhibiting the Corps of Engineers from proceeding with their work. Now, of course, should the court of appeals reverse the district court, that would be a different matter.

Senator JEPSEN. I hope soon we can all work together in developing our transportation system in this country. As you can tell, we've got enough problems with the Government, without the private enterprise system fighting internally. I hope that we can work on that, and I assure you that I stand ready to try to help bring things together in that respect. We've got enough money, with $100 million, according to my figures, to take care of 1,000 miles of track, if we have $132,000 to just bring up the track, and that is just using that as an average, off which I chop $32,000 to make it easier to figure and discuss. I figure the cost at $100,000 per mile, and that's 10 miles per million, and we've got $100 million. So that's 1,000 miles.

I know it's not that far from Minneapolis to Kansas City. Does that sound right, Mr. Conlon?

Mr. CONLON. Senator, I think we can't really do it that way. It depends upon what you intend to do. I can give you an example.

The Chicago and North Western Railroad is upgrading its line from Omaha to Chicago. Now, that program will be, I think, about 500 miles, something like that. I could be wrong, but it's about that, and that's going to cost us around $200 million. Now, that includes heavy work, heavy rail work, heavy other track material.

It depends on the quality of the service you want to achieve. It's like building a building, and it's hard to do it any other way; but to give you a benchmark, around $200 million for that project.

Senator JEPSEN. I appreciate that. I was trying to get some dialog going here because I don't want to leave this. We've got $100 million which has been promised, with much publicity. I think it's great, and I'm all for it. Anything that will again cause the marketplace to provide for the producers that represent Iowa, the shippers, and the transportation people is good for everybody.

So often we see these things talked about, it's good for a couple of days, and then that's the last you hear of it. That's why, while we're all together, I thought maybe we could get something that later on I could refer back to as to what this $100 million will be used for; when it will be available; how it will be available; and whom it will be available to.

We're in the process of having that railroad for sale. You are looking at it today, I understand; and I understand you may have a decision tomorrow.

Mr. GRESHAM. I don't think it will come that soon, Senator, but it might.

Senator JEPSEN. Do you have a bid on it?

Mr. CONLON. Yes, sir.

Mr. GRESHAM. The unfortunate thing, Senator, is that the trustees are trying to sell it as a going operation, the price for a going operation, and of course, the railroads—and I don't mean this unkindly—want to buy it for scrap, salvage value. Somewhere in between they're going to have to get together and negotiate some kind of a reasonable figure so that the creditors of the Rock Island are protected and purchasers do not have to pay more than the railroad is worth to them.

I suspect that some of those railroads are interested and would probably like to buy it for salvage or less, if that's possible. The trustee feels that it is a going concern, because we've invested some $70 million in the upgrading of track and equipment, so there is more there than just salvage value at the moment, in our opinion.

Senator JEPSEN. You're not optimistic, then, about an early sale?

Mr. GRESHAM. I would like to say to you that I am, and I hope maybe in a day or two I can say to you that I am optimistic, but you can't blame any purchasing railroad for wanting the best price it can get, and you can't blame the trustee for trying to protect the interests of the creditors, to the extent that he can.

So there's going to be some hard negotiations that have to take place. Maybe Judge McGarr, who is handling it in the bankruptcy court in Chicago, can get the people together out there and make them negotiate frankly and sincerely and urgently.

Senator JEPSEN. Mr. Conlon, do you own most of your power equipment, your locomotives? You're buying 85 new ones. Do you have any that are leased?

Mr. CONLON. We have a significant portion of our fleet that is leased. It is under what is known as a leveraged lease, Senator, and a leveraged lease is a mechanism, appropriate under the tax code, by which you can share to some degree the tax benefits of the investment; so our recent purchases have been under leveraged leases. While we have the leasehold interest, generally 20 years, after that we have to go in and purchase the underlying equipment at fair market value.

Senator JEPSEN. If the decision to sell falls through, or there is a failure to consummate, for one reason or another, an arrangement whereby the Rock Island will be sold, then is it your feeling that you will move on and continue to close the Rock Island down? And, that would cost some $10 million?

Mr. GRESHAM. I think we are obliged to, Senator, unless Congress wants to appropriate some additional funds for directed service. If they do not choose to do so, I don't see how the ICC can direct the service with any assurance to the carriers who are handling it that they will ever get paid for it. As I said earlier, they would have to go to the Court of Claims and sue the Government.

Senator JEPSEN. What part of this track that we were talking about spending $100 million to improve belongs to the Rock Island?

Mr. CONLON. Senator, I haven't seen the exact statement of the Vice President. I believe that a very large portion of that track—I believe it is the Rock Island Line from the Twin Cities to Kansas City.

Now, in that line there are two segments that are owned by other railroads. One is owned by the Chicago & North Western, and the other is owned by the Milwaukee—I believe it is the Rock Island Line.

Senator JEPSEN. Now, if they close down, are they going to let you use that track? Or is that verboten?

Mr. CONLON. Senator, I am probably as confused as everybody else on this railroad situation, but our hope is to buy that line. That is why we have gone forward with the bid. If we are not successful, then we would have to find out what the obligations of coordinations in that corridor will be imposed in order to make the investment flow. I don't know the answer to that.

Senator JEPSEN. I'm asking these questions for the record because I have a hard time understanding some of the machinations that take place in this situation.

As it has unfolded and developed, labor contracts seem to be part of the price of a railroad. I understand there is some holdout there, and I can't understand how if a person has no job at all, how that is so much better than working out something to run a railroad. That is just one problem. There are many machinations.

I use that line as an example, and not to single it out. Somewhere we ought to get about the business of the grain embargo and everything else we've laid out in the Midwest agricultural communities of our States, whatever we can do. That's what's frustrating, what we can do to help get this put together, if anything, to keep our grain moving and to keep developing our exports.

Mr. Schrader, I say this, listening very closely to the facts, as I look for coordination and planning and so on. You said you had been coordinating with the other departments in getting the grain moved to Mexico. Yet one of the most important things I can think of, namely, moving grain to Mexico, is that hopper cars couldn't use the track, a factor which you weren't aware of until someone said so just now.

And you see, this is what makes us wonder just what is happening. If government is going to be involved, I will just not buy the idea that we have to foul up a free lunch. Someway or another bureaucracies ought to be able to work together and ought to be able to wake up and smell the coffee and say: Gee whiz, the free enterprise system and all the things that we have in this country have got to work; otherwise we're going to be out of a job ultimately because they're the ones that pay the bills, namely, the barge companies and the railroads.

I will rest and cool off now.

Senator McGovern. Senator Jepsen, I just have a couple of more questions here that I wanted to direct to Mr. Dempsey, and then I'm through.

Mr. Dempsey, you point to a refundable tax credit program to the rail industry as an important step to help it achieve revitalization; and I agree with that and have been pushing that concept, given the annual average investment in rail industry equipment and facilities.

Can you tell us roughly how much money a tax program of that kind would produce on a yearly basis in additional capital for the rails?

Mr. Dempsey. I'm going to ask Mr. Briggs, who has been working closely on this problem, to answer that.

Mr. Briggs. Senator, the additional breadth of investment tax credits, by making it refundable, would have an effect of adding as much as $250 million to the industry that is not now flowing in. The credits are earned, but the carriers can't use them. That estimate is based on the past.

However, the introduction of a refundable tax credit would also stimulate more investment, and so you may have an additional $40 million to $60 million stemming from investment 10 times that large that were caused by the introduction of a refundable tax credit. So I think we may be talking about $300 million more in usable tax credits under that program.

Senator McGovern. And that would tend to flow to the railroads that are most in need?

Mr. Briggs. Absolutely. In particular it would flow to plant improvements.

With respect to equipment, there is a way a non-tax-paying railroad can recapture some of the investment tax credit indirectly, and that is that it leases the equipment, the lessor gets the investment tax credit, and the railroad indirectly gets a lower rental charge as a result.

When it comes to plant, you can't do that in most cases, and that's because your plant, your track, your yards are all tied up under existing mortgages; and because of that, there is no outside entity that can provide the money and still get an investment tax credit. Those railroads who need it most, which have the largest amount of deferred maintenance, cannot use the investment tax credit for the area of greatest need.

Senator McGOVERN. Mr. Dempsey, you've indicated that you favor the refundable tax credit program without regard to whether we have the embargo or not.

Mr. DEMPSEY. Yes; this has been part of our legislative program for some time.

Senator McGOVERN. I know that is your position, and I agree with that, but should there be additional assistance made available to railroads directly impacted by the embargo, or a repeat of the embargo at some future time? If so, what type of assistance should we be thinking about?

Mr. DEMPSEY. Well, this would be certainly one element of the program.

I think that I do want to underscore the significance of some of the comments that Mr. Conlon made with respect to investment decisions that are going to be made in the future, the kind of concern that Senator Jepsen has expressed and that you have, Senator, about rail service in the West.

The 24,000 cars added to the fleet this year represent a 15-percent increase. There has been an enormous increase in grain cars over the last 3 to 5 years.

The people in the industry responsible for making these decisions have watched the export traffic grow, and the debate has not been really whether it's going to grow, but at what pace and we thought it was evident that it was going to move at an ever-escalating pace, and so those investment decisions were made.

Now, some people believed that we would have a car surplus even before this embargo, because of the 33,000 cars to be added to the fleet next year. The surprise embargo has now added a very unsettling part into this equation.

Something has to be done by the Government if we're not going to have a real restriction on grain rail service in the Middle West.

Now, an improved investment tax credit is the kind of thing that, if calibrated properly, can make it possible to make investments that otherwise would not be made.

Beyond that, Senator, we simply have not had enough time to forge or formulate another kind of program that would be directed specifically to the embargo, but we would like the opportunity to do that after our legal people have had a chance to examine it.

We certainly sympathize with the bargers' problem. It is essentially the same as ours. If we're going to have thousands and thousands of covered hopper cars in storage, paying millions and millions of dollars in interest charges on that equipment, we're going to be badly hurt. The railroads that are going to be hurt the most are the ones that need help right now, entirely apart from the embargo.

Senator McGOVERN. Well, I realize the embargo has only been on 30 days. It was put on a month ago today, exactly, and we didn't anticipate that you would come in with a full-dress program, but I do think that it is important that we continue to monitor this situation, and we would welcome an opportunity to have the benefit of any future recommendations that any of you gentlemen would care to make.

Senator Jepsen, that's all the questions I have.

Senator JEPSEN. I have just one request.

Mr. Schrader, would it be possible—would your office please send my office a letter and tell me when and how the $100 million that has been pledged to this track will be available, and how we go about getting it underway?

Mr. SCHRADER. I certainly will, Senator.

Senator JEPSEN. I appreciate that very much.

Mr. SCHRADER. Senator, may I add one item?

Senator MCGOVERN. Certainly.

Mr. SCHRADER. The questions that you've asked today, about the impact on transportation in general, we hope will be answered at least in part by one of the recommendations of the rural advisory task force.

One of the main questions that was to be raised or solved was, what are the continuing essential means of transportation needs of agriculture, and how do we solve them, and what kinds of recommendations do we need?

One of the problems that we found in our analysis was that no one really is responsible for transportation matters.

For example, in the USDA we have the Agricultural Stabilization and Conservation Service, which has all storage figures throughout the country. We have the Federal Grain Inspection Service, which has all figures on inspections at every port—by load, by commodity, and so on. We have the Agricultural Market News Information that has all the fruit and vegetable statistics, and so on; and many others. None of it is coordinated, none of it is used for the purpose of determining what, in fact, are the best investment decisions for the future for trucks and barges and rail and so on.

One of the track force recommendations was that the USDA be responsible to pull together all of those facts and figures and statistics and computerize them and make some sense out of all the vast figures that we have available so that we can give to the industry and to the Government essential information so sound business decisions can be made and we can answer questions like the ones you've raised today regarding the impact.

Senator MCGOVERN. Well, I think it is important that that kind of analysis go forward. I am more and more convinced that the No. 1 problem we are confronted with now in rural America is the transportation problem.

Closely related to that, of course, is the whole energy matter, but more than any time since I've been in public life, this is the area that farmers and shippers are focusing on.

Even if we have a bumper crop and the prices are good, if you can't move it efficiently and economically, then we've got a real crisis. It is not only an economic crisis, it is a national security and national defense crisis.

As you know, we have had two subcommittees on the Agriculture Committee working on the rural transportation problem for some time, and I suspect, for as far as we can look down the road, that is going to be a major interest of rural America—and it should be of the entire country.

All right. Thank you very much, gentlemen, for appearing here today.

The subcommittee stands adjourned.

[Whereupon, at 11:25 a.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

STATEMENT OF GLENN H. SULLIVAN, CHIEF ECONOMIC COUNSEL, NORTH AMERICAN CAR CORP., RAILCAR DIVISION, TIGER INTERNATIONAL, CHICAGO, ILL.

Feb. 13, 1980.

The grain embargo against the U.S.S.R., announced by the administration on Jan. 4, 1980, will have severe and lasting negative economic impact upon the U.S. agricultural industries, farmers, consumers and taxpayers.

Agricultural commodities generate the largest volume of export trade for the United States, reaching nearly $33 billion in 1979. Agricultures net contribution to the U.S. balance of trade in 1979 was nearly $20 billion. Fully three out of every ten workers in America are employed in some job related to agriculture. Over 3 million farm families are assisted by almost 6 million workers supplying production materials and over 8 million workers engaged in storing, processing and marketing activities in meeting America's food and fiber needs. Yet the very economic foundations of this segment of the economy were placed in jeopardy with the Jan. 4, 1980 grain embargo imposed by the administration.

Agriculture remains the very foundation of prosperity in America. Without a strong and economically viable agriculture, there cannot be a prosperous domestic economy. It is the high productivity, efficiency and competitiveness of the family farms that has provided America's major hedge against inflation over the years. Without a strong agricultural export program, the United States could not fulfill its huge demand for imported oil without suffering devastating trade imbalances and ever-increasing rates of inflation. Without a strong and economically viable agriculture in America, unemployment would be higher, the standard of living lower and prosperity for all our citizens but an elusive dream.

The alternative to a free market agriculture, is a government supported agriculture. And a government supported agriculture suffocates economic productivity and generates high costs to taxpayers. Between 1964 and 1972, Federal farm income stabilization programs averaged nearly $4 billion annually. Surplus grain storage costs alone totaled over $500 million in 1964. In 1972, net farm income was $18 billion, and Federal subsidy payments to agriculture reached nearly $6 billion. The price of corn in 1972 reached a low of 97 cents per bushel!

In 1973, the U.S. Department of Agriculture initiated substantive programs oriented toward free market policy in agriculture. By 1979, net farm income reached nearly $30 billion, Federal subsidies for farm income stabilization were reduced to one-twelth of previous levels, no surplus grain was held in federal storage facilities at taxpayers cost, the price of corn reached $2.50 per bushel and consumers still spent only 17 percent of their disposable income on food.

Quite often, the vast contributions of agriculture and Rural America are overshadowed by achievements in other sectors of the economy. Yet it is an efficient and productive agriculture that affords the opportunity for America's achievements beyond meeting the basic food and fiber needs of its citizens. As the world's population continues to expand, and the world's natural resources become more scarce, an increasingly more critical role will be cast for American agriculture. The challenge of meeting international food and fiber needs, and yet assuring continued prosperity domestically, will be the challenge of the future for America. Agriculture will continue to provide the foundation for meeting this challenge only if we avoid reverting back to an era when production decisions were dictated by government, rather than the marketplace. Agriculture must be guaranteed free access to foreign markets, with minimum government interference, if we are to meet the challenges of the future and assure continued prosperity for all Americans. To this end the administration's Jan. 4, 1980 grain embargo is flagrantly counter productive.

The administration has offered few substantive solutions for removing the newly created grain surplus, precipitated by the embargo, from the marketplace. It is apparent that the proposal to utilize the surplus grain in the production of gasohol is not a substantive solution to the problem, as nearly two-thirds of the embargoed grain is corn and only minimal commerical capacity exists in the United States for processing corn alcohol. Current estimates indicate that only about one million metric tons of the 12 million metric tons of corn embargoed could be used currently in commercial gasohol production prior to the 1980 crop year.

On Jan. 8, 1980, the administration proposed a 10 cents per bushel increase in the loan rate on corn as part of the strategy to protect farmers from the effects of the grain embargo. Such action will be viewed as a signal to produce more in 1980, thus compounding the surplus grain problem if more substantive action is not initiated immediately to move the embargoed grain supplies through the market system. Currently, only competing grain supply nations are the beneficiaries of the administration's imprudent actions surrounding the grain embargo.

American industry, in addition to the farmers and taxpayers, will be the loser if response-effective programs are not initiated immediately. Critical segments of industry have committed large sums of investment capital to meet the demands of a strong export market policy in agriculture. The transportation industries represent an excellent example. Railroads alone have invested nearly 4.5 billion annually in new plant and equipment. The railroads pay out over $7.6 billion annually in employee wages and compensation, and generate nearly $2 billion of tax revenue annually. The Jan. 4, 1980 grain embargo directly jeopardizes the economic welfare to these supporting industries. Storing surplus grains for deferred utilization does nothing to assure the future for these vital segments of the domestic economy. Proposing partial solutions, that assist only selected segments of the industry impacted by the embargo, does nothing to assure the long-term economic viability of the export markets . . . to which these supporting industries have committed their resources and planned their growth. The administration should seek broad substantive solutions, that target the development of new demand for feed grains in the world marketplace.

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