LOWER SNAKE RIVER JUVENILE MIGRATION FEASIBILITY STUDY

TRANSPORTATION STUDY

Implications of Changes in the Columbia-Snake River System Waterway
on
Grain Logistics from the Traditional Portland Market Gathering Territory

Final Draft

prepared by

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

Implications of Changes in the Columbia-Snake River System Waterway

on

Grain Logistics from the Traditional Portland Market Gathering Territory[1]

INTRODUCTION

The Army Corp of Engineers is considering a plan to improve juvenile fish upstream migration on the Columbia-Snake River System (CSRS). The plan would involve breaching four existing dams on the lower Snake River portion of the CSRS. These dams provide sufficient channel depth and slack water to allow for barge transportation from the lower Columbia River up to Lewiston, Idaho, on the Snake River. Several shippers currently use this system to position commodities for export or domestic use down river. Additionally, it is perceived that other shippers benefit from the existence of the system as a result of competition to other modes that the presence of the barge system provides. The central question asked in this analysis and corresponding report is *what are the logistical impacts (rate changes and modal shifts)* on grain shipments from the traditional lower Snake River origin freight territories.

Two market channels and three modes will be considered in answering this question: (1) rail and (2) a truck/barge combination. Services offered by Class I railroads to PNW export positions will be considered. The truck/barge mode will be subdivided into local and long distance. Wheat, including hard red spring and soft white varieties, will be the primary commodity in this analysis because wheat constitutes the preponderance of the traffic originating by barge on the lower Snake River. Shipper preference, global grain price determination of grain, grain buyers preference, modal cost characteristics, rate setting behavior, as well as other factors, will be considered.

This analysis is based largely on the theory of firm behavior. How will an individual transportation firm react to changes in the logistical system if the four dams are breached? The collective action of like firms will result in changes in the industry, which will reveal much about the potential impacts. However, the analysis is complicated by the fact that the barge industry consists of one firm and the Class I railroad industry consists of two firms in the study area.

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[1] This analysis was conducted by Gene Griffin and Kimberly Vachal, both of whom are employees of the Upper Great Plains Transportation Institute, North Dakota State University, as the Director and Transportation Economist, respectively. The authors take full responsibility for the information and conclusions herein. It should be noted that this analysis was expedited to meet certain program time constraints, and as such, assumptions were made based on personal communications with people considered experts in their respective fields.

PROJECT GOALS AND OBJECTIVES

Specific goals of this analysis were:

- $ Estimate the short and long-term impacts that eliminating barge transportation from Pasco to Lewiston will have on rail, truck, and barge rate structures in the selected origin territory.[2]
- $ Identify the potential for modal shifts.
- $ Discuss possible origin-destination shifts as a result of any changes in the rate structures of the three modes.

Specific objectives, listed below, were developed to facilitate the orderly development of the analysis. A set of work tasks developed for each objective can be found in Appendix A.

Objective 1: Identify the commodities to be included in the analysis.

Objective 2: Delineate the area of study and identify representative points of origin.

Objective 3: Identify and explain Portland pricing and logistical preferences for export wheat.

Objective 4: Describe rail pricing behavior and rates.

Objective 5: Describe truck pricing behavior and rates.

Objective 6: Describe barge pricing behavior and rates.

Objective 7: Conduct an analysis of the impact on modal rate and modal market share of eliminating barge traffic on the Snake River.

Objective 8: Develop a summary and draw conclusions based on the analysis.

COMMODITIES CONSIDERED IN THE ANALYSIS

The Columbia River commercial navigation system supports a variety of commodities, including grain, petroleum, wood, chemical, metal, and aggregate products. The predominant commodity for major export items, in terms of volume, is wheat. It accounted for 55 percent of the total exports originated

2 Pasco is used to label the Tri-Cities with a specific location, the two terms are used interchangeably in this report.

on the Columbia River between 1996 and 1998 (Research Group, 1999). Commercial navigation on the lower Snake River is also dominated by grain, with wheat and barley accounting for over three-fourths of total tonnage moving downstream.3 Thus, a critical consideration in breaching four federal dams on the Columbia/Snake River system is the potential impact on grain freight flows and rates. Thus, the downstream movements of wheat and barley were the only traffic considered in this analysis.

STUDY AREA and SUB-DELINEATIONS

Based on initial findings presented in the *Lower Snake River - Juvenile Fish Mitigation Feasibility Study Technical Report-Navigation*, the draw area for this analysis is defined in a five-state region of Montana, North Dakota, Idaho, Oregon and Washington (Figure 1). The draw area is that producing region from which the Snake River grain facilities originate grain. The primary origination area is concentrated around the lower Snake River, as counties in southeast Washington account for over 65 percent of the annual tons delivered to Snake River elevator terminals. Whitman County, Washington, alone, accounts for 43 percent of the Washington tons. Northern Idaho is also a key draw area, providing about 17 percent of the lower Snake River grain originations (Table 1). Montana and North Dakota regions combined contribute less than 10 percent of the annual grain tonnage on the lower Snake River.

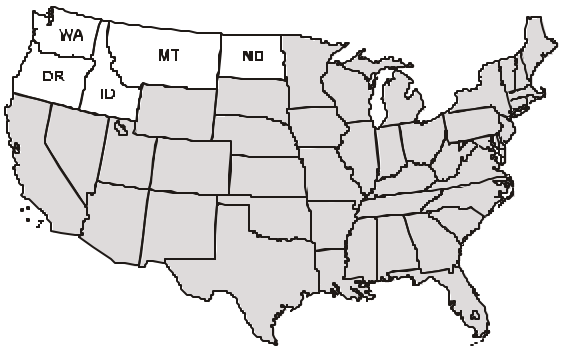

Figure 1. Snake River Grain Drawing Territory

The study area was delineated into two regions, (1) North Dakota and Montana, and (2) the lower Snake River drawing territory of selected counties in Washington, Oregon, and Idaho. This delineation was made for four fundamental reasons: (1) rail transportation practices, (2) differences in trucking markets, (3) proximity to barge, and (4) differences in the class of wheat produced in the two sub-regions.

3 Upstream commerce on this segment of the river is an insignificant volume.

Country grain elevators in the Washington and Idaho segments of the Snake River draw area primarily house facilities with track capacities under 26 cars (BNSF Grain Elevator Directory, 1998; Grain Connection, 1999). In addition, summaries developed from the U.S. Public Use Waybill data from 1993 to 1997 suggest single car shipments are the predominate rail service choice for shippers in the lower Snake River market territory (Appendix B). Number of cars per shipment for wheat ranged from 10 to 18 cars over the six-year period, averaging 13 cars per shipment. In contrast, grain originations in eastern Montana and western North Dakota are dominated by a population of train loading facilities. Data collected from North Dakota elevators indicate that unit trains are employed to ship over 70 percent of the wheat marketed via the PNW. Trucks have accounted for less than five percent of grain delivered to the PNW from ND elevators over this time period (Appendix C).4

For purposes of this analysis it is important to distinguish between local trucking and long distance trucking. The distinction between local and long-distance markets is important because the competitive environment for the two markets differ significantly. The local market is characterized by lack of aggressive rail competition and limited secondary haul (backhaul) opportunities. The long-distance market, on the other hand, exists because of the primary haul of manufactured and building inputs from the PNW. Furthermore, there is competition for grain moving from the northern plains to the PNW ports by rail, making the truck movements subject to incremental pricing.

4 Benson and Domine, 1999.

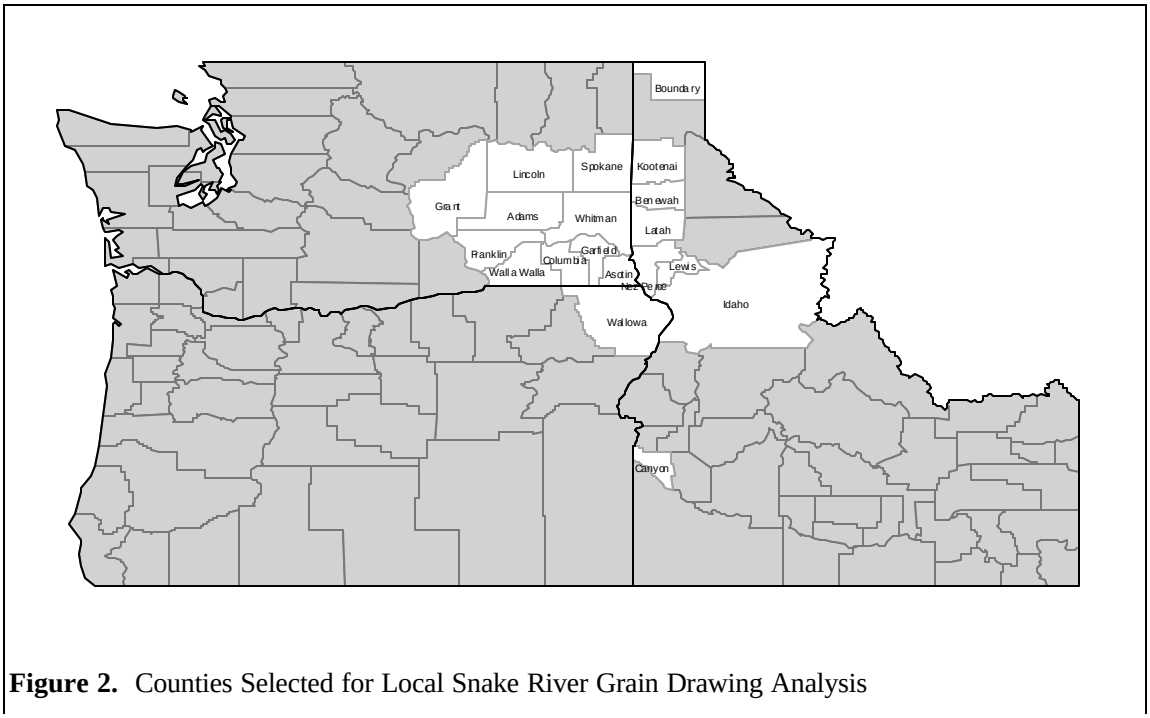

Figure 2. Counties Selected for Local Snake River Grain Drawing Analysis

Local trucking is that service provided to the grain shippers in the immediate grain-gathering territory of the CSRS river elevators. A 250-mile threshold is the distance that Class I railroads believe they can profitability compete with truck. Although this varies by Class I carrier, it is a rule of thumb for examining pricing behavior. This includes the counties in Washington, Oregon, and Idaho identified in Figure 2.5

Trucks are more competitive than rails in short hauls because truck terminal costs are low, compared to rail. Alternatively, rails exhibit lower line haul costs and thus, at some longer distance, become more competitive than truck - the 250 mile indifference point. The long-distance market for this study consists of grain moving by truckload from Montana and North Dakota into river elevators on the CSRS.

A third and final reason for distinguishing between a local-drawing territory and a long-distance territory is that different classes of wheat are produced in the two sub-regions. The PNW produces white wheat,

5 Some counties were not selected for the analysis because they did not ship significant amounts of grain the river elevators.

used primarily for noodles and crackers. North Dakota and Montana produce hard red spring wheat, a premium bread wheat.

A representative origin was selected for each chosen county in the analysis (Table 1). The counties were selected based on the Snake River grain facilities drawing data, as depicted in the initial Corp survey of elevators. The Washington and Idaho counties account for 91 percent of the bushels shipped via the Snake River (Research Group, pg. 56). These origin points were important in developing existing and alternative truck/barge costs for comparison with rail rates.

Table 1. Selected Representative Origins by County.

	County	Origin Country Elevator	Existing Major River Elevator Destination	Alternate Major River Elevator Destination
Washington				
1	Adams	Ritzville	Windust	Tri-Cities
2	Asotin	Anantone	Wilma	Tri-Cities
3	Columbia	Dayton	Lyons Ferry	Tri-Cities
4	Franklin	Mesa	Burbank	Burbank
5	Garfield	Pomeroy	Garfield	Tri-Cities
6	Grant	Ephrata	Kennewick	Kennewick
7	Lincoln	Davenport	Burbank	Burbank
8	Spokane	Cheney	Central Ferry	Tri-Cities
9	Walla Walla	Walla Walla	Sheffler	Tri-Cities
10	Whitman	Colfax	Central Ferry	Tri-Cities
Idaho				
1	Bennewah	St. Maries	Central Ferry	Tri-Cities
2	Boundary	Bonners Ferry	Central Ferry	Tri-Cities
3	Idaho	Grangeville	Lewiston	Tri-Cities
4	Canyon	Caldwell	Hague Warner	Hague Warner
5	Kootenai	Hayden	Central Ferry	Tri-Cities
6	Latah	Deary	Lewiston	Tri-Cities
7	Lewis	Culdesac	Lewiston	Tri-Cities
8	Nez Perce	Sweetwater	Lewiston	Tri-Cities
Oregon		E		
1	Wallowa	Enterprise	Lewiston	Tri-Cities

They were selected on the basis of central location with a further consideration of grain production characteristics. Additionally, a major river elevator destination was selected for each county and associated country elevator origin for the existing logistical system, as well as for the scenario involving the breaching of the four dams. The existing major river elevator destination in Table 1. were defined based on summaries provided by an earlier Corp of Engineers grain elevator survey. This survey defined origin-destination pairs for the Snake River grain shipment data.

PORTLAND EXPORT PRICING AND LOGISTICAL PREFERENCES

Wheat pricing and export elevator logistical preferences have to be taken into consideration in the analysis. Three specific issues are addressed: (1) the manner in which wheat prices are determined at the Portland market, (2) how wheat prices are set in the interior grain gathering territories, and (3) what logistical preferences are for receiving grain among the export elevators. These factors, in combination with the underlying rate structure, provide the base for understanding current terminal marketing patterns and potential market reactions given disruptions in the current logistical framework.

The Snake River system acts as a contributory for the PNW export terminals. The PNW is the primary market for the soft white wheat varieties grown in the northwestern United States (U.S. Public Use Waybill; USDA Grain & Feed Marketing News). Additionally, the PNW serves as an important export market for hard red wheat. As per the *Snake River-Navigation*, although wheat and barley are considered, detail is afforded to wheat as it accounts for about 90 percent of the wheat/barley annual tonnage (Research Group, 1999).

The manner in which these wheats are priced at Portland is important in understanding the potential impacts of breaching the four dams on the Lower Snake River. Essentially, wheat competes in a global market. Characteristics of the global market for wheat important to this analysis are: (1) the wheat market is extremely competitive; (2) wheat prices are based on world demand and supply conditions and determined in major commodity exchanges such as Minneapolis, Chicago, Kansas City, and Portland. The result is that wheat is base-point priced from some combination of major market points where price is determined by global competition. The resulting cross-price elasticities are elastic for wheat of different classes and from different producing regions, domestic and international. The essence of this cross-price elasticity is that it makes it nearly impossible for anyone in the supply chain to shift price increases forward into the world market. The end result is that the price of wheat is set for all participants in the supply chain.

The inability of the country elevator, or any other agent in the supply chain, to shift costs and/or risk beyond the point of export is an important consideration. Price in the country and within the supply chain will be determined by subtracting the logistical costs from the port price. This equation is exemplified in Figure 3. A North Dakota country elevator evaluating selling wheat into the different destinations of Portland, Duluth, and Houston will have a choice of all three at some centrally located point in the state. The price they receive will be determined by the port price less the logistical costs incurred to position the grain for export. These pricing characteristics,

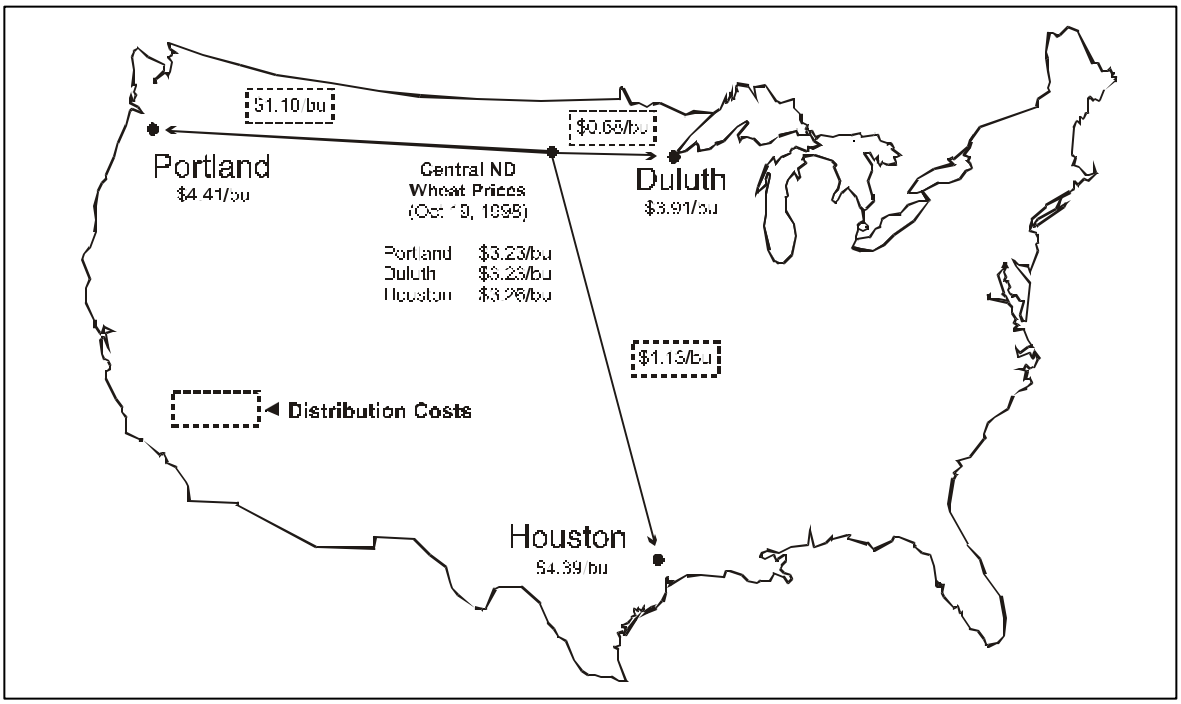

Figure 3. Central North Dakota Wheat Prices Based on Port Prices Determined by Global Supply and Demand Factors.

global and base-point pricing, result in a very competitive environment within the supply chain with each economic agent striving to shift costs and risk to other agents within the chain.

As depicted in Figure 3, the prices offered for hard red spring wheat delivered to Duluth, Houston and Portland were quoted at $3.91, $4.39 and $4.41 per bushel on Cot 19, 1998. To make the decision which market is the best option for a sale made that day and elevator manager in central North Dakota must calculate his net price per bushel for wheat delivered to each market. Thus, rail rates of $.68, $1.13 and $1.18 per bushel were subtracted from the export bids at Duluth, Houston and Portland, respectively, to identify the highest net price per bushel. In this case, the hard red spring wheat would be wold to the Houston market, as its net price of $3.26 per bushel is a 3 cent premium to the net values at either Duluth or Portland. These pricing relationships are dynamic, with pricing relationships among these markets, as well as local markets in constant change.

A final factor to be considered in this section is the preference by export elevators for receiving grain. Direct delivery by truck to PNW export facilities is not considered a viable mode in this analysis for three reasons: (1) Truck share of deliveries continues to decline;6 (2) Industry sources have stated that labor requirements, testing, and payment for truck unloads make the option relatively unattractive

6 Truck deliveries accounted for less than 5 percent of PNW export facility receipts between 1992 and 1997 (Casavant, et al).

compared to barge and rail alternatives; and (3) Some facilities have abandoned truck delivery facilities. However, this does not mean that trucks do not play an important role in the supply chain for hard red spring and white wheat for export from the PNW. Trucks are critical to the local haul of white wheat from the Oregon, Washington, and Idaho producing regions. Additionally, trucks play a minor role in moving hard red spring wheat from North Dakota and Montana to river elevators on the CSRS. Truck rates are included in the rate schedule as a part of the truck/barge market alternative. Rail rates for movement directly to export locations are also included.

RAIL PRICING BEHAVIOR AND RATES

Only Class I railroads were considered in the analysis. Short lines were not thought to play a critical role in any changes that might take place if the dams were breached.7 The railroads operating in the gathering region have a great deal of market power in the rail and truck-barge marketing channels.8 They are the price leader in the distance markets of North Dakota and Montana. Moreover, both railroads serving the local gathering region in Washington, Idaho, and Oregon also have significant market power given the nature of their network. The rail network in the region does not provide for a great deal of head-to-head competition at specific points. However, there is the possibility of cross-country competition. The market power is tempered by both the threat of cross-country competition and truck-barge competition, but is still viewed as significant by the definition stated above.

The proposed navigation alternative, which would end commercial navigation on the Snake River, has a potential for impacting grain flows within the draw territory and would likely impact the rate structure for shipping grain by rail and barge/truck in the region. In *Snake River -Navigation*, the extent of the changes would be determined by market competition and, over the long-run, would settle at a pricing equilibrium where marginal revenue is equal to marginal cost (Research Group, 1999). This simplistic alternative may provide a means for estimating rate impacts in a perfectly competitive market environment. However, many of the transportation industries do not function in a purely competitive environment.9 This is particularly true of railroads, one of the first major industries to implement demand pricing on a national scale through the mechanism of tariffs. Moreover, another consideration is that

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7 There are two reasons for this. First, a review of the rail unload capacity at river ports indicated that there is presently little unload capacity at the river ports (Grain Connection, 1999). However, this could change over time. Second, in terms of impacts, short lines and trucks are good local substitutes for gathering grain, and thus, do not figure into the larger picture of delivery to PNW export facilities.

8 Market power, as defined for purposes of this analysis, is the ability of an individual firm to raise prices to a level that results in high profit margins significantly above costs without a corresponding shift in the market to a competitor or to reduce prices below costs in an effort to capture market share and the corresponding ability to absorb those losses without jeopardizing the overall economic health of the firm.

9 Even then they are very adept at developing pricing strategies that allows them to practice third degree price discrimination resulting in increased margins in specific markets; e.g., airline ticket prices for business versus leisure travel.

railroads are exempt from antitrust laws, thus further disturbing the perfectly competitive market assumption.

In the Staggers Act10, Congress stated that "rail carriers shall be permitted to establish tariffs containing premium charges for special services for specific levels of services not provided in any tariff otherwise applicable to the movement."11 Under this legislation railroads are better able to differentiate markets, setting rates that will allow them to be revenue adequate as a system, while the rate/cost relationship may be quite different for alternative routes, commodities, regions, etc. The ability of the market to influence rates and thus, the resulting rail rates, are generally considered within the context of the competitive environment. Rates are generally determined by four primary market influences: (1) geographic, (2) product, (3) intramodal and (4) intermodal competition. Because white wheat grown in the region is generally treated as a specialty commodity for export from the PNW to Asia for noodle production, no reasonable competition from geographic or product substitutes can be identified. Thus, the crux of the rail rate scenario will be based on potential intramodal and intermodal competitor reactions and their abilities to absorb or pass along increased costs/profits.

Another factor important to understanding the pricing behavior of railroads is the nature of a rail network and how that impacts pricing behavior. Railroads with large networks, such as the BNSF and UP, are cognizant of two broad economic realms when considering strategic pricing actions.12 One is the impact rate changes will have on competitors. This involves game theory and gauging what the reaction of a competitor will be. A second and equally important area is the impact rate changes will have on the economics of their system. A rail rate structure has been likened to a blanket in that all points on the network are interconnected. A tug on one corner of this blanket sends ripples through the entire system. A result of this is that railroads seldom make a rate change without considering what the impact it will have on maximizing network revenue. Any changes made in the rail rate structure by either carrier will be developed with these two realms in mind.

Rail carriers have developed several alternatives for service to their customers, pricing each accordingly. Two Class I rail carriers service the Snake River draw area, the Burlington Northern Santa Fe (BNSF) and the Union Pacific (UP). The BNSF and its short-line affiliates may offer shippers a range of transportation services for moving grain: single car (1 to 25 cars), multi-car (26 to 51 cars), unit train (52 to 103 cars), 104-car train, and shuttle train (four trips of 104-cars) service/rates. The UP and its affiliates also offer an array of service/rates ranging from single car units (1 to 24 cars) to shuttle train

10 In 1980 Congress adopted the Staggers Rail Act for oversight of rail rate/service issues. With this legislation, Congress restricted ICC jurisdiction over maximum rates to markets where railroads have market dominance. The *ICC Termination Act of 1995* preserved price discrimination and maximum rate provisions, transferring oversight to the Surface Transportation Board.

11 Section 10734 of Title 49, United States Code.

12 This is also true of smaller railroads, however, the problem may not be as complex.

programs (three trips of 100 cars). The effective rate is then determined when the shipper orders that rail service which fulfills both the shipper's and buyer's infrastructure and product requirements. Table 2 provides the effective rail rate from each origin region to the PNW export region, based on shipment characteristics and capabilities of the grain facilities. The rate structures provide useful information but less than a complete picture of the pricing environment experienced by railroads.

Table 2. Rail Rates from Origin Stations of the Lower Snake River Draw Area to PNW Export Facilities[1]

	State and County	Rail Rates to PNW Export Sites ($/ton)	State and County	Rail Rates to PNW Export Sites ($/ton)	State and Region	Rail Rates to PNW Export Sites ($/ton)	State and Region	Rail Rates to PNW Export Sites ($/ton)
	Idaho		**Washington**		**Montana**		**North Dakota**	
1	Bennewah [2]	$14.65	Adams	$13.52	Central*	$31.26	C*	$40.68
2	Boundary	$16.36	Asotin [2]	$10.81	NE*	$37.06	EC*	$40.68
3	Canyon	n.a.	Columbia [2]	$9.95	N*	$32.27	NC*	$40.68
4	Idaho	$14.57	Franklin	$11.38	SC*	$30.63	NE*	$40.68
5	Kootenai [2]	$13.82	Garfield [2]	$12.34	SE*	$34.44	NW*	$38.49
6	Latah	$13.21	Grant	$12.58	W	$28.17	SC*	$40.68
7	Lewis [2]	$13.99	Lincoln [2]	$15.86			SW*	$38.00
8	Nez Perce	$13.44	Spokane	$13.52	**Oregon**		WC*	$38.95
			Walla Walla	$9.48	Wallaowa [2]	$14.31		
			Whitman	$10.64				

[1]rail=99 tons/car
[2]Estimated
Single Car Rates, except * reflect Unit Train Rates

Beyond the current rate structure, costs are an important component of potential rail reaction to competitive market changes. Uniform Rail Costing System (URCS) estimates of rail costs for the local Snake River draw territory to the Pacific Northwest export terminals are provided in Table 3.13 In addition, wheat rates, from Texas elevators to the Gulf, and from Montana and North Dakota elevators to the PNW, are provided so that comparisons might be made among regions.

Table 3. Rail Revenue/Cost Ratios for Selected Snake River Market Origins - Single Car Shipments.

County	Rail Carrier	Rail Miles	Rail Rate ($/car)	Fully Allocated Costs ($/car)	Variable Costs ($/car)	R/VC Ratio	R/FAC Ratio
Idaho to Portland, OR							
Nez Perce	UP	386	$1,331	$1,714	$1,260	106%	78%
Latah	BNSF	458	$1,331	$1,855	$1,359	98%	72%
Idaho	BNSF	463	$1,442	$1,865	$1,367	105%	77%
Boundary	BNSF	483	$1,620	$1,906	$1,396	116%	85%
Boundary	UP	483	$1,325	$1,908	$1,402	95%	69%
Washington to Portland, OR							
Franklin	BNSF	234	$1,127	$1,399	$1,025	110%	81%
Lincoln	BNSF	424	$1,507	$1,786	$1,308	115%	84%
Spokane	BNSF	364	$1,338	$1,664	$1,219	110%	80%
Chela	BNSF	364	$1,464	$1,664	$1,219	120%	88%
Spokane	BNSF	424	$1,457	$1,786	$1,308	111%	82%
Texas to Houston, TX							
Ellis	BNSF	206	$1,100	$1,342	$984	112%	82%
Coleman	BNSF	336	$1,450	$1,607	$1,177	123%	90%
Montana to Portland, OR							
Hill	BNSF	890	$3,610	$2,735	$2,003	180%	
Lewis&Clark	BNSF	757	$2,789	$2,464	$1,805	155%	
Roosevelt*	BNSF	1,073	$3,669	$1,782	$1,338	274%	
ND to Portland, OR							
Stark*	BNSF	1,214	$3,856		$1,691	228%	
Pierce*	BNSF	1,449	$4,027		$1,664	242%	
Williams*	BNSF	1,211	$3,861		$1,538	251%	

*Unit Train Rate

13 URCS are average variable costs based on long term railroad accounting data.

A review of the rail-revenue-cost table reveals several interesting points germane to this analysis. First, it is quite evident that rails enjoy more market power in the movement of wheat to the PNW as the distance from the origin increases. This is evidenced by the increase in the revenue-to-variable cost ratio. This is a result of several factors. First, rails are subject to greater truck/barge competition closer to the destination due to the cost-structure economics of the two modes. At some distance the cost for each mode is equal, and as mentioned earlier, this point is assumed to be approximately 250 miles. This characteristic is not unique to the lower Snake River gathering territory. The same phenomena is exhibited in the Texas-Houston market as evidenced by the comparison of the revenue-to-cost ratios.

The second point of interest is the lack of a profit margin on the moves from the local drawing region. Revenue-to-variable cost ratios hover around the 100 to 115 percent range. This is relatively low-rated compared to high rated traffic such as wheat from North Dakota and Montana.

The ratio of fully allocated costs provides some additional insights. These revenue/cost ratios suggest that both the BNSF and the UP lose money in the long-run on traffic from Washington and Idaho counties included in the analysis. Further evidence that the truck/barge combination does provide some intermodal competition in the movement of wheat.

In addition, R/VC ratios for moving North Dakota shipments to the PNW are high relative to the movements of grain from the local drawing territory. The R/VC ratios for shipments to the PNW from North Dakota regions is double the ratios for the Idaho-Washington origins, 240% compared to 109% (Table 3). The ratios for the local market fall short of the Surface Transportation Board 180% R/VC ratio, which is recognized as the initial test for determining rate reasonable. These cost estimates further buttress the argument that there is more competition in the local region than in the long distance markets. This does not imply that rates will be cost based. It does indicate is that railroads will probably not be aggressive about capturing a majority of the traffic under the current scenario. Although breaching the dams will change this competitive relationship, it is uncertain whether it will be enough to shift the traffic from truck/barge to rail. That question is addressed in the *Impacts on Rates and Modal Shifts* section.

TRUCK PRICING BEHAVIOR AND RATES

Trucks are an integral part in the potential modal rate and market shifts and the possible origin-destination shifts resulting from changes in the lower Snake River navigation system. How a trucking firm, or most firms for that matter, determine what prices to charge in a free enterprise market-based economy is quite complex. It takes into account many different aspects of the socioeconomic system including economic, social, and personal factors. Thus, pricing is as much an art as it is a science. However, for purposes of this analysis, the assumption is made that the objective function for individual trucking firms servicing the demand for moving grain from origin territories to the CSRS river grain elevators and thence by barge to Columbia River export facilities, is to maximize profits in the long-run. An additional assumption is that long distance

truckload carriers will price below full costs, but at least cover incremental costs, for specific movements, in the short-run as well as the long-run.14

The organization and structure of the truckload industry is useful in explaining pricing behavior, for it often dictates prices as a result of the structure. Competitively speaking, the truckload industry can be characterized by several structural elements.

1. Easy entry subjects the industry to the continual threat of new or existing firms moving into an existing market.

2. Good substitutes exist in the form of rail and intermodal transportation alternatives.

3. The large number of small firms and the relative size and position of shipper firms result in a negotiating advantage for shippers.

4. Rivalry among the firms in the industry is very intense.

The cumulative effect of these elements is a very cost- and service-competitive truckload industry. However, as will be explained later, this does not imply that each firm will price according to its costs. What it does imply is that normal or below normal rates-of-return on capital can be expected. Additionally, it also suggests that returns to labor and management are probably substandard. These characteristics are taken into account by truckload managers when pricing a specific movement, whether it is an owner-operator or a company-owned fleet truck. More importantly, trucking firms, whether owner-operator or company fleet, tend to be price takers. The economic environment detailed above does not allow trucking firms to have a great deal of market power in setting prices.

Although actual trucking costs are not the predominant factor in determining truck pricing they will have a significant impact in pricing behavior. The rates will be determined by the competitive environment of the demand for transportation services. However, truck costs do determine if truck is a viable alternative mode of transportation and also which firms will survive. Thus truck costs set a floor in the aggregate for truck rates and corresponding revenue in the general sense. In an extremely competitive environment truck rates will tend towards the full cost of delivering truck service in the long term. If they did not, individual firms would continue to lose money and eventually go out of business. Nevertheless, short-run truck rates, or rates for specific markets on a continuing basis, may not reflect the costs of providing the service.

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14 Incremental costs are defined as those additional costs specific to the movement compared to the costs that a firm would incur if no backhaul was available and the truck had to deadhead back to the original origin.

Cross subsidization among different hauls is not unusual in the trucking industry. It can take place when there is not sufficient secondary traffic to balance the primary haul. This results in empty return, deadhead mileage. In such a case there is insufficient secondary traffic to reduce the empty return miles to an economically profitable level. Also, the secondary haul could be too competitive to capture the full cost of delivering the service. Furthermore, the interaction with substitute services, such as rail, is also a major influence on pricing behavior in the secondary haul market. This is typical of export grain moving from the northern plains region to the PNW. The cost of deadhead mileage has to be covered by someone other than the trucking firm or the firm will not survive.

Actual truck costs were adapted from a 1997 study conducted at the Upper Great Plains Transportation Institute, North Dakota State University.15 The study identified costs for a dry-van owner-operator providing basic truckload transportation service. Several cost parameters were identified and quantified as follows: (1) 80,000 lb. Gross Vehicle Weight, (2) 53,200 lb. net payload weight, (3) a utilization factor of 100,000 miles per year, (4) time loaded C 71%, (5) driver costs C $0.29 per mile, (6) waiting time C $10.00 per hour, (7) fuel price of $1.25 per gallon, and (8) average speed of 45 MPH.16 Actual total costs were estimated at $1.04 per mile, and variable costs constituted 60% of total costs at $0.62 per mile. Although it is important to know and understand these costs, they will be less important in long distance trucking than in local trucking of grain into the river elevators.

For purposes of this analysis it is important to distinguish between local trucking and long distance trucking. Local trucking is the service provided to grain shippers in the immediate grain gathering territory within about 250 miles from the CSRS river elevators. This includes counties in Washington, Oregon, and Idaho identified in Figure 2. The 250-mile threshold is based on the distance Class I railroads believe that they can profitability compete with trucks. Although this varies by Class I carrier, it is believed to be as much as 500 miles in some cases, it is a rule of thumb for examining pricing behavior. The reason that trucks are more competitive than rail in the short haul is their extremely low terminal costs compared to rail. Alternatively, rails exhibit lower line haul cost and thus eventually become more competitive than truck C the 250 mile indifference point. The long distance market for this study consists of grain moving from Montana and North Dakota by truckload into river elevators on the CSRS.

The reason for the distinction between local and long-distance markets, as referenced earlier, is that the competitive environment for the two markets is significantly different. The local market is characterized by a lack of aggressive rail competition and limited secondary haul – backhaul – opportunities. The long-distance truck market, on the other hand, exists because of the primary haul of building materials from the PNW. Another factor is the competition of grain trucked from the northern prairie to the

15 Mark Berwick and Frank Dooley, Upper Great Plains Transportation Institute, North Dakota State University, MPC Report 97-81, October, 1997, 53 pp.

16 Ibid. p 35.

PNW. Railroads have developed several service packages concentrating on efficiency to move grain to the PNW over the past eighteen years. The impact of these rates has been to lower rail rates below one-way thereby making truck movements subject to incremental cost pricing. A rationale for the long distance market is described first and will be followed by an explanation of local trucking costs.

Long Distance Markets

The Pacific Northwest export facilities handle included an average 3,190 million bushels of wheat, corn and soybeans annually, between 1991 and 1997. Corn accounted for the largest share of the bushels with 56 percent, or approximately 1,777 million bushels. About 763 million bushels, or 24 percent, of the average handle were soybeans. With wheat constituting the remainder: hard red spring wheat attributed 10 percent, white wheat 7 percent and hard red winter about 3 percent of the total.

The long distance market for truckload grain consists of grain shipments from country elevators in eastern Montana and western North Dakota. These shipments consist primarily of hard red spring wheat from country elevator origins to river elevators on the CSRS. This market is serviced primarily by owner-operators and company fleets whose primary haul is lumber and other building materials from the Pacific Northwest to the north-central United States. The primary haul could include destinations as far away as Chicago. Evidence of prices charged by trucking firms suggests that there is an imbalance of traffic moving back to the PNW (*Annual ND Transportation and Rail Service Survey*). Given this imbalance of return traffic, truck firms seek out any backhaul that will increase their gross revenue, even though it may not cover full operating costs. Grain from the northern prairies is one such backhaul. Even with some backhaul, trucks will likely have to deadhead part of the way. These movements are secondary in nature and sometimes are at less than the full cost of providing the service. The trucks are forced to take whatever they can get because of the competitive conditions and nature of grain pricing.

The market for grain movements to the Pacific Northwest from Montana and North Dakota stems mainly from the export demand for spring wheat at Portland (Benson and Domine). The price paid on any given day at Portland is determined on a global basis by the supply and demand factors for bread wheat (Figure 3). Wheat prices at interior country elevators are determined by subtracting distribution costs (transportation, storage, and handling) from the world price at Portland - base point pricing. The shipper and receiver, as individuals, have no real sway in what the price is, and as such, both become price takers. Given the inability to transfer any costs forward through the supply chain, participants attempt to minimize distribution costs via alternatives.

Rail is the predominate mode used for shipping wheat to Portland export facilities from Montana and North Dakota. It is also the preferred mode of shipment for most of the grain moving to this market. The net effect of this environment is that truckload carriers constitute a very small portion of the total market of wheat moving to the PNW from North Dakota - less than 5%. Thus, trucks contribute a marginal capacity to the overall movement. These elements make it even more difficult to price above truck costs.

Current truck rates from North Dakota country elevators are approximately $0.90 per mile.17 This is well below their full cost of $1.04 per mile. The reason for this is the preference for rail which allows for larger shipment sizes - multi car and unit trains -which are much easier to manage and market from the perspective of a country elevator manager. Thus, rail rates set the maximum that the combined costs of trucking to the river elevator, one additional handle, and barge rates, can equal. Further, since rail is preferred, the truck/barge rate will most likely have to be lower in combination with the handling cost to effectively break into the market at all. Conversely, rail rates at this distance will be largely unaffected by changes in the truck/barge supply chain for the reasons just cited. Rails will determine prices based on the global price of wheat and the alternative channels that bread wheat can be marketed. Truck prices will be determined by rail rates and the level of competition for a backhaul. Since little of the truck-barge trip to the PNW can be attributed to barges, the ability of barges to influence grain traffic flows from Montana and North Dakota is limited.

Therefore, little or no impact on the modal split and total distribution costs for moving grain into position for export at Portland should be expected. This premise is based on the underlying assumption that the building material will continue to move to the north central United States regardless of the proposed changes on the CSRS. Because country elevators generally have a rail alternative, the price they pay producers will not change as a result of changes in the supply chain waterway infrastructure. Additionally, these changes will not influence the price at Portland, which is determined by world supply and demand factors. The two economic agents left in the supply chain - the primary haul contractor and barge companies - will be left to absorb any increase in distribution costs. Each of these agents will do whatever is possible to shift any increase in costs to one another. The ability to do so will depend on the elasticity of demand for their services, their overall market power, and the long-run strategy of the river elevators and the barge interests.

Local Markets

The local trucking market is quite different from the long distance markets. It is defined as those counties within approximately 250 miles of CSRS river elevators. This would include the counties identified in Figure 2. It is presumed that truck rates will more closely approximate truck costs in this market, especially in the long run. The presumption is based on the existence of the relatively easy entry into the local trucking business, by shippers if necessary, in combination with other factors such as the primary haul being grain, from the origin counties to the river elevators. Although the rates for grain will be based primarily on costs, the actual cost to the shipper will likely vary by the degree of backhaul traffic generated and the revenue that it provides. It is assumed that revenue for any backhaul would be similar to trucking costs. Although there is the possibility of some fertilizer backhaul, it is assumed that much of the return mileage to the origin country elevator will be empty. Thus the focus of the analysis is on a zero

17 *Annual Transportation and Rail Service Survey*, Upper Great Plains Transportation Institute. Parameters used for the calculation: (1) 976 miles from Bismarck to Lewiston, (2) 27.5 net tons, and (3) a rate of $1.60 per ton.

backhaul scenario.

Points considered for analysis of rate impacts were determined by the criteria cited in the *Area of Study* section. As already noted in that section, one representative origin was selected for each county considered in the analysis. Highway distances were calculated from the one selected representative county origin to the existing river elevator locations for each county (Table 4).18 Existing river elevator destinations were taken from information provided by the Corp of Engineers. The alternative river elevator locations considered were any location at or below the Tri-Cities and nearby Burbank slightly above the confluence of the Snake River with the Columbia River. Highway distances were also calculated from each representative origin to the alternate river destinations. The changes in distances reflect the change in trucking costs for the breaching of the dams. Thus their accuracy is critical to the analysis. As illustrated in the table the Oregon county river destinations do not change, thus they are given no further consideration in this analysis.

18 Highway distances were based on several sources of information including: a combination of software based mileage programs and Rand McNally Motor Carriers= Atlas in conjunction with the Corp data.

Table 4. Selected Representative Origins by County and Corresponding River Destinations and Associated Distances

	County	Existing Major River Elevator Destination	Existing Highway Distance to River (miles)	Alternate Major River Elevator Destination	Alternate Highway Distance to River (miles)
Washington					
1	Adams	Windust	55	Tri-Cities	79
2	Asotin	Wilma	24	Tri-Cities	136
2	Columbia	Lyons Ferry	31	Tri-Cities	61
4	Franklin	Burbank	25	Pasco	25
5	Garfield	Garfield	24	Tri-Cities	85
6	Grant	Kennewick	93	Kennewick	93
7	Lincoln	Burbank	124	Burbank	124
8	Spokane	Central Ferry	76	Tri-Cities	123
9	Walla Walla	Sheffler	13	Tri-Cities	34
10	Whitman	Central Ferry	31	Tri-Cities	117
Idaho					
1	Bennewah	Central Ferry	96	Tri-Cities	193
2	Boundary	Central Ferry	203	Tri-Cities	244
3	Idaho	Lewiston	76	Tri-Cities	201
4	Canyon	Hague Warner	245	Hague Warner	245
5	Kootenai	Central Ferry	126	Tri-Cities	173
6	Latah	Lewiston	45	Tri-Cities	167
7	Lewis	Lewiston	24	Tri-Cities	151
8	Nez Perce	Lewiston	17	Tri-Cities	144
Oregon					
1	Wallowa	Lewiston	85	Tri-Cities	154

The cost of trucking grain to the existing river elevator destination was based on the previously cited truck cost of $1.04 per running mile (Table 5). The net weight was assumed to be 27.5 tons, 55,000 pounds.19 It was also assumed there would be a significant imbalance of traffic in the movement from country origin to river elevator destination. As stated earlier, fertilizer appears to be the only viable backhaul of any degree of significant volume. Thus a range of costs were developed using 0, 20, and 40 percent rates of backhaul. Backhauls impact the empty return miles for each trip from country elevator to river elevator destination. Without any backhaul it is assumed that the shipper will have to pay for the round trip mileage between origin and destination. A 20% rate of backhaul means that the primary haul is responsible for the entire distance to the destination and, on average, 80% of the empty return mileage. As would be expected, a 20% backhaul rate reduces the cost of the fronthaul by 10 percent, and a 40% backhaul rate reduces cost of the fronthaul by 20 percent. This assumes that the shipper paying for the backhaul is paying the full cost of operating the truck for the distance required for the backhaul.

19 Based on an average of 25 and 30 tons cited in information provided by the Corp and 53,800 lbs. identified in Mark Berwick's study.

Table 5. Truck Costs to Existing River Destinations from Selected Representative Origins by County for Three Levels of Backhaul.

	County	Existing Major River Elevator Destination	Existing One Way Highway Distance to River (miles)	Existing Truck Costs to River Elevator ($ per ton) 0% BH	20% BH	40% BH
Washington						
1	Adams	Windust	55	4.16	3.74	3.33
2	Asotin	Wilma	24	1.81	1.63	1.45
2	Columbia	Lyons Ferry	31	2.34	2.11	1.88
4	Franklin	Burbank	25	1.89	1.70	1.51
5	Garfield	Garfield	24	1.82	1.63	1.45
6	Grant	Kennewick	93	7.03	6.33	5.63
7	Lincoln	Burbank	124	9.38	8.44	7.50
8	Spokane	Central Ferry	76	5.75	5.17	4.60
9	Walla Walla	Sheffler	13	0.98	0.88	0.79
10	Whitman	Central Ferry	31	2.34	2.11	1.88
Idaho						
1	Bennewah	Central Ferry	96	7.26	6.53	5.81
2	Boundary	Central Ferry	203	15.35	13.82	12.28
3	Idaho	Lewiston	76	5.75	5.17	4.60
4	Canyon	Hague Warner	245	18.53	16.68	14.82
5	Kootenai	Central Ferry	126	9.53	8.58	7.62
6	Latah	Lewiston	45	3.40	3.06	2.72
7	Lewis	Lewiston	24	1.82	1.63	1.45
8	Nez Perce	Lewiston	17	1.29	1.16	1.03
Oregon						
1	Wallowa	Lewiston	85	6.42	5.78	5.13

As one would expect, the costs from the various counties varied significantly because of the distance related algorithm used to calculate them. They varied from a low of $0.98 per ton from Walla Walla County, Washington to a high of $18.53 per ton from Canyon County in Idaho.

Table 6. Truck Costs to Alternative River Destinations from Selected Representative Origins by County for Three Levels of Backhaul.

	County	Alternate Major River Elevator Destination	Alternate One Way Highway Distance to River (miles)	Alternate Truck Costs To River Elevator ($ per ton)		
				0% BH	20% BH	40% BH
Washington						
1	Adams	Tri-Cities	79	5.98	5.38	4.78
2	Asotin	Tri-Cities	136	10.29	9.26	8.23
2	Columbia	Tri-Cities	61	4.61	4.15	3.69
4	Franklin	Burbank	25	1.89	1.70	1.51
5	Garfield	Tri-Cities	85	6.43	5.79	5.14
6	Grant	Kennewick	93	7.03	6.33	5.63
7	Lincoln	Burbank	124	9.38	8.44	7.50
8	Spokane	Tri-Cities	123	9.30	8.37	7.44
9	Walla Walla	Tri-Cities	34	2.57	2.31	2.06
10	Whitman	Tri-Cities	117	8.85	7.96	7.08
Idaho						
1	Bennewah	Tri-Cities	193	14.60	13.14	11.68
2	Boundary	Tri-Cities	244	18.46	16.61	14.76
3	Idaho	Tri-Cities	201	15.20	13.68	12.16
4	Canyon	Hague Warner	245	18.53	16.68	14.82
5	Kootenai	Tri-Cities	173	13.09	11.78	10.47
6	Latah	Tri-Cities	167	12.63	11.37	10.11
7	Lewis	Tri-Cities	151	11.42	10.28	9.14
8	Nez Perce	Tri-Cities	144	10.89	9.80	8.71
Oregon						
1	Wallowa	Tri-Cities	154	11.64	10.47	9.30

Truck costs were also calculated for the alternative river elevator destination of the Tri-Cities using the same methodology (Table 6). Obviously, costs increase in proportion to the increase in distance. However, the change in distance is not predictable based on current distances because the routing to new river (alternative) elevator destinations is somewhat unique to each origin. Some origins will experience a considerable increase in distance while others will remain nearly or the same. These resulting differences will impact the costs in proportion to the change. As with existing truck costs, alternative truck costs vary greatly.

A side-by-side comparison of the existing and alternative truck costs is provided in Table 7. One important finding to emphasize with regards to the comparison is the impact potential backhauls have on the cost of trucking grain from local counties to river elevators. Taking Whitman County Washington as an example, a 20% backhaul rate reduces the increase from $8.85/ton to $7.96/ton, a difference of over 2 1/2 cents per bushel.[20] The impact is about double that at 40%. Although the difference is not overwhelming it does demonstrate that success in obtaining backhaul can have a positive impact on the cost of moving grain.

Changes in truck costs for moving grain to alternative river ports varied widely, ranging from no change in five origins to over 700% in the case of Nez Perce county, Idaho (Table 8). However, the percentage is somewhat misleading because it is the result of an extremely low existing truck cost due to the proximity to the river. In absolute terms, there were four other origins in Idaho that had increases in the $9.00 range.

20 This calculation assumes there is little or no possibility for a backhaul under existing conditions. The distances are two short to justify development of backhaul markets. If they do exist it is most likely the result of a unique environment.

Table 7. Comparison of Existing and Alternative Truck Costs from Selected Representative Origins by County for three Different Levels of Backhaul (BH)

	County	Existing Major River Elevator Destination	Existing Truck Costs to River Elevator (dollars per ton)			Alternate Major River Elevator Destination	Alternate Truck Costs to River Elevator (dollars per ton)		
			0% BH	20% BH	40% BH		0% BH	20% BH	40% BH
Washington									
1	Adams	Windust	4.16	3.74	3.33	Tri-Cities	5.98	5.38	4.78
2	Asotin	Wilma	1.81	1.63	1.45	Tri-Cities	10.29	9.26	8.23
2	Columbia	Lyons Ferry	2.34	2.11	1.88	Tri-Cities	4.61	4.15	3.69
4	Franklin	Burbank	1.89	1.70	1.51	Pasco	1.89	1.70	1.51
5	Garfield	Garfield	1.82	1.63	1.45	Tri-Cities	6.43	5.79	5.14
6	Grant	Kennewick	7.03	6.33	5.63	Kennewick	7.03	6.33	5.63
7	Lincoln	Burbank	9.38	8.44	7.50	Burbank	9.38	8.44	7.50
8	Spokane	Central Ferry	5.75	5.17	4.60	Tri-Cities	9.30	8.37	7.44
9	Walla Walla	Sheffler	0.98	0.88	0.79	Tri-Cities	2.57	2.31	2.06
10	Whitman	Central Ferry	2.34	2.11	1.88	Tri-Cities	8.85	7.96	7.08
Idaho									
1	Bennewah	Central Ferry	7.26	6.53	5.81	Tri-Cities	14.60	13.14	11.68
2	Boundary	Central Ferry	15.35	13.82	12.28	Tri-Cities	18.46	16.61	14.76
3	Idaho	Lewiston	5.75	5.17	4.60	Tri-Cities	15.20	13.68	12.16
4	Canyon	Hague Warner	18.53	16.68	14.82	Hague Warner	18.53	16.68	14.82
5	Kootenai	Central Ferry	9.53	8.58	7.62	Tri-Cities	13.09	11.78	10.47
6	Latah	Lewiston	3.40	3.06	2.72	Tri-Cities	12.63	11.37	10.11
7	Lewis	Lewiston	1.82	1.63	1.45	Tri-Cities	11.42	10.28	9.14
8	Nez Perce	Lewiston	1.29	1.16	1.03	Tri-Cities	10.89	9.80	8.71
Oregon									
1	Wallowa	Lewiston	6.42	5.78	5.13	Tri-Cities	11.64	10.47	9.30

Table 8. Comparison of Existing and Alternative Truck Costs from Selected Representative Origins by County for 0% Backhaul.

	County	Major River Elevator Destination	Alternate Major River Elevator Destination	Existing Truck Costs to River Elevator	Difference Between Existing and Alternate	Percent Change from Existing	Alternate Truck Costs to River Elevator
				(dollars per ton)		(%)	
Washington							
1	Adams	Windust	Tri-Cities	4.16	1.82	44%	5.98
2	Asotin	Wilma	Tri-Cities	1.81	8.48	468%	10.29
2	Columbia	Lyons Ferry	Tri-Cities	2.34	2.27	97%	4.61
4	Franklin	Burbank	Burbank	1.89	0.00	0%	1.89
5	Garfield	Garfield	Tri-Cities	1.82	4.61	254%	6.43
6	Grant	Kennewick	Kennewick	7.03	0.00	0%	7.03
7	Lincoln	Burbank	Burbank	9.38	0.00	0%	9.38
8	Spokane	Central Ferry	Tri-Cities	5.75	3.55	62%	9.30
9	Walla	Sheffler	Tri-Cities	0.98	1.59	162%	2.57
10	Whitman	Central Ferry	Tri-Cities	2.34	6.50	277%	8.85
Idaho							
1	Bennewah	Central Ferry	Tri-Cities	7.26	7.34	101%	14.60
2	Boundary	Central Ferry	Tri-Cities	15.35	3.10	20%	18.46
3	Idaho	Lewiston	Tri-Cities	5.75	9.45	165%	15.20
4	Canyon	Hague Warner	Hague Warner	18.53	0.00	0%	18.53
5	Kootenai	Central Ferry	Tri-Cities	9.53	3.55	37%	13.09
6	Latah	Lewiston	Tri-Cities	3.40	9.23	271%	12.63
7	Lewis	Lewiston	Tri-Cities	1.82	9.61	529%	11.42
8	Nez Perce	Lewiston	Tri-Cities	1.29	9.61	747%	10.89
Oregon							
1	Wallowa	Lewiston	Tri-Cities	6.42	5. 11.64 5.	81%	5.22

It should be recognized that the costs used in this section are linear in nature and therefore do not reflect any types of economies associated with volume, scope, or scale. For purposes of this analysis, such economies would probably have little or no impact on the general conclusions. Although the truck costs used in the analysis are based on different parameters than are assumed for this analysis; e.g., 75% versus 0% backhaul, it is assumed these differences will be minor as well in the final analysis.

Truck costs are considered a constant in this analysis but do vary by scenario, but trucks must recover full costs in the long run to continue to operate.21 Over time this will result in a fairly constant cost between origin and destination pairs. Thus, rail and truck-barge modes become much more important in the business strategy of reacting to the potential breaching of the four dams on the Lower Snake River.

BARGE PRICING BEHAVIOR AND RATES

The pricing behavior of the barge industry is straightforward in one respect; the industry is dominated by one firm for grain movements on the CSRS, *Tidewater*. This characteristic eliminates any consideration of intra-industry competition. Thus, the pricing behavior is driven by at least six considerations: (1) shipper and receiver preferences; (2) the economics of moving grain by two competing networks; (3) competition from the railroad industry; (4) the nature of grain commodity pricing; (5) the cost structure of the firm; and (6) alternatives for utilizing company capital assets.

Any reference to truck is conspicuously missing from the list of factors that influence how and what prices will be charged to barge customers. Truck costs do limit the competitiveness of barges to the extent that the truck-barge combination can compete with the rail alternatives. The reason for this is that trucking costs are considered a given a constant for any specific origin-destination pair - with no room for price adjustment in the long run, and very little flexibility in the short run. The role trucks play in this supply chain is determined by the prevailing competitiveness in and about the trucking industry, in combination with a lack of any distinguishing transportation element that would provide tucking interests with any degree of market power over the other two modes in the network. The trucking industry is very competitive and their prices are essentially driven by costs. These costs are influenced by the availability of backhauls. Since backhauls are largely beyond the control of trucking industry participants, truck prices will be considered as a given and relatively constant over time.

The first factor relates to the preferences of both shippers and receivers of grain from origin territory. In this case it is assumed that there is no preference on the part of either and that they are indifferent to the manner in which grain is originated and terminated. Thus, a country elevator manager is detached from the decision to select a mode of transport from the country origin with the exception of the net price they receive. The result of this is the absence of any market power by the country elevator industry due to logistical preferences. This is not true of river and export elevators. As cited earlier, river elevators do not have a great deal of rail unload capacity. Thus, they have revealed their preference for truck delivery. Export elevators, on the other hand, have little truck unload capacity and discourage truck deliveries. Export elevators are assumed to be indifferent to barge and rail, with the exception of instances of periodic logistical congestion.22 This indifference is exemplified by the manner in which they

21 This will hold true even if a country elevator chooses to provide its own transportation capacity by owning and operating its own trucks.

22USDA, *Grain & Feed Market News*..

price grain. Currently, exporters do not differentiate between barge delivery versus rail. Thus, they have not revealed a preference for a modal choice. However, it has been pointed out by one terminal operator that their preference is barge. This preference is based on lower unloading costs and larger shipment lot size. However, this preference is not revealed in the market by a price difference between the two modes of delivery.

The second factor, the economics of the two competing networks for moving grain into export position in the Portland region is also critical. It provides the basis for comparing the two alternatives and is understood by all the economic agents involved on assessing possible pricing strategies.

In this particular case, the railroad industry is considered to be a price leader. Railroads have the luxury of determining how much traffic they want and will set their prices and corresponding service levels to achieve company goals. They can also absorb losses to the extent they are covering at least variable costs due to the overall size of their network and the huge business volume of the Class I's operating in the region.23 Thus, railroads are formidable competitors to barge transportation on the CSRS. An additional factor to be considered is that barges dominate the market, approximately 80 percent. Given the profitability of barges, their dominance in the market, and rail market power it is likely that barges will wait for railroads to make adjustments before reacting to any changes in the logistical system themselves

The global pricing of grain will also influence how barges will price. As stated earlier, the price at Portland is fixed for the inland logistical network. All logistical cost must be absorbed by some economic agent in the supply chain. Given that truck costs are fixed for any move, barge and rail become the only transportation agents to have the management prerogative to adjust prices. If rails are price leaders and have substantial system-wide market power, barges will react to the railroads as opposed to rails reacting to barge.

The cost structure of the industry is important as well. It is probably safe to say that the barge cost structure is similar to that of the rail industry with high terminal cost. Although the barge industry operates on a public right-of-way they do pay a user tax in the form of a tax on fuel.

The final factor is the alternatives for utilizing company assets. If the assets are mobile, such as truck, they will move to the best alternative use in the short run. In the long run they will be consumed and not replaced if the business is not sufficiently profitable. For the rail industry, where resources are rather immobile, with the exception of rolling stock, decisions regarding plant and equipment investments and distribution of finite resources are made within a system context. The barge industry has plant and assets which are very immobile, thus providing the most limited context for utilizing asset in adapting to market changes.

23 For example, BNSF had gross freight revenues of $8.92 billion in 1998 and a net income of $1.15 billion. Ag commodities produced gross revenues of $1.07 billion and was the third largest contributor to revenue for the railroad.

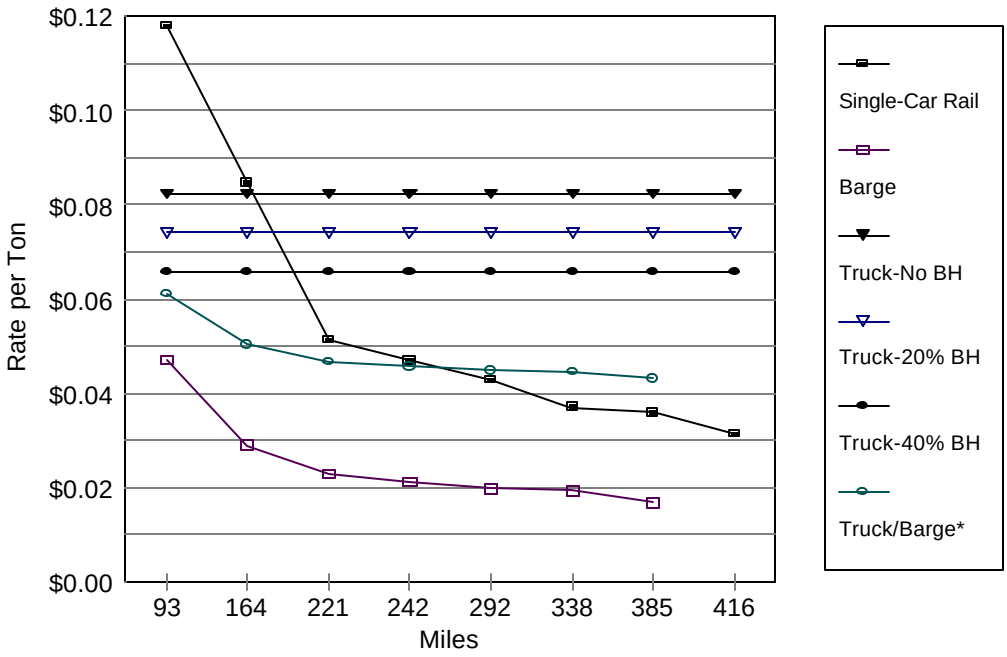

Figure 4. Current Modal Price Relationships in the Snake River Draw Area.

The current barge, rail and truck rate relationship for the Columbia/Snake River draw area is illustrated in Figure 4. Barge rates reflect the published Tidewater Barge, Inc. rate schedule for wheat originating at river terminals, destined for Portland export facilities.24 Barge rates, on solely a line-haul basis, currently provide the least cost alternative for delivering grain from the local Columbia/Snake River draw area to the PNW export facilities, as illustrated in Figure 4. The truck/barge combination that is illustrated reflects includes no backhaul, with one-third of the trip attributed to truck and two-thirds of the trip attributed to barge. When compared to the single car rate, truck/barge rates are approximately equal at the 250-mile range. It should be emphasized that this relationship does not reflect costs with the exception of the truck mode.

Barge rates for specific origins are provided in Table 9. In absolute terms, the barge companies net return on Snake River movements range from $2.87/ton (Lewiston, ID) to $3.20/ton (Sheffler, WA). In addition, the barge cost estimates provided by Reebie were also used to estimate revenue/cost ratios for several origin-destination pairs. The revenue/cost ratio for wheat shipments from Snake River origins to the PNW export terminals ranged from 176% to 251% for wheat. This level of rates provides the barge company with a significant margin. These revenue-cost ratios suggest a couple of things. One, the barge

24 Tidewater Barge Lines, Inc. is the dominant barge company operating on the Columbia/Snake River (Reseach Group, 1999, pg. 26).

industry is not forced to price competitively on the CSRS. Second, and more important to this analysis, the barge company has a sufficient

margin to price downward if railroads become aggressive in attracting the lower Snake River grain traffic.

Table 9. Barge Rates & Cost Estimates to Pacific Northwest Export Terminals

Origin		Barge Rates**		Barge Rates	Barge Cost		
		Wheat	Barley	Wheat	Wheat		R/C Ratio
	(Miles)	($/ton)	($/ton)	($/ton mile)	($/ton)	($/ton mile)	(%)
Boardman, OR*	164	4.76	5.82	0.029			
Hogue Warner, OR*	167	4.76	5.82	0.029			
Umatilla, OR*	185	4.82	5.90	0.026			
Kennewick, WA*	212	4.91	6.02	0.023			
Pasco, WA*	215	4.92	6.02	0.023			
Burbank, WA*	221	4.92	6.02	0.022			
Sheffler, WA	231	5.32	6.51	0.023	2.12	0.009	251%
Windust, WA	259	5.36	6.55	0.021	2.39	0.009	224%
Monumental Dam	263	5.57	6.78	0.021	2.45	0.009	227%
Lyons Ferry, WA	282	5.61	6.99	0.020	2.64	0.009	213%
Central Ferry, WA	304	6.04	7.39	0.020	2.87	0.009	210%
Almota, WA	325	6.07	7.42	0.019	3.07	0.009	198%
Wilma - SRM 134	359	6.31	7.74	0.018	3.42	0.010	185%
Lewiston, ID	361	6.31	7.74	0.017	3.44	0.010	183%

*Est Miles.
**Rates apply to Kalama, WA and Vancouver, WA; Longview Washington are subject to additional charge of 75 cents per ton
Source: Cost -1996 Reebie Estimates for $/ton, pg. 59 'Lower Snake River Technical Report'
Rates - Tidewater Barge Lines, Inc Tariff, June 1999

IMPACTS ON RATES and MODAL SHIFTS

Consistent with the prior analysis, grain movements to the CSRS river elevators were classified into two general areas of study, long-distance, and local markets. Long-distance markets have two alternatives for shipping grain for export from Montana and North Dakota rail direct to an export elevator on the lower Columbia and truck/barge to the same final destination. Also, only two general logistical alternatives were considered as the local trucking market. They are: (1) local truck to a river elevator and transloaded to barge for Portland, and (2) rail from the origin territory direct to Portland. Truckload directly to Portland was not considered because export houses do not want to receive grain by truck as explained earlier. Rail, including short lines, to river elevators was not considered as well because of a lack of unloading facilities and other factors also addressed earlier.

Long Distance Markets

The long-distance hard red spring wheat market is analyzed first because of its simplicity. Breaching of the four dams on the lower Snake River should have little or no impact on the modal choices made by

shippers and no impact on origin-destination pairs. The lack of any impact is attributed to several factors, the most determining is the pricing strategy of railroads to maximize profitability over their entire network. Railroads do not determine prices based on local economic phenomena when the market in question is influenced on a national or global basis, such as hard red spring wheat. The wheat rates to the PNW from Montana and North Dakota have been set to optimize profitability within the entire BNSF network for grain and grain products. Adjustments in the level of rates to the PNW would most likely have a negative impact on the network rate structure and its profitability.

For instance, if BNSF chose to raise rates as a result of a perceived competitive advantage resulting from the breaching of the dams, several resulting complications would arise. First of all, traffic would begin to shift to the east and south markets of Minneapolis/Duluth and the Gulf Ports. A increase in westbound rates will make those destinations relatively more competitive. This would result in a reduction in the supply territory for the PNW, a very profitable haul for the railroad as illustrated by the R/VC ratios. If the railroad raised all rates proportionately, the threat of losing market share to a competing railroad such as the Canadian Pacific or the Mississippi River barge alternative exists. Finally, even if a competing railroad would not discipline the price increase the global market would. Thus, it is difficult to imagine railroads would react to the breaching of the four dams by increasing their rates.

Because railroads are the overwhelming source for logistical capacity, any increases in costs within the supply chain would have to be absorbed by the two remaining economic agents, long-distance truck and barge. When the four dams are breached there will be two potential consequences for the two modes. Trucks will absorb additional costs for the increased mileage from Lewiston to Tri-Cities, or barges will lower the rates allowing country elevators to increase the rate, and thus, keeping the trucks whole, status quo in terms of revenues and costs. The actual shift will depend largely on two additional factors: (1) How competitive the market is for building materials? Can the building materials industry pay a higher rate on the primary haul? If it can and does, the burden will be shifted to the building materials industry. (2) If the building industry retains their Midwest market and will pay more for transportation, the barge industry is likely to absorb the increases in truck logistical costs.

The end result is that there should be little or no change in the rail rates for grain from North Dakota and Montana and some shifts in truck and/or barge rates. However, there is little probability of a shift in the amount of grain moving to the CSRS from Montana and North Dakota. Thus, that the end result will be the status quo for long-distance markets.

Local Markets

A conceptual model was developed to help analyze the prospective pricing actions of barge and rail if the dams are breached (Table 10). The model assumes that railroads are price leaders in that the barge company will wait until the railroads have made their move before initiating a pricing strategy. It is speculated that the barge company will then react to the railroads pricing actions. The railroad industry is assumed to have two pricing options that they could logically

pursue.25 The railroads are currently estimated to handle about one-third of the wheat marketed in the Snake River draw area (Research Group, 1999; U.S. Public Use Waybill, various years). They could continue the status quo in retaining their share of the market or they could aggressively go after a significant increase in the rail market share. A moderate action was not considered because it did not seem very likely they would do something lukewarm in response to the dramatic changes proposed for the CSRS logistical system. The status quo for railroads is defined as increasing their rates by the amount of the increase in distribution cost – increase in

Table 10. Conceptual Framework for Analyzing the Pricing Behavior of Rail and Barge Assuming Rail is the Price Leader.

Barge Pricing Reaction to Rail	Rail Pricing Strategy	
	Aggressive	**Status Quo**
	(X Denotes Action of the Barge Reaction to Rail Pricing)	
Aggressive	**X**	
Moderate		**X**
Status Quo		**X**

truck cost, less reductions in barge rates. Aggressive pricing behavior resulting from the change in the economic environment would consist of maintaining the present level of rates and possibly changing the service level associated with those rates; e.g., 26- or 52-car volume requirements in an attempt to use the increased barge/truck rates to their competitive advantage.

Three possible reactions by the barge company have been identified for the two possible independent strategies that the railroads could implement. If railroads aggressively go after the market the barge company will have to compete by lowering their rates as much as plausible to stay as competitive as possible without losing money. They would do this in the case that the grain business at risk is important to the core business of the firm.

25 It is assumed that the two Class I railroads will, for all intensive purpose, act in concert in developing strategies. This does not mean that they will collude, but rather, there will be conscious parallelism.

There are two possible reactions to a railroad status quo strategy by the barge company, moderate and status quo itself. A moderate pricing strategy by barge would result if the status quo strategy by the railroad began to siphon off some of the barge market share as a result of slight changes in the competitive advantage of the two modes resulting from the newly established distribution costs in the two marketing channels. The second alternative is barge pursuing a status quo of the present rate structure. This could happen in the case that the traffic is not important to the company or there is no diversion of traffic from truck-barge to rail. The key to this analysis is to determine the likelihood of a rail strategy and the resulting barge pricing strategy.

It appears that the probability of the railroads pursuing an aggressive strategy to increase market share is relatively low. There are several reasons for this judgment. One, if the traffic was strategically important to the railroads it is likely that they would have implemented more aggressive strategies in the current market structure. Second, the revenue-to-full cost ratio is still below one in Washington origins and only slightly above for the Idaho origins. In short, the business is not profitable in the long-run, even after an increase in rail rate equivalent to the net increase in truck/barge rate (Table 11). Third, the barge company has a sizable margin for competitive adjustment in any pricing game that develops.

The more likely strategy that rails will pursue is the status quo. As mentioned before, this would mean increasing their rates by the net change in the truck/barge rate. The barge company's reaction to this would likely be a moderate reaction of lowering rates sufficiently to retain market share but not reduce the margin more than necessary.

A review of a simple comparative analysis of the distribution cost for the two distinct marketing channels reveals some points of interest that should be taken into account in the analysis (Table 12). Railroads are still not competitive with the truck/barge combination in all but one of the Washington counties. The results of the comparison are nearly the same for the Idaho counties.

Based on the current truck/barge and rail rate relationships, bushels in Grant county, Washington and Boundary and Kootenai counties, Idaho have existing competitive rail alternatives for reaching the PNW port system (Table 11). These three counties attribute 8 percent, or approximately 8.6 million bushels of the grain movements on the Lower Snake River. Beyond these counties, it appears from the evidence that little diversion of traffic will result from the breaching of the four dams on the lower Snake River. There are several supporting reasons for this conclusion. First, this traffic, even at increased rates, is not that profitable when compared to other alternatives for railroads. Furthermore, the R/VC ratios continue to fall below 1.0 the new scenario for all counties. Second, railroads would have to price very aggressively to be competitive, and because of the former reason cited, would likely choose not to. The barge company has a sizable margin, average $3.02/ton, that would be useful in retaliation against a move by railroads to capture a large share of the market. And finally, the truck/barge combination is still the lower cost alternative compared to the rail marketing channel for most of the territory in question.

Table 11. Change in Rail Wheat Rates Resulting from Increase in Trucking Costs and a Reduction in Barge Rates

	County	Existing Truck Costs	Alternate Truck Costs	Existing Barge Rates	Alternate Barge Rates	Truck/Barge Rates from Existing River Port	Truck/Barge Rates from Alternative River Port	Existing Rail Rates	Scenario* A Rail Rates	Existing Rail Revenue Cost Ratio	New Rail Revenue Cost Ratio
Formula Column Labels:		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Washington											
1	Adams	4.16	5.98	5.36	4.92	10.85	12.23	13.52	14.90	0.86	0.95
2	Asotin[2]	1.81	10.29	6.31	4.92	9.45	16.54	13.71	20.80	0.87	1.32
3	Columbia[2]	2.34	4.61	5.61	4.92	9.28	10.86	13.10	14.68	1.10	1.23
4	Franklin[1]	1.89	1.89	4.92	4.92	8.14	8.14	11.38	11.38	0.81	0.81
5	Garfield[1,2]	1.82	6.43	6.04	4.92	9.19	12.68	12.34	15.83	0.87	1.12
6	Grant[1]	7.03	7.03	4.91	4.91	13.27	13.27	12.58	12.58	0.78	0.78
7	Lincoln[1,2]	9.38	9.38	4.92	4.92	15.63	15.63	15.86	15.86	0.84	0.84
8	Spokane	5.75	9.30	6.04	4.92	13.12	15.55	13.52	15.95	0.80	0.94
9	Walla Walla	0.98	2.57	5.32	4.92	7.63	8.82	9.48	10.67	0.66	0.74
10	Whitman	2.34	8.85	6.04	4.92	9.71	15.10	10.64	16.03	0.65	0.98
Idaho											
1	Bennewah[2]	7.26	14.60	6.04	4.92	14.63	20.85	14.65	20.87	0.78	1.11
2	Boundary	15.35	18.46	6.04	4.92	22.72	24.71	16.36	18.35	0.85	0.95
3	Idaho	5.75	15.20	6.31	4.92	13.39	21.45	14.57	22.63	0.77	1.20
4	Canyon	18.53	18.53	4.76	4.76	n.a.					
5	Kootenai[2]	9.53	13.09	6.04	4.92	16.90	19.34	13.82	16.26	0.82	0.96
6	Latah	3.40	12.63	6.31	4.92	11.04	18.88	13.21	21.05	0.72	1.15
7	Lewis[2]	1.82	11.42	6.31	4.92	9.46	17.67	13.99	22.20	0.81	1.29
8	Nezperce	1.29	10.89	6.31	4.92	8.93	17.14	13.44	21.65	0.72	1.16
Oregon											
1	Wallowa[2]	6.42	11.64	6.31	4.92	14.06	17.89	14.31	18.14	0.72	0.91

*Railroads increase their rates by the amount of the increase in truck costs, less the decrease in barge rates; i.e., the status quo.

*H = (B-A) + (D-C) + G

[1]Barge Cost Estimated, [2]Rail Rates and Costs Estimated

Table 12. Comparison of Alternative Truck-Barge Costs (Rates) and Alternative Rail Rates from Selected Representative Origins by County for 0% Backhaul.

	County	Alternate Major River Elevator Destination	County's Percent of Snake River Grain Facilities Draw**	Alternate Truck Costs to River Elevator	Alternate Barge Rates	Alternate* Truck/ Barge Distribution Costs	Alternate Rail Rates	Alternate Truck/Barge Vs. Alternate Rail Difference
Washington								
1	Adams	Tri-Cities	7%	5.98	4.92	12.23	14.90	-2.67
2	Asotin	Tri-Cities	2%	10.29	4.92	16.54	20.80	-4.26
2	Columbia	Tri-Cities	4%	4.61	4.92	10.86	14.68	-3.82
4	Franklin	Burbank	1%	1.89	4.92	8.14	11.38	-3.24
5	Garfield	Tri-Cities	11%	6.43	4.92	12.68	15.83	-3.15
6	Grant	Kennewick	0%	7.03	4.91	13.27	12.58	0.69
7	Lincoln	Burbank	2%	9.38	4.92	15.63	15.86	-0.23
8	Spokane	Tri-Cities	8%	9.30	4.92	15.55	15.95	-0.40
9	Walla	Tri-Cities	7%	2.57	4.92	8.82	10.67	-1.85
10	Whitman	Tri-Cities	28%	8.85	4.92	15.1	16.03	-0.93
Idaho								
1	Bennewah	Tri-Cities	1%	14.60	4.92	20.85	20.87	-0.02
2	Boundary	Tri-Cities	3%	18.46	4.92	24.71	18.35	6.36
3	Idaho	Tri-Cities	5%	15.20	4.92	21.45	22.63	-1.18
4	Canyon	Hague Warner	1%	18.53	4.76	24.62		
5	Kootenai	Tri-Cities	5%	13.09	4.92	19.34	16.26	3.08
6	Latah	Tri-Cities	1%	12.63	4.92	18.88	21.05	-2.17
7	Lewis	Tri-Cities	0%	11.42	4.92	17.67	22.20	-4.53
8	Nez Perce	Tri-Cities	1%	10.89	4.92	17.14	21.65	-4.51
Oregon								
1	Wallowa	Tri-Cities	1%	11.64	4.92 4.92	17.89	18.66 18.14	-0.25

*Includes a handling charge of $1.33/ton for the extra handle at the river elevator.

**Source: *Snake River-Navigation*, pp. 56-58.

This previous analysis assumed no backhaul. The development of a significant backhaul market would support the pricing behavior predicted in a positive manner, effectively reducing the amount rails could increase their rates and the amount the barge industry would have to lower theirs. It would be expected that the market shares and traffic patterns would remain the same.

In addition, the previous analysis was based on the relationship between single car rail rates and truck/barge marketing alternatives. One plausible scenario that should be considered as a range for sensitivity in the rate and modal relationships is further employment, by local marketers, of a multicar shipment. Using current published rate spreads for Washington elevators the 26-car option is priced 1.66/ton or 4.5 cents per bushel below the single car rate, on average. Under this pricing scenario the revenue/cost ratios are more attractive, although they still fall short of the ratios offered by hauls from eastern Montana and North Dakota to PNW (Table 13).

Table 13. Changes in 26-Car Rail Wheat Rates Resulting From Increase in Trucking Costs and a Reduction in Barge Rates

	County	Existing Truck Costs	Alternate Truck Costs	Existing Barge Rates	Alternate Barge Rates	Truck/Barge** Costs from Existing River Port	Existing Rail Rates	Scenario* A Rail Rates	New Rail Revenue Cost Ratio
Formula Column Labels:		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Washington									
1	Adams	4.16	5.98	5.36	4.92	10.85	11.86	13.24	1.47
2	Asotin[2]	1.81	10.29	6.31	4.92	9.45	12.05	18.95	3.36
3	Columbia[2]	2.34	4.61	5.61	4.92	9.28	11.44	13.02	2.23
4	Franklin[1]	1.89	1.89	4.92	4.92	8.14	9.72	9.72	1.34
5	Garfield[1, 2]	1.82	6.43	6.04	4.92	9.19	10.68	14.17	1.92
6	Grant[1]	7.03	7.03	4.91	4.91	13.27	10.92	10.92	1.16
7	Lincoln[1,2]	9.38	9.38	4.92	4.92	15.63	14.20	14.20	1.25
8	Spokane	5.75	9.30	6.04	4.92	13.12	11.86	14.29	1.41
9	Walla Walla	0.98	2.57	5.32	4.92	7.63	7.82	9.01	1.13
10	Whitman	2.34	8.85	6.04	4.92	9.71	8.98	14.37	1.47
Idaho									
1	Bennewah[2]	7.26	14.60	6.04	4.92	14.63	12.99	19.21	1.58
2	Boundary	15.35	18.46	6.04	4.92	22.72	14.70	16.69	1.32
3	Idaho	5.75	15.20	6.31	4.92	13.39	12.91	20.97	1.73
4	Canyon	18.53	18.53	4.76	4.76	n.a.			
5	Kootenai[2]	9.53	13.09	6.04	4.92	16.90	12.16	14.60	1.43
6	Latah	3.40	12.63	6.31	4.92	11.04	11.55	19.39	1.66
7	Lewis[2]	1.82	11.42	6.31	4.92	9.46	12.33	20.54	1.72
8	Nezperce	1.29	10.89	6.31	4.92	8.93	11.78	19.99	1.86
Oregon									
1	Wallowa[2]	6.42	11.64	6.31	4.92	14.71	12.65	16.48	1.43

Single car to Multicar Rate=$1.66/ton, 4.5 cents/bushel based on published tariff spreads.

*Railroads increase their rates by the amount of the increase in truck costs, less the decrease in barge rates; i.e., the status quo. G=(B-A)+(D-E)+F

**Includes $1.33/ton for additional handle.

Note: [1]Barge Rate Estimated, [2]Rail Rate Estimated

Table 14 illustrates that potential does exist for additional traffic shifts from truck/barge to rail with the employment of 26-car rates. If railroads choose respond to the dam breaching with aggressive rate posture, by not making adjustments to current rates, substantial traffic shifts are possible. Net increases in the truck/barge rate would shift bushels from barge to rail for all counties in the Snake River draw area except Columbia and Franklin counties in Washington. Effectively shifting 95 percent of the current barge traffic to the rails.

Assuming railroads opt for status quo, increasing rail rates to maintain current modal rate spreads by increasing their 26-car rates to reflect any net increases in the truck/barge rate the potential for modal shifts diminishes. Results do indicate that under this 26-car rate scenario, Lincoln, Spokane and Whitman counties in Washington, Idaho county in Idaho and Wallowa county in Oregon shift from barge to rail, in addition to the counties that shifted under the existing and single-car rate scenarios. These five counties attribute 44 percent, or 54.3 million bushels, of the annual Snake River grain volume. Thus, as mentioned previously railroad pricing reaction to changes in the barge infrastructure is a critical component in assessing potential impacts on market flows and rate structures.

Table 14. Comparison of Existing and Alternative Truck/Barge Costs (Rates) vs. Single & 26-Car Alternative Rail Rates

	County	County's % of Snake River Draw**	Existing* Truck/Barge Rates	Existing 1-Car Rail Rates	Existing Estimated[1] 26-Car Rail Rates	**Existing T/B vs. Existing 26-car Difference**	Alternate* Truck/Barge Distribution Rates	**Alternative T/B vs. Existing 26-Car Rail Difference**	Alternate 1-Car Rail Rates	Alternate 26-Car Rail Rates	**Alternative T/B vs. Scenario A Rail Difference** Single-Car	26-Car
Washington												
1	Adams	7%	10.85	13.52	11.86	-1.01	12.23	0.37	14.90	13.24	-2.67	-1.01
2	Asotin	2%	9.45	13.71	12.05	-2.60	16.54	4.49	20.80	18.95	-4.26	-2.41
2	Columbia[2]	4%	9.28	13.10	11.44	-2.16	10.86	-0.58	14.68	13.02	-3.82	-2.16
4	Franklin[1]	1%	8.14	11.38	9.72	-1.58	8.14	-1.58	11.38	9.72	-3.24	-1.58
5	Garfield[1,2]	11%	9.19	12.34	10.68	-1.49	12.68	2.00	15.83	14.17	-3.15	-1.49
6	Grant[1]	0%	13.27	12.58	10.92	2.35	13.27	2.35	12.58	10.92	0.69	2.35
7	Lincoln[1,2]	2%	15.63	15.86	14.20	1.43	15.63	1.43	15.86	14.20	-0.23	1.43
8	Spokane	8%	13.12	13.52	11.86	1.26	15.55	3.69	15.95	14.29	-0.40	1.26
9	Walla Walla	7%	7.63	9.48	7.82	-0.19	8.82	1.00	10.67	9.01	-1.85	-0.19
10	Whitman	28%	9.71	10.64	8.98	0.73	15.10	6.12	16.03	14.37	-0.93	0.73
Idaho												
1	Bennewah[2]	1%	14.63	14.65	12.99	1.64	20.85	7.86	20.87	19.21	-0.02	1.64
2	Boundary	3%	22.72	16.36	14.70	8.02	24.71	10.01	18.35	16.69	6.36	8.02
3	Idaho	5%	13.39	14.57	12.91	0.48	21.45	8.54	22.63	20.97	-1.18	0.48
4	Canyon	1%	n.a.									
5	Kootenai[2]	5%	16.90	13.82	12.16	4.74	19.34	7.18	16.26	14.60	3.08	4.74
6	Latah	1%	11.04	13.21	11.55	-0.51	18.88	7.33	21.05	19.39	-2.17	-0.51
7	Lewis[2]	0%	9.46	13.99	12.33	-2.87	17.67	5.34	22.20	20.54	-4.53	-2.87
8	Nezperce	1%	8.93	13.44	11.78	-2.85	17.14	5.36	21.65	19.99	-4.51	-2.85
Oregon												
1	Wallowa[2]	1%	14.06	14.31	12.65	1.41	17.89	5.24	18.14	16.48	-0.25	1.41

Note: [1]Barge Rate Estimated, [2]Rail Rate Estimated

*Includes a handling charge of $1.33/ton - for the extra handle at the river elevator.

**Source: Snake River-Navigation, pp. 56-58.

0% Backhaul for Truck/Barge (T/B)

Short and Long Term Impacts

No distinction was made between long- and short-term impacts. The reason for this is the time required for the logistical system to adjust is very short. In fact, given the time to implement the breaching of the four dams, it would seem that much of the adjustment would take place prior to and during the breaching of the four dams. Thus, there is no real distinction between the short- and long-run.

SUMMARY AND CONCLUSIONS

The main conclusions, stemming from this analysis, are broken out in bullet form by the long distance market and local market:

Long Distance

- ✓ Prices for export grain are fixed at Portland by global competitive factors and the interior distribution costs cannot be shifted forward.
- ✓ Rail pricing in the long distance market is determined by factors other than the truck-barge supply chain.
- ✓ Barge/truck supplies a very small portion of the long distance market.
- ✓ Increased trucking costs will likely be absorbed by other economic agents; e.g., the building products industry.
- ✓ The end result is that no rail rate changes and no shifts in market share are expected. Furthermore, any change in increased distribution cost is expected to be born by the building materials industry and/or the barge industry.

Local Market

- ✓ Costs for trucking grain to river ports beyond the Snake River will most definitely increase in proportion to the increased distance.
- ✓ These trucking cost increases could possibly be tempered by the development of backhaul markets, although this seems unlikely in the near term.

- ✓ Rail movement is currently unprofitable to the railroads in the long run.

- ✓ Rail rates become only marginally profitable with increases equal to net changes in the truck-barge costs.

- ✓ Railroads have better opportunities for economic return from their equipment and crews, relative to the white wheat draw territory.

- ✓ Barges have a profit margin to play with in meeting future competition from the railroads.

- ✓ A possible strategy that will allow railroads to increase their market share is the increased shipper use of more efficient service packages - multicar shipments (greater than 25 cars per shipment), unit trains and shuttles (Appendix D).

Rail rates from the local drawing territory will increase as a result of increased cost of trucking. However, the evidence developed and presented herein strongly suggests that there will be little or no diversion of traffic from barge to rail as a result of the breaching of the four dams on the lower Snake River. This would seem to hold true for the long-distance as well as the local markets.

This is not to say that there will not be any impacts. Distribution costs will most definitely increase. Who absorbs those increases is conjecture. Suffice it say that someone in the supply chain will assimilate those increases.

APPENDIX A

Objectives and Associated Work Tasks

Objective 1: Identify the commodities to be included in the analysis.

A. Review commodity barge movements
B. Select significant commodities to be considered in the analysis

Objective 2: Delineate the area of study.

A. Shippers who use barge some or all of the time
B. Shippers who do not use barge but benefit from the competition resulting from the presence of barge

Objective 3: Identify and explain Portland pricing and logistical preferences for export grain B primarily wheat and barley.

A. Grain pricing
B. Logistical preferences

Objective 4: Rail pricing behavior and rates.

A. Identify current rate structure from origin territories to traditional destinations.
    (a) Shippers who use barge some or all of the time
    (b) Shippers who do not use barge but benefit from the competition resulting from the presence of barge
    (c) System optimization
    (d) Cost structure
    (e) Equipment availability
    (f) Role of efficiency of large shipments and turn-around time
    (g) Revenue to variable cost ratios

Objective 5: Truck pricing behavior and rates.

A. Differentiate between local and long distance truck services
B. Explain pricing behavior for local trucking based on the operational and economic environment
    (a) Hours of service rules
    (b) Primary versus secondary haul
    (c) Back-haul opportunities
    (d) Cost structure
    (e) Intramodal competitive environment

C. Existing local trucking rates

D. Existing long distance trucking rates
E. Potential impacts on the local and long distance trucking rates

Objective 6: Barge pricing behavior and rates.

Objective 7: Conduct an analysis of the impact on modal rate and modal market share of eliminating barge traffic on the Snake River.

Objective 8: Summary and Conclusions.

APPENDIX B

Characteristics for Wheat Originated from the Lower Snake River BEAs

	Tons	Avg Rate per Ton	Avg Cars/ Shipment	Bushels	Avg Rate per Bu.
1993	967,824	$ 10.73	14	32,228,539	$ 0.32
1994	1,188,993	$ 12.00	12	39,593,467	$ 0.36
1995	915,083	$ 13.19	10	30,472,264	$ 0.40
1996	2,042,154	$ 11.18	12	68,003,728	$ 0.34
1997	658,466	$ 14.11	18	21,926,918	$ 0.42

5-Year Averages:

Avg Tons/Yr:	**1,154,531**
Avg Bu/Yr:	**38,445,878**
Avg Cars/ShipAvment:	**13**

Source: U.S. Public Use Waybill, 1993 to 1997

APPENDIX C

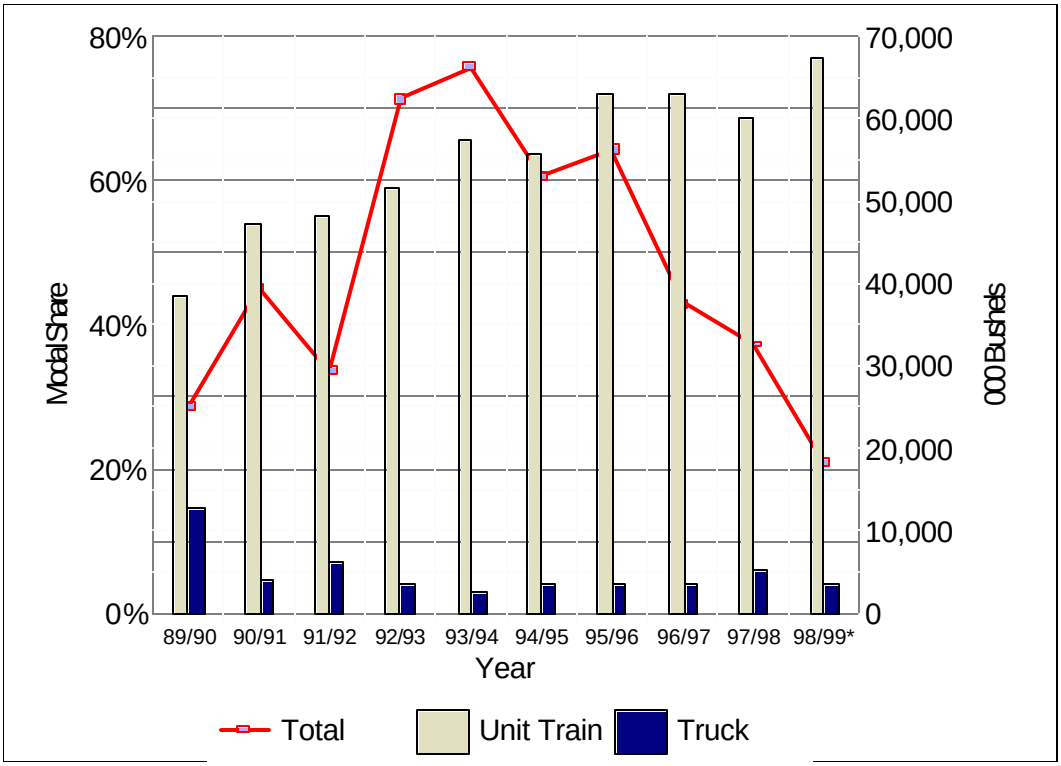

Figure 5. Wheat Shipments from North Dakota, by Mode

APPENDIX D

Potential Modal Shift from Truck/Barge to Rail Under Alternative Rail Pricing Behavior, for Local Market

Rail Rate Scenario	*Rail Posture*	Existing Truck/Barge	Alternative* Truck/Barge
Existing 26-Car Rail	*Aggressive*	52%	95%
Existing 1-Car Rail	*Somewhat Aggressive*	8%	79%
Alternative* 1-Car Rail	*Status Quo*		8%
Alternative* 26-Car Rail	*Status Quo*		52%

*Alternative Truck/Barge rate reflects the net increase in the truck/barge rate if dams on the Snake River are breached.
As noted previously, in the base case - existing truck/barge and existing single-car rail - 8 percent of the bushels shift from barge to rail, this is included in the potential shift total for each scenario.

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