POLICY PENNINGS

By Daryll E. Ray

Relaxation of the Jones Act could help Midwest maintain hold on Southeast U.S. grain markets

In her research on the impact the relaxation of the Jones Act might have on the dependability of moving grain to the southeast United States, University of Tennessee graduate student Tammara Cole found that hog and poultry producers encounter two major problems in obtaining grain from the Midwest. The first is the cost of transportation and the second is reliability of the delivery schedule. While North Carolina is served by two major railroads most of its hog and poultry producers are served by one or the other of the two railroads. Up to now, for the majority of the producers, there hasn't been an alternative transportation option. As a result, those industries are captive customers subject to both the individual railroad's rates and delivery schedule. Ms. Cole found that "during times of high demand, the railroads tend to serve customers who have another shipping alternative first in order to retain their business." Captive customers like the North Carolina grain users may not be given top priority even though the delivery schedule might be crucial to them. In the Midwest where barge traffic is an alternative, railroad rates are more competitive than they are for North Carolina livestock producers.

Under the guidance of Drs. Daniel De La Torre Ugarte and Burton English, Ms. Cole calculated and compared the rates being charged for rail transportation, maritime transportation from the Gulf or the Great Lakes with a relaxed Jones Act that would allow the use of foreign vessels for shipments between U.S. ports, and maritime transportation for bringing grain in from South America. The possibility of maritime transportation is a recent development made possible by the development of a grain shipping, receiving and storage facility in the Port of Wilmington, North Carolina. The first delivery of 180,000 tonnes of soymeal is scheduled to coincide with the completion of the new facility.

In the study Ms. Cole looked at month by month comparisons for the 2000 and 2001 crop years for transporting corn from four Midwest states by rail as well as maritime transportation from the Great Lakes port of Toledo, the Gulf port of New Orleans and the Argentine port of Buenos Aires. To calculate the maritime transportation she calculated costs based on the use of lower cost foreign vessels. She calculated scenarios using actual data as well as scenarios in which the price of fuel and/or corn would change. For the livestock producers to gain some negotiating leverage with the railroads they need to have a viable alternative means of bringing grain into their facilities.

"Overall, results indicate that with the construction of a grain handling facility at the Port of Wilmington, South American corn could become a least cost alternative for some months out of the year given the right market conditions. The implementation of this facility will offer the livestock industry an economically viable source of corn." Ms. Cole wrote. This conclusion is confirmed by the recent arrival of feed in the Port of Wilmington from South America. At present in the absence of the relaxation of the Jones Act the receipt of grain from the Great Lakes and the Gulf is not an economically viable alternative. However, the receipt of South American grain via a maritime route may give the livestock producers some leverage in negotiating price and reliability with the railroad that serves that area.

The results of the research do not give the maritime route a clear cost advantage. While the researchers do not expect maritime imports from South America to make up a large share of the grain needed by North Carolina's hog and poultry producers, they do expect that the producers will keep maritime imports as a level that will allow them to step them up in times of local shortages and lack of availability of delivery by the railroads. Jimmy Kissner, President of Wilmington Bulk LLC said, "From a risk standpoint, our animals need to eat every day, even when rail cars are delayed in the Midwest or stuck behind a bridge that is flooded out."

Within this risk management strategy, the Great Lakes route could be as good an alternative as South America but the Jones Act makes the Great Lakes route economically infeasible. Even with the relaxation of the Jones Act to allow the use of foreign vessels between U.S. ports, the maritime shipment of Great Lakes region corn only competes well with Midwest grain delivered by rail under certain circumstances and time frames. In summary, with the Jones Act, shipment of U.S. grain by way of the Great Lakes costs too much and with the relaxation of the Jones Act, the maritime shipment of Midwest grain via the Great Lakes would be no panacea.

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