



Comments on the U.S. Army Corps of Engineers' Upper Mississippi River-Illinois Waterway System Navigation Study

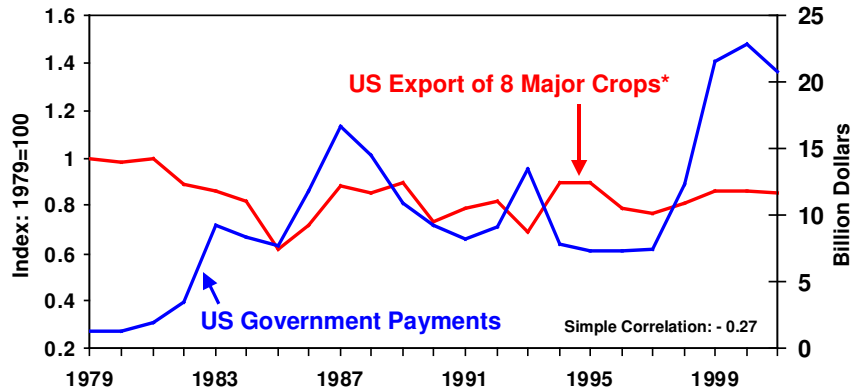
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My name is Mark Muller. I am the director of the Environment and Agriculture Program at the Institute for Agriculture and Trade Policy. IATP was founded in 1986 with the explicit purpose of promoting policies that increase farm income.

My comments pertain to three points. First, US commodity exports have been flat for the past two decades and longer locks may not be a sound federal investment in the Midwest farm economy. Second, despite the restructuring of the Corps study since the whistleblower event, the study is still based on inappropriate assumptions. Third, cheaper and more immediate remedies to traffic congestion have not been properly considered.

US agriculture is in a time of crisis. Since the 1996 farm bill, commodity prices have plummeted, agricultural subsidies have skyrocketed, and agricultural exports have remained stagnant.

Exports and Government Payments



After skyrocketing government payments following the adoption of the 1996 Farm Bill

- US export volume for 8 major crops remained on flat trend

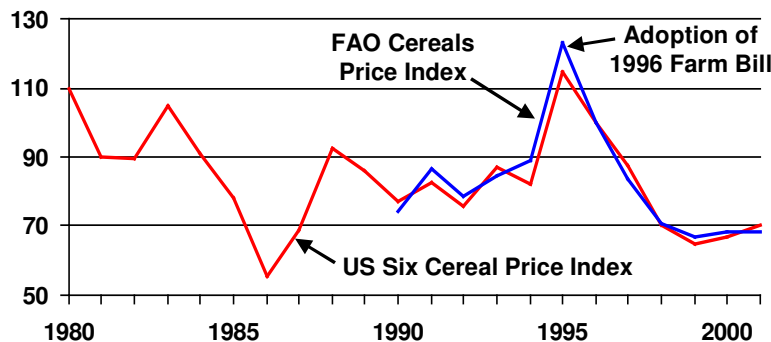
*Adjusted for grain exported in meat



The philosophy behind the “freedom to farm” legislation was that government policies that supported fair commodity prices were pricing our farm products out of foreign markets. If the government allowed commodity prices to fluctuate in accordance with market demand, US prices would drop to a more competitive level. Our ability to produce grain and oilseeds at such low prices would drive foreign competitors out of business, thereby securing new foreign markets and allowing the price to rise again.

The past seven years have demonstrated flaws in this argument. The first was the belief that we could out-compete foreign competitors by lowering US commodity prices. Since 1996, US commodity prices have dropped dramatically, but world prices have followed suit. The second problem is that the low prices have not spurred our foreign competitors to lower production. Brazil is actually expected to surpass the US in soybean exports this year. Many experts believe that Brazil and Argentina can increase their export by another 50 percent within the next two decades.

US Six Cereals and FAO Cereals Price Indices



After 1996

- US prices plummeted
- World prices followed



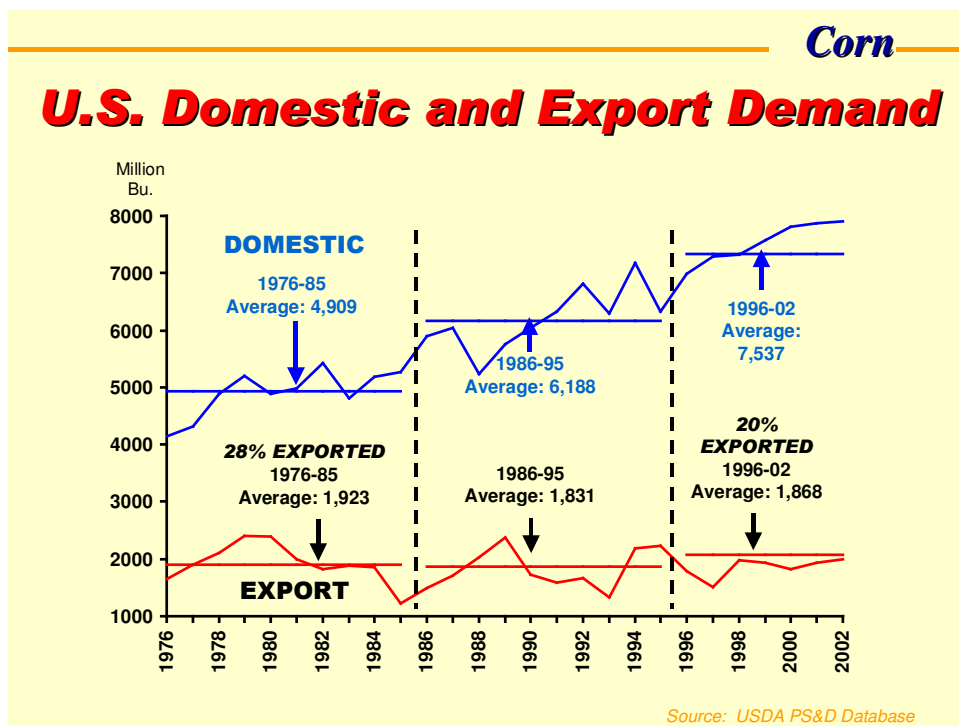
The Corps' Mississippi and Illinois Rivers navigation project is a component of the dominant agricultural belief that increasing exports is the best method of rejuvenating the Midwest farm economy. The Corps expects exports to increase and induce greater river traffic over the next 50 years. The subsequent congestion could cause transportation costs to rise significantly. Expanding locks on the Mississippi River system could reduce the increase in transportation prices by up to ten cents a bushel. The theory is that a more efficient transportation system will provide a comparative advantage to US farm products.

The problem with this philosophy is that world commodity prices are not independent of US commodity prices. A recent report by Daryll Ray at the University of Tennessee's Agricultural Policy Analysis Center demonstrates that world prices follow US prices. It's likely that any reduction in transportation costs for US farmers will simply get factored into the world market price, not providing any advantage to US farmers.

The driving force behind profitability in US agriculture has been the domestic market. While exports have stagnated, domestic use of US grains and oilseeds has increased

dramatically. The industrial use of these crops has opened up new markets with tremendous potential. Ethanol, biodiesel and biomass production are all expected to become larger components of domestic energy production. Researchers are also continuing to find new uses for crops. Polymers are currently being created out of corn that are increasingly competitive against oil-based plastics.

The confluence of these trends – more value-added opportunities in the domestic market and an increasingly competitive and unprofitable world grain market – raise questions as to whether expanding locks is the best investment in the Midwest farm economy. An ethanol plant provides a five to ten cent premium to local corn prices. Wouldn't the Midwest farm economy benefit more from incentives that foster local value-added processing rather than the export of unprocessed commodities down the river?



In addition to this general concern about US policies that are designed to promote exports rather than value-added processing, we have two specific concerns about the Corps study.

1. **Widely discredited traffic forecasts.** Several independent economists who have reviewed the Corps traffic forecasts have been sharply critical of the methodology. Most recently, Daryll Ray was commissioned by the Corps to provide an independent technical review. In his assessment, Dr. Ray stated that the most appropriate forecast of future agricultural exports would be a continuation of the flat trendline with a probability band around the trendline.

Yet Dr. Ray is far from the first person to voice this concern. Dr. John Bitzan and Dr. Denver Tolliver from the Upper Great Plains Transportation Institute provided a Corps-commissioned critique of the forecasts in 2000. Independent critical reviews have also been voiced by the National Academy of Sciences, a Northeast-Midwest Institute panel of economists and Iowa State's Dr. Phillip Baumel.

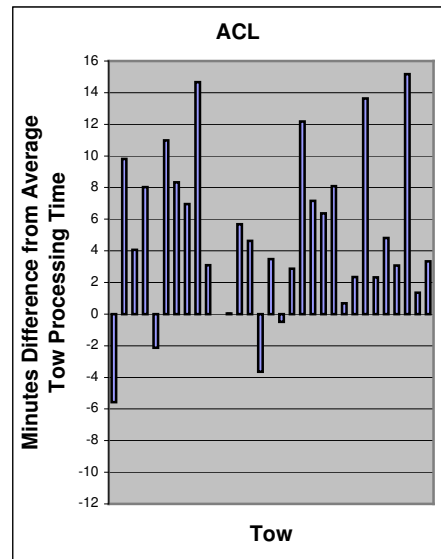
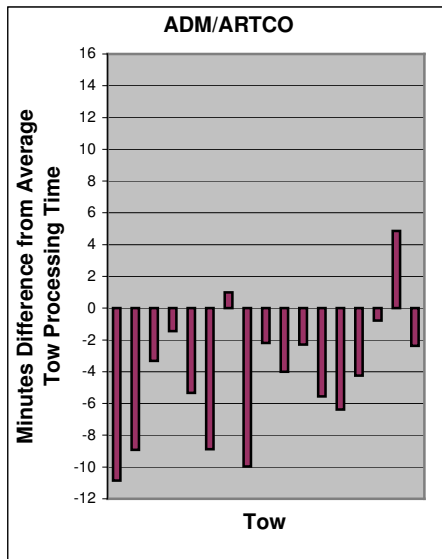
Instead of implementing the suggestions provided by the National Academy of Sciences, the Corps has developed a series of "scenarios." Four of the five scenarios show significant increases in exports over the next 50 years. No probabilities or other data are provided, so policy makers have no method of evaluating the likelihood of the various scenarios.

US agricultural exports have been on a flat trendline for the past 24 years. The obvious method of evaluating future events with a high degree of uncertainty is to extrapolate the current trendline and develop bands of probability around that line. This would provide policy makers and the public with data that are understandable and transparent, rather than the ambiguous nature of the scenarios. Trying to forecast exports 50 years into the future is nearly an impossible task; to tackle the issue without providing probabilities is pointless.

- 2. Inadequate evaluation of the "without project" possibilities.** Extending or replacing locks is expensive. Half of the cost of lock upgrades is paid for by the towing industry through the barge fuel tax. An economist at an Iowa farmers' cooperative expressed concern that, if the very optimistic traffic forecasts did not come to fruition, this may necessitate an increase in the barge fuel tax to replenish the Inland Waterways Trust Fund. This tax would be passed on to grain companies and subsequently to farmers.

Lengthening locks also takes several years. This means that it will likely be well over a decade before farmers receive any of the competitive benefits that may result from longer locks.

Several nonstructural opportunities have the potential to provide significant, and nearly immediate, benefits. The use of winches may reduce lockage time by more than 30 minutes. Proper crew training has also been identified as a method of improving lock performance. IATP recently compiled data on tow performance by different companies. While there are many factors beyond the control of the crew, patterns have emerged. Tows owned by Archer Daniels Midland, for example, consistently lock through in less time than average, while tows owned by American Commercial Lines consistently take more time than average. This discrepancy indicates that there are practices a company can incorporate that improve lockage time. These opportunities, which provide truly unsubsidized transportation savings, should be exhausted before huge infrastructure projects are implemented.



Source: US Army Corps of Engineers Navigation Information Connection and US Coast Guard Vessel Database

Systemic traffic management also has great potential to provide benefits. A report by the Center for Transportation Studies at the University of Missouri-St. Louis recommended further exploration of an appointment system. Excessive lockage time fees and scheduling also need further exploration.

In closing, I would like to state that IATP does not take a position advocating any of the alternatives provided by the Corps. The confusion surrounding the traffic scenarios and the lack of research on immediate, low-cost nonstructural alternatives results in unreliable study findings. We urge the Corps to go back to the recommendations of the National Academy of Sciences and reassess the study process. If billions of dollars are to be spent, farmers and the public should be assured that benefits will truly result.

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