

UPPER MISSISSIPPI RIVER/ILLINOIS WATERWAY SYSTEM NAVIGATION STUDY
ECONOMIC COORDINATING COMMITTEE
MINUTES OF MEETING
 JANUARY 20, 1999
 CHICAGO, ILLINOIS

The Upper Mississippi River/Illinois Waterway Navigation Study Economic Coordinating Committee met in Chicago, Illinois on 20 January 1999. A list of attendees is attached. Paul Soyke called the meeting to order at 9:00 am. The meeting minutes from the May 1998 meeting were approved without corrections. Following introductions of Rich Manguno, the new Economic Work Group Team Leader, and Gary Loss, new Study Manager, the meeting proceeded according to the agenda.

Rich Manguno said that the economics work group effort has been on developing demand curves since the last ECC meeting. Dave Tipple (Assistant Study Manager) gave a general study status. The Corps is looking to bring closure on appropriate designation of demand curves by the end of February 1999 for use in the final formulation this year. The March-October 1999 time frame will be the evaluation of various alternative plans and interaction with the GLC and public. The following is a tentative schedule for meetings and tasks, which is still being discussed within the Corps:

Feb 99	Finalize Demand Curves
Mar-Jul 99	Run Econ Model for Without -Project Condition and Alternative Plans
Mar-Sep 99	Run Environ. models and RED model for Without-Project Condition and Alternative Plans.
17-18 May 99	GLC Meeting on economic analysis for initial NED Plan and other evaluations completed to date and to receive their input/comments
Jul/Aug 99	Public Meetings on alternative evaluations to date
16-17 Aug 99	GLC Meeting on alternative evaluations to date and public meeting input, and to receive their input/comments
Aug-Sep 99	Study Team and Corps selection of a tentative plan
Oct 99	GLC Meeting to discuss Corps' selection of tentative plan
Oct 99 - May 00	Write, review, and complete draft Feasibility Report and draft Environmental Impact Statement
Jun - Aug 00	60-day Public Review of draft report and draft EIS
Aug -Dec 00	Revise and finalize report
Dec 00	Study Completion, Division Commander's Public Notice, and report and EIS sent for Washington-Level Processing

Dave indicated that the currently approved schedule for study completion is December 1999, but the Corps is discussing the need to extend the completion to December 2000 based on the current study status and the demand function refinement. Chris Brescia, MARC 2000, indicated that he would rigorously object to such an extension and likely draft a letter to that effect. It was suggested that he may also wish to bring this objection up at the 16 February GLC meeting. Chris Brescia also indicated the need for a product in time for including language in a Water Resources Development Act (WRDA) of 2000.

DEMAND CURVES

Mark Burton (Marshall University) gave a presentation on demand curve work that he is undertaking for this study. Attached are copies of Mark's slides. Sandor Toth (Criton Corporation), under contract with MARC 2000, was on conference phone for this presentation. Attached is a paper titled A Review and Critique of Upper Mississippi Barge Freight Demand Curve Assumptions prepared by Criton Corporation.

Mark stated his goals of a thorough review of the conceptual framework used to calculate NED benefits in the Upper Mississippi River Navigation Study. Identify additional model input requirements, and to supply the additional refined model inputs for non-grain commodities. Mark will also provide written documentation for the treatment of grain in the SEM model. He feels that the previous characterization of demand for grain transportation as elastic is appropriate. Mark's approach is to use available rail data to estimate market-specific derived demand curves for rail transport. Use rail demands and information describing the relationship between the demand for rail and the demand for barge to make inferences about the shape of the barge transport demand curves, which will be commodity specific. We have barge rates developed from costing models, but these rates are not appropriate for use in this type of estimation. Mark said that he would use information about short-run/long-run relationships to further modify barge demands to reflect the long run. Long run demand curves for transportation service will always be more elastic than short run demand curves. Mark's demand curves can't be immediately picked up and dropped into the current model. Mark will be working with Jeff Marmorstein (St. Louis District) to provide final commodity specific demand curves (or N values) to use in the SEM model. Mark is confident that he will develop reasonable and defensible demand curves.

Sandor Toth asked what Mark was doing with commodity prices. Mark said that the variation in commodity prices at origin and destination would be included in his analysis.

Sandor Toth and Chris Brescia said that everything we have been talking about is non-grain, how about grain? Mark said that empirical literature shows demand for transportation of grain to be elastic. Mark will provide a written case working through grain.

Jim Hall asked about elasticity of the second largest commodity on the River (coal). Mark indicated that coal would be less elastic than corn, but deregulation has the potential to change this. Jim Hall indicated that 60% of shipments on the Ohio River are coal. At this time they are being considered totally inelastic. At some point Ohio River projects should be compared on the same basis with Upper Mississippi River projects. Jim Hall said that there was a large section in recent Wall Street Journal on the deregulation of coal.

In the short run shippers can use competing carriers on the same transport mode, they can use another transport mode, or ship to another location or market. In the long run firms can relocate or cease production. Mark Burton said that the Waybill Carload data is his source of price information. If anybody has superior price data please provide it. Dick Lambert (Mn.) and Sandor Toth asked about economies of scale. Mark said that economies of scale don't apply to a specific market. You are producing the most that you can at the least cost, then figuring out where you are going to sell the commodity. In response to a question from Jim Johnson (Ill.), Mark said that producers are producing more than just enough coal to meet contracts, producers go out and try to sell the remaining volume.

Sandor Toth said that the traffic forecast is bias. New industry/new commodities moving on the river in the future are not captured. He said with respect to plant relocation, how about plants relocating from elsewhere to the Upper Mississippi River Basin. Chris Brescia said that the grain industry finds it difficult to understand why grain 50 miles from the River is as elastic as grain further from the River. Also the grain industry looks at grain in the gulf as increasing.

Paul Soyke asked that everyone look at Sandor Toth's paper and Mark Burton's presentation and to make comments. Sandor stated that you couldn't assume linear or quadratic shape for demand curves for grain. Paul Bertels questioned Mark Burton's conclusion that line haul capacity increases can be achieved without increases in rates. He asked what the potential was for any new capacity taken by commodities other than grain. Mark's work was not commodity specific. Doubling line haul capacity over the time period was the basis for the work. Paul Bertels asked about terminal capacity. Mark said that there are lots of other places that grain could go. As demand grows you can move away from the terminal capacity constraint. The terminal problem is not as large as it may seem.

Chris Brescia said that all the issues are to the detriment of barge. Jeff Marmorstein said that that was not true, we were much more evenhanded than you suggest. Several questions on the study schedule followed.

Jack Carr will send out copies of slides from Mark Burton's presentation to all economic coordinating committee members for comment.

Jack Carr
Regional Economist.

ATTENDANCE LIST
ECONOMIC COORDINATING COMMITTEE MEETING
JANUARY 20, 1999 CHICAGO ILLINOIS

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