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7-19-1979

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### Recommended Citation

Vollmers, A. Clyde, "A Grain Marketing Alternative" (1979). *Economics Commentator*. Paper 136.  
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# Economics Newsletter

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No. 138

July 19, 1979

## A GRAIN MARKETING ALTERNATIVE

by

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The price South Dakota farmers receive for their grain is dependent upon many factors. One is the efficiency of the grain-handling and transportation system. While rail abandonment, car shortages, and deteriorating highways currently impede the efficient marketing of grain, technology is available which can partially alleviate these problems.

In other states, sub-terminal elevators capable of loading unit trains have stabilized the grain marketing process while increasing the prices received by farmers. South Dakotans are fortunate to be able to observe those marketing networks because while they have helped strengthen grain prices, poor planning, design, and implementation have restricted the potential price increases. The degree of thoughtful attention which South Dakotans pay to the design of their sub-terminal elevator, railroad, and highway system will be a major determinant of how smoothly grain is marketed in the future and the resulting grain prices.

There are three factors which should be considered in designing a regional grain-marketing system: regional cooperation, general location and specific location.

### Regional Cooperation

Presently, South Dakota is served by many small- and medium-sized elevators which compete with each other for farmers' grain. The higher the percentage of these elevators which participate in the design, investment and implementation of the system, the greater the chance of regional acceptance and a more fully utilized facility.

Cooperation means reducing or eliminating competition even though competition is normally looked upon very favorably because it reduces farmer's costs. But for the sub-terminals, competition reduces the potential price increases due to the extensive volume of grain required to efficiently operate a sub-terminal. Cooperation must also extend beyond the elevator and into the general community. An efficient marketing process will result in a higher farm income which will benefit all communities in a region. The costs of excess capacity will also extend to all communities.

### General Location

Secondly, the long term success of the sub-terminal depends on its location and it is in this area that careful planning and analysis is so vitally important.

(1) A careful analysis must be made to determine if there is enough grain available to justify and support a sub-terminal. In portions of South Dakota, such as dry-land wheat areas, grain density may not be great enough to efficiently operate a sub-terminal.

(2) A railroad-based sub-terminal may not be needed if alternative transportation services, such as barge loading facilities, are available in the region. In fact, avoiding duplication may allow more efficient use and result in higher prices to farmers.

(3) Prospective sub-terminal builders should work with the personnel of the State Rail Planning Department to insure that it is located on a line which is or can be included in the State's long term rail system.

(4) Existing larger facilities should be carefully evaluated to determine if they can be modified to load unit trains. South Dakota probably has enough elevators which can be upgraded to load unit trains so that no new facilities need to be built.

#### Specific Location

The long term viability and future expansion potential of a sub-terminal is dependent upon its location. Following are some of the many factors which need to be considered in selecting a specific site or in expanding an existing elevator to load trains.

(1) To prevent air and noise pollution and traffic congestion problems, a new facility should be located outside of town; and before expanding an existing facility, potential pollution problems should be carefully analyzed.

(2) A sub-terminal should be located near major highways to facilitate the inbound flow of grain. But the terminal track should not cross a highway and block traffic when loading grain.

(3) The ideal sub-terminal location is a narrow, mile-long site which allows the loading of trains with a minimum of switching. In converting an existing elevator to load trains, various track lengths and designs will suffice but shorter lengths are usually less efficient.

(4) A train loading facility uses electric motors which total over 1600 horse power. Thus adequate electrical power is mandatory.

#### Summary and Conclusion

An efficient and effective marketing system comprised of a railroad and highway system serving sub-terminal elevators can reduce marketing costs to South Dakotan farmers and thereby raise farm prices. However, South Dakotans are responsible for the efficiency and effectiveness of the system through cooperating in proper design, investment, and implementation. We're at the crossroads and the choice is ours.

2500 printed for educational purposes at an estimated cost of 2¢ each

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