OUR WOBBLY RATE STRUCTURE

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By reason of united action, Florida's citrus industry has attained two major objectives during the past year. Through new State laws, effectively administered by the Florida Citrus Commission, it has accomplished the standardization of grade and pack, and has made a good start on advertising. It is now moving toward control of distribution through a new Federal marketing agreement, and toward the expansion of our marketing territory through revision of our out-worn rail freight rate structure.

The hodge-podge of freight rates which now constitutes Florida's citrus freight rate structure (apparently based solely upon the principle of charging all the traffic will bear) is the greatest remaining handicap to the intelligent distribution and marketing of Florida's chief product, tending, as it does, to restrict our sales territory to those markets reached by low water and truck rates or competitive "bargain day" all-rail rates.

This statement has confirmation in a recent bulletin of the Growers and Shippers League of Florida, which shows that we are placing 64% of our citrus in territory containing only 30% of the population; that 14% more goes into territory containing 19% of the population, and that territory containing more than half the population of the country receives only 21% of our fruit. Why? Because freight rates practically prohibit the placing of Florida fruit in many markets which should be reguarly supplied. Low water and competitive rail rates to the eastern seaboard naturally attract an ever-increasing volume of business to that territory; whereas the high rates to middle and far western points discourage shipments in that direction.

Apparently the initial rail lines serving Florida have never acquainted themselves with that No. 1 principle of merchandising, i. e., that volume of business can always be increased by lowering costs. They still think they can make a lot of money by collecting high freight rates, regardless of the steadily diminishing volume of business, as these high rates force producers to seek and develop other methods of transportation. The initial lines have so far never shown intelligent interest in the development of the industry, as a direct means of increasing their tonnage. There has been no apparent willingness to cooperate with the industry by providing the sort of transportation service necessary to the industry's normal expansion. On the contrary, they have fought every effort made to secure a revision of rates that would enable Florida to regain the advantage of her nearness to the country's markets—to which she is entitled.

In fact, from the viewpoint of the average Florida producer, the railroad attitude might be summed up in the following words: "We own the means of transportation. If you fellows want to get your products to market you must use the facilities we offer, and at whatever rates we think the traffic will bear."

How different has been the attitude of the initial lines serving California. They realized the possibility of developing a vast potential tonnage in that territory, provided freight rates could be lowered enough to permit the competitive delivery of California's product *in Florida's natural trade territory*, east of the Mississippi. What they did about it is graphically illustrated in the following table of comparative distances to the ten auction markets, from Los Angeles and from Lake Wales, respectively, together with the rates (expressed in cents per car mile and in mills per ton mile) as they are paid by California and by Florida for rail transportation to those markets:

This table gives the mileage average 2677 miles from California to the ten auction markets, as compared with 1193 miles to the same markets from Florida. Each box of California fruit travels an average distance of 100 miles to market to every 45 miles for Florida fruit. Although Florida is only 45% as far from the country's principal markets as California, we do not enjoy proportionately lower transportation costs, per box. On the contrary we pay about one-half more freight per car mile and per ton mile than does California. Even our water rates to New York, Baltimore, Philadelphia and Boston (which look low by comparison with rail rates) are higher per mile and per ton than the all-rail rates paid by California for transportation across the continent.

The railroads serving California, by fixing their freight rates at levels far lower per car mile and per ton mile than those of the railroads serving Florida, have made possible the development of California's citrus industry, with resulting profit to both that industry and themselves. But Florida's citrus industry has "just grown," like Topsy. Picture in your own mind what it might have done with the same degree of intelligent co-operation from its own rail lines.

A quotation from testimony given by witness Kirkland in Florida Complaint Case, Docket 16939, in 1925, furnishes more light on this subject. He testifies: "The railroads established rates to the Atlantic Seaboard to assist the California growers in meeting Florida competition, as well as foreign competition, and made those rates the maximum for the entire intermediate territory. Their rate was made the same to any point just east of Denver and on, and north of the Ohio and Potomac. Those rates were made without regard to the cost of transportation. It was entirely for the purpose of meeting market competition."

What a break that was for California; and what a blow to Florida! In effect, it moved the citrus groves of California half way across the continent; right next door to the great centers of population that were Florida's natural trade territory. Florida thereby lost her geographical advantage.

But it did more than that! Mark well that California's rate is practically the same to *any* point east of the Mississippi, except Florida. It costs no more to ship to Portland, Maine, than to Kansas City. The rate is so elastic that it stretches out, making the freight cost practically the same to every market. It follows that California can set a price on a car of fruit and can hold out for that figure in every market east of Denver, as the car travels toward the Atlantic, because no additional freight charges are piling up as the car moves further and further from the point of origin.

Contrast this with the difficult position of the Florida shipper. From Florida the freight rates to the lay mind are practically a string of locals. They are non-elastic. Every time a car is moved an additional freight charge is assessed. This system invites dishonesty in the buyers. They take advantage of the ever increasing freight charge as the car moves further from Florida, not only in threatening rejection of cars purchased, but in making their offers when cars reach

	Miles		Cents per Car Mile			Mills per Ton Mile		
From:	Calif.	Fla.	Calif.	Fla. One	Two	Calif.	Fla. One	Two
To:								
New York	3127	1188	16.48	28.49	20.15	9.15	15.83	11.20
Baltimore	2959	1003	17.42	30.87	23.87	9.67	17.15	13.26
Philadelphia	3036	1097	16.97	29.54	21.82	9.42	16.41	12.12
Boston	3240	1417	15.90	26.68	19.94	8.83	14.92	11.02
Pittsburgh	2687	1265	19.18	27.32		10.65	15.18	
Cleveland	2569	1272	20.06	28.74		11.13	15.41	
Detroit	2521	1279	20.44	27.87		11.34	15.48	
Chicago	2231	1269	23.10	27.80		12.82	15.45	
St. Louis	2033	1124	25.35	29.15		14.06	16.19	
Cincinnati	2369	1012	21.75	29.88		12.07	16.60	
Average	2677	1193	19.6	28.6	21.4	10.9	15.8	11.9

Note: The columns headed "Two" under Florida list the "bargain day" all-rail competitive rates to the four seaboard auction markets.

them on a "price arrival" basis. They know that if the car is moved on to the next market, the additional freight charge will offset the allowance or the lower purchase price they offer. As a result they usually succeed in chiselling the price down, at the producer's expense.

Under this system, the railroads serving Florida not only charge the producer a much higher rate per mile and per ton for transportation, but they are also the direct (although perhaps unwitting) cause of the loss to him of part of the honest sale value of his product. How many millions of dollars this has cost Florida's growers it is impossible to compute, but anyone familiar with the operation of the system knows the loss to be tremendous.

The Florida grower can never hope to receive the full value of his product under this sort of a freight rate system. Florida's producers can never compete on an equal basis with California in the country's markets, and particularly in the mid-west (which is now partially closed to us because of high freight rates) until we secure a new freight rate structure similar in principle to the system enjoyed by our western competitor.

To secure such a rail rate structure is the objective toward which a united industry is now moving. A lowering of rail rates into midwestern territory will, of course, be a help, but if and when the initial lines serving Florida comprehend their true relationship to Florida's chief industry, they will sit down around the table with the industry's leaders and work out (in the spirit of true partnership) a completely new freight rate structure, based upon zone rates, in a very few widening circles to main diversion points, with a single fixed minimum charge per box to any and all points beyond. Thereby both the rails and the producers will profit; the rails by increased volume of business; the producer by an intelligently designed, elastic system of rates that will aid him in securing the honest value of his product from his dealers, and in distributing Florida citrus more evenly over a much wider territory than is now available to him.

How wobbly our queer rate structure is fast becoming is well illustrated by the "bargain day" rates applicable to four eastern markets only, which were put in effect by the Florida initial lines December 12, 1935, in a desperate attempt to regain some portion of the steadily increasing tonnage handled by boat. Fifty-five per cent of the total shipments from Florida during the period, September 20 to December 11, 1935, has moved by boat! No wonder the rails had the jitters. So the following "bargain day" all-rail competitive rates were made, effective only on boat sailing days—Mondays, Thursdays, Fridays and Saturdays. The rates given are from Lake Wales.

To New York, Baltimore and Philadelphia 60c per box, as against the *regular* all-rail rates of 85c to New York, 77c to Baltimore and 81c to Philadelphia. The "bargain day" rate to Boston is 71c; other days 95c. These *regular* rates are still charged to the unfortunate shipper who so far forgets himself as to start a car to either of these markets on a Sunday, Tuesday or Wednesday. Perhaps this funny schedule was designed to inject a humorous incident into an otherwise depressing situation.

Another instance is the railroad's handling of the annual effective date of certain so-called emergency rate reductions. Last season the usual 12 cent *reduction* was not made until Nov. 11th—all shipments moving prior to that date paying that much more. Our wobbly rate structure is one thing one year and something else again the next! It is subject to change without notice at the will of the carriers. This sort of uncertainty is not conducive to that mutual feeling of confidence which is the only foundation upon which shipper and carrier can work together for the ultimate advantage of both.

Another illustration of the "opportunist" method of altering our rate structure is the rates finally published by the carriers, into southern territory—about all the business into that territory having been previously lost to the trucks. For several years the railroads had turned a deaf ear to the pleadings of the industry to lower their rail rates into that territory as the only possible means of preserving a semblance of orderly distribution of fruit through the regular channels of trade. They claimed they were unable to do so.

But after the business had been lost (with plenty of loss to the industry as well), the railroads suddenly discovered, in January of the season 1931-32, that a 25% reduction of freight charges into this territory was not only possible, but advisable. This was solely for the purpose of meeting truck competition into southeastern territory, extending to Atlanta, Birmingham, Montgomery and Nashville. The following season they again reduced their rates to meet truck competition as far north and west as Montgomery by 35%, making a second zone beyond that as far as Nashville and Knoxville, to which a 25% reduction applied, at the same time reducing the minimum carload in railroad owned ventilated box cars to 250 boxes.

The Growers & Shippers League tried to get the carriers to reduce the minimum to 200 boxes and to further reduce the rates, but it was not until this season that the rails were finally convinced of the wisdom of this further reduction into southern areas, which is now 50% of standard rates to zone one (nearest Florida), 35% to zone two and 15% to zone three, with a minimum of 200 boxes.

This is a move in the right direction. It is impossible for dealers in many small cities to advantageously handle a car containing as much as 400 boxes of fruit, but this is still the minimum everywhere except in southern territory and in the far Northwest (which is covered by the only blanket rate in Florida's rate structure) and requires a minimum carload of 360 boxes.

It was only a few short seasons ago—during a hard year of very low prices—that a few large shippers appealed to the Florida initial rail lines to aid the producer (who was getting red ink for his fruit) by a general reduction of freight charges. They pointed out that by so doing the railroads would handle a great deal of fruit that otherwise could not be shipped at all, and that they would also gain some very desirable good will. It was frankly stated at this time that the only alternative was the development by the industry of cheaper transportation by boat and by truck, as the producers either had to do that or go out of business, and they had no intention of going out of business. Apparently the railroads thought the shippers were bluffing, as the subsequent large-scale development of water and truck transportation has amply demonstrated.

Nor is the industry bluffing today when it demands an intelligent revision of the rail freight rate structure, so as to permit the orderly distribution of Florida fruit over our natural trade territory, under an elastic blanket-rate system similar to that enjoyed by California.

Due to the lower rates finally secured to eastern seaboard markets through development of water transportation, there has been a tendency (especially in big-crop low-price years) to ship a disproportionate percentage of the crop to those markets. That 64% of our entire output is going into territory containing only 30% of the population is a graphic illustration of this tendency. This has thrown the entire machinery of distribution out of balance, and it has become imperative that this balance be restored.

One step in this direction is the new Federal Marketing Agreement, but this is a purely restrictive measure, valuable only in insuring an even flow of shipments out of the State, but impotent to spread that flow evenly over Florida's trade territory. That can only be done by removing existing freight barriers to the free movement of fruit at a fixed maximum of expense per box to the markets of the country.

Why should Florida fruit travel by rail to New York four days a week, paying 60 cents per box, and be obliged to pay 85 cents per box for the same trip if started on one of the other three days? Or is there any good reason why fruit travelling by rail from Fort Myers to Columbus, Ohio (about the same distance as to New York) should pay 86 cents per box every day in the week? Again, why should a box of California fruit travel from Los Angeles to Boston, 3,240 miles, for $1.11½, enjoying the chance of finding a buyer at every station east of Kansas City, while a box of Florida fruit pays an equal amount for transportation from Fort Myers to Duluth, 1,902 miles, less than two-thirds the distance? To one section of the country Forida enjoys a blanket-rate—to a small group of States in the far Northwest. This is California's natural trade territory, but we are permitted the doubtful privilege of entering by paying a flat rate of $1.62 per box.

California, however, can enter Florida's natural trade territory, equally distant, for $1.11½ per box. It just don't make sense!

The data I have presented is for the purpose of supporting three outstanding facts, as follows:

First: That the existing Florida citrus rail structure is unsuited to the present-day needs of the industry, because (a) it fails to insure to Florida the geographical advantage it should have in its natural trade territory; (b) It tends to induce a glutting of the key markets and to greatly restrict distribution in territory containing over half the population of the country; (c) It invites dishonesty in the dealer or buyer, thereby lowering net receipts to the grower.

Second: That the only material rail freight rate reductions thus far obtained have come as the direct result of industry development of competing methods of transportation, after appeals to the railroads for revision of rates had proven ineffective—(a) by boat to the eastern seaboard with some combination boat-rail hauls to the interior, and (b) by truck, mostly to southern territory.

Third: That the smart thing to do is for the railroads and citrus industry to quit fighting each other and use their combined energies for the advancement of their mutual interests.

There is the picture up to date! What of the future? Will the industry be forced to continue to deal with the railroads as obstacles to its normal expansion? Or will the railroads join the industry in solving this problem of distribution, sitting around the table with us as true partners in a joint business, combining their efforts with ours to work out transport problems to mutual advantage, and assisting in the further development of markets for the fruit which they hope to carry?

If this is not done, then the industry has no alternative but to further develop competing methods of transportation, by combination water-rail haul to interior destinations from all available points on the Atlantic, Gulf and Mississippi; by long-haul truck transportation direct to receivers, and by such other methods as may prove feasible. We *must* have rates to mid-western territory comparable to those we have obtained for the eastern seaboard. We *must* have a comparatively even freight charge to all the principal markets, in order to make possible an even distribution of our fruit. Accomplishment of this objective (if the railroads cling to their previous policy in dealing with the industry) means development *by* the industry of its own means of transportation. And that many of the large shippers are planning ahead on that basis is no secret! Such a course should not be necessary. We need all our energies to solve the problems of production and marketing, without entering the field of transportation.

Fortunately the industry is better organized and more nearly unified in thought and purpose than ever before, and there are indications that the railroads are beginning to appreciate the possibilities of regaining much of their lost tonnage by joining with the industry in working out a comprehensive plan to build up the market for Florida citrus.

It is not difficult to grasp the logic and commonsense of a new relationship between the producers and handlers of citrus, on the one hand, and the initial rail lines serving Florida on the other. After all, their business is transportation; ours is the production and marketing of fruit. A full partnership between us for the purpose of increasing the outlet for Florida fruit, and then blanketing the country with an even flow of supplies, through a system of zone rates, in a very few widening circles to main diversion points, with a single fixed maximum charge per box to any and all points beyond, would tremendously profit both the rails and the producers.

A permanent joint transporation committee composed of leaders of the industry and of transportation interests should be at work on these problems continuously.

Through the leadership of the Florida Citrus Commission, ably seconded by the Growers and Shippers League of Florida, and backed by the entire industry, it now, for the first time, seems that the industry (thoroughly aroused and organized) is in a better position to wage a successful fight for an equitable and bsuiness-building system of transportation facilities than it has ever been before.