National Grain and Feed Association
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April 17, 2014

Surface Transportation Board
Attn.: Docket No. EP 724
395 E St., S.W.
Washington, DC 20423-0001

Dear Members of the Board:

The National Grain and Feed Association (NGFA) appreciates the opportunity to submit this statement to amplify the oral comments made on its behalf by NGFA Rail Shipper/Receiver Committee Chairman Kevin Thompson, assistant vice president and transportation lead for the Grain and Oilseed Businesses at Cargill Incorporated, Minneapolis, Minnesota, during the Board's April 10, 2014 public hearing on U.S. rail service issues.

The NGFA consists of more than 1,000 grain, feed, processing and grain-related companies that operate approximately 7,000 facilities that handle about 70 percent of all U.S. grains and oilseeds. NGFA's membership includes grain elevators; feed and feed ingredient manufacturers; biofuels companies; grain and oilseed processors and millers; exporters; livestock and poultry integrators; and associated firms that provide goods and services to the nation's grain, feed and processing industry. Also affiliated with the NGFA are 26 state and regional grain and feed associations. NGFA works to foster an efficient free-market environment that produces an abundant, safe and high-quality supply of grain, feed and feed ingredients for domestic and world consumers.

The NGFA commends the Board for initiating the public hearing, and appreciated the opportunity to speak on behalf of shippers and receivers of grain, oilseeds and grain products concerning the serious rail service disruptions that plagued our industry since last fall.

This statement is supported by six other national agribusiness organizations: Agricultural Retailers Association, Corn Refiners Association, National Chicken Council, National Council of Farmer Cooperatives, National Oilseed Processors Association and North American Millers Association.[1]

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[1] **Agricultural Retailers Association** is a national non-profit trade organization for agricultural retailers and distributors of agronomic crop inputs with members covering virtually all of the 50 states and representing over 70 percent of all crop input materials sold to America's farmers. These inputs are used to nourish and protect a wide variety of crops, from major row crop commodities to specialty crops. Members not only sell agronomic crop inputs but actually apply with their own equipment basic crop nutrients and crop protection products; over half of ARA's

This statement first provides several real-world examples of the impact – in terms of market impacts and costs – that rail service disruptions have had on NGFA-member companies and the producer-customers they serve. Second, it provides some observations resulting from the ongoing dialogue the NGFA has been having with several affected Class I rail carriers. Finally, this statement concludes with several specific NGFA recommendations on the types of actions we believe the Board can and should take to improve the relevance, timeliness and transparency of service-related metrics and information that would be useful to rail customers to assist in planning logistics during the anticipated long, slow restoration of service – particularly in the Western United States – that the NGFA has been told could stretch well into 2015.

Rail-served agricultural markets today generally are characterized by long-haul movements between varying origin-and-destination pairs separated by distances of 500 to 1,500 miles or more. For these agricultural markets, there is no good substitute for reasonably available, reliable and competitively priced rail service.

But that has been the exception, rather than the rule, since last fall – long before the onset of harsh winter weather. Rail service disruptions have been widespread and severe, involving Class I rail carriers operating in both the West and East, as well as in Canada. In the West, shippers served by the BNSF Railway and Canadian Pacific have

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members custom-apply fertilizer for their customers on about 45% of their total acres served. ARA membership is diverse, from small family-run businesses of 10 employees to farmer cooperatives with one thousand or more employees and large corporations with thousands of employees and multiple branches. Suppliers of the products sold by retailers are also members of the association.

Corn Refiners Association (CRA) is the national trade association representing the corn refining industry of the United States. CRA and its predecessors have served this important segment of American agribusiness since 1913. Corn refiners manufacture sweeteners, ethanol, starch, bioproducts, corn oil and feed products from corn components such as starch, oil, protein and fiber.

National Chicken Council represents companies that produce and process more than 95 percent of the chicken in the United States. Chicken processors are among the largest users of rail services to transport grain, oilseed, and other commodity feed ingredients.

National Council of Farmer Cooperatives (NCFC), established in 1929, is comprised of regional and national farmer-owned cooperatives, which in turn are comprised of nearly 3,000 local farmer cooperatives across the country. The majority of America's 2 million farmers and ranchers belong to one or more farmer cooperatives. NCFC members also include 26 state and regional councils of cooperatives. Farmer cooperatives handle, process and market almost every type of agricultural commodity; furnish farm supplies; and provide credit and related financial services, including export financing. Earnings from these activities are returned to their farmer members on a patronage basis, helping improve their income from the marketplace. Farmer cooperatives also provide over 250,000 jobs, with a total payroll in excess of $8 billion, and contribute significantly to the economic well-being of rural America.

National Oilseed Processors Association, established in 1929, has as its mission assisting the U.S. soybean, canola, flaxseed, sunflower seed and safflower seed processing industries to be the most competitive and efficient in the world by utilizing the combined expertise, knowledge and resources of its members to foster market- and science-based policies. NOPA represents 12 member companies who process over 1.6 billion bushels of oilseeds annually at 62 plants in 19 states.

North American Millers' Association is the trade association of the wheat, corn, oat and rye milling industries in the United States and Canada. Its member companies operate mills in 38 states and Canada, representing more than 90 percent total industry production capacity.

been particularly hard hit – especially in areas like North and South Dakota, Montana and parts of Minnesota, where few, if any, viable alternatives to rail exist for moving grain, grain products and fertilizer. Meanwhile, in the Eastern United States, NGFA-member companies served by the Norfolk Southern and the CSX also have reported significant service disruptions. Further, in the case of the NS, they also have expressed concerns over the lack of adequate, consistent and current information on which to make logistics plans and adjustments, where possible, hamstringing business operations.

The NGFA's strong preference is to have individual rail customers that confront service-related issues seek to resolve them in one-on-one discussions with their respective carriers in a commercial business setting. But since early January when the impacts of rail service disruptions began being felt industry-wide, the NGFA has taken on a greater role in addressing service-related issues directly with rail carriers on behalf of its member companies. We will continue to do so until this crisis abates.

The sheer gravity, magnitude and scope of rail service disruptions now being experienced are unprecedented, and have rippled through all sectors of grain-based agriculture. As a result:

- Country elevators and other originators of grain and grain products are extremely hesitant to price and book forward sales from farmers or commercial elevators because they cannot count on predictable rail service or reflect the current level of freight costs in their price bids.

- Grain processors and export elevators have idled or significantly reduced operating capacity because of an inability to predictably source sufficient quantities of grains and oilseeds.

- Millers in the upper and central Midwest are confronting facility shut-downs as they run out of raw commodities to process, including oats and certain classes of wheat.

- Still other grain processing and animal feeding operations, particularly in the Eastern United States, are shifting to comparatively inefficient and much more costly long-haul truck movements in an attempt to obtain sufficient quantities of grains and oilseeds. Still others are switching rail origination to other carriers in the limited instances where that is possible.

- And for the first time in a long time, the United States' hard-earned reputation as the world's most reliable supplier of grains, oilseeds and grain products to export markets has been put at risk.

Some specific examples of economic harm caused by rail service disruptions have been provided to NGFA by member companies in response to our request.

One pressing immediate need voiced by NGFA member companies concerns the inability of carriers to deliver fertilizer in time for planting season in the upper Midwest, which is costing millions of dollars in additional shipping costs because of the need to divert to truck transportation. The advent of larger planters and other farm equipment has shortened the time window for applying fertilizer, and there is an urgent need from farmers to obtain bulk, liquid and anhydrous fertilizers. Without these essential farm supplies, the productive capacity of U.S. farmers will be undermined.

In the West, the Canadian Pacific has been 60 days late or later in providing 100-car unit trains, and up to four months late on non-shuttles. Meanwhile, the BNSF only now is providing certificate of transportation – or COT – trains that shippers had paid to have delivered in late January and early February. The NGFA also has received repeated reports of locomotives being de-linked from trains and cars sitting loaded – but idled – at grain facilities for weeks on end.

In the East, there have been sharply reduced turn times on unit trains for both domestic and export service, increasing car costs, reducing capacity and causing repeated functional shut-downs of feed mills dependent upon rail deliveries. Likewise, single-car shipments of ingredients for feed in both the East and West have been delayed.

In addition, freight delays have caused grain, feed and grain processing firms to breach commitments to farmers and commercial customers alike. Grain and feed ingredient contracts have needed to be renegotiated and re-priced – often at a significant penalty – as they were under-filled or rolled forward to future delivery dates because they could not be executed within the contractual time commitment.

Another fallout is illustrated by the values paid in the secondary rail car freight market, which traded at levels of as great as $6,000 per car on one carrier. That translates to a $1.65-per-bushel just to access equipment, and is a stark reflection in monetary terms of the extent to which service disruptions have affected agricultural shippers. The majority of secondary freight has traded at values of approximately $4,000 per car, equating to $1 per bushel.

One NGFA-member company provided the following actual case involving a unit train shipment of soybeans from North Dakota to the Pacific Northwest in March, in which the tariff rate was approximately $5,000 per car and the expense to secure the necessary rail freight from the secondary market amounted to another $4,000 per car. After adding the fuel surcharge, the actual cost translated to $2.60 per bushel, with transportation alone representing 40 percent of the total cost.

For a time, our industry absorbed most of these additional expenses. But over the last 30 days, such escalating costs attributable to service disruptions have been reflected in lower price bids to farmers in several regions of the country.

For instance, in Montana, the per-bushel price for wheat offered to producers in March declined by up to $1 per bushel. Were such a depreciated price to last through the remainder of the 2013/14 marketing year, that would translate into a $203 million loss for Montana wheat farmers based upon the state's wheat crop size. Attached to this statement are charts that also illustrate the precipitous decline in price bids offered to farmers in North and South Dakota for corn, soybeans and wheat.

Additional costs also have been incurred by shippers and receivers that operate privately owned hopper car fleets. For instance, one NGFA-member company in the Eastern United States reported that the number of "turns" it got in its private-hopper car fleet declined from an average of 2.5 turns per month to 1.5 turns between October 2013 and March 2014, effectively increasing its fleet cost and decreasing its carrying capacity by 60 percent.

Cost impacts on individual grain, feed, grain processing and export facilities obviously vary. But several NGFA-member companies have reported that the costs to their individual firms have ranged from $10 million to $20 million during the October to March period.

Over the past 15 years, the U.S. grain handling, processing and export industry, as well as its producer-customers, have made extensive private capital investments – including greatly expanded grain handling and loading capacity, private car fleets and additional track capacity – to further enhance efficiency. Some of that investment was made at the behest of rail carriers seeking improved economies-of-scale. But despite these investments, our industry has found itself being unable to serve customers efficiently or reliably during the most recent harvest season because of the precipitous decline and unpredictability in service from several Class I carriers.

Even during periods not characterized by the type of severe service disruptions being experienced currently, ag rail users often find that when rail capacity is in tight supply, rail service appears to suffer more for our sector than for other sectors that may be viewed as "higher-priority" by railroads, such as coal, energy and intermodal.

This raises a core question that NGFA believes the Board needs to assess carefully. Namely, to what extent do Class I rail carriers in this highly concentrated rail market have a common-carrier obligation to provide reasonable service on reasonable request? For example, at what point is a railroad's decision to skew its allocation of resources and service toward certain products that maximize its profits become inconsistent with its statutory common-carrier obligation? What are rail carriers' obligations to balance their business desire for greater volumes and greater profitability with the traditional, statutory obligation to provide reasonable service across all customer segments?

Concerning current service disruptions, the NGFA and its member companies have been in active discussions with several affected rail carriers on the root causes, as well as each carrier's recovery plans for restoring service. It is clear that while the harsh winter weather has been a contributing factor, these service disruptions began occurring last fall, well before the onset of winter.

There also clearly were other root causes, such as a misreading of the volume of business that would be generated by agriculture, coal, energy and other sectors; inadequate locomotive power and crews; and operations-related issues, such as the continuation of maintenance-of-way projects during the peak harvest period.

The NGFA has encouraged affected carriers to provide more information on when measurable improvements in rail service realistically can be expected, and to ramp up their ongoing communications with customers to provide timely and frequent information if their service commitments cannot be attained. This information is critical for our industry to be able to adjust business plans and attempt to minimize the economic harm to operations and revenues, and to serve customers. We're pleased that the BNSF, in particular, has responded with increased, ongoing communications with our Association and its member companies, as well as agricultural producers and other customers. We believe this positive dialogue with the BNSF will continue.

However, the NGFA believes the current situation warrants increased monitoring and collection of data on rail service metrics by the Board. Our industry and our farmer-customers need sufficient information about the operations and service levels that realistically can be expected from their rail carriers if they are to have a chance to manage market risk and meet customer requirements.

Recommendations for STB Collection and Dissemination of Service Metrics

For these reasons, the NGFA believes strongly that the Board immediately should begin requiring affected Class I rail carriers to report – and subsequently should make publicly available to rail customers – the following types of specific service-related metrics. Access to this information would assist rail users in making logistics plans and enhance the Board's ability to monitor service.

1. Real-time information on train velocity and cycle times, as well as realistic projections restoring service.

2. Weekly car loadings by product and state.

3. Weekly average dwell times for trains hauling grain and grain products, coal and crude oil from January 2012 onward.

4. Weekly averages for miles-per-day transited for grain, coal and crude oil since January 2012 going forward.

5. The level of capacity utilization by rail corridors, particularly in the heavy grain corridors of the Pacific Northwest and Texas Gulf. For example, if a Class I carrier's capacity is 40 trains per day within the Pacific Northwest corridor, what percentage of that capacity currently is being utilized and what is the product mix?

6. Real-time data on the number of grain/oilseed, coal and crude oil sets transported by quarter starting in January 2012 and into the future.

7. Breakouts of capital spending by Class I carriers. The NGFA commends rail carriers for investing in their infrastructure, particularly investments that add to capacity to serve growing demand. But we believe it would be advisable for carriers to report the share of capital spending being directed to new infrastructure capacity, such as new track, versus replacement of existing infrastructure. The NGFA also recommends that the STB require carriers to report on a quarterly basis **net** crew and locomotive changes so rail users better can assess these barometers of potential service improvement.

   Frankly, some carriers have been more forthcoming than others in reporting specifics on how their infrastructure investment is being allocated – and what portion actually represents new capacity versus replacement of existing infrastructure, locomotives and cars. But as the NGFA suggested to the STB in its 2006 statement in Ex Parte No. 665 – Rail Transportation of Grain – we believe the STB could perform a valuable role by collecting and standardizing such information across all Class I carriers, and reporting publicly how those investments in infrastructure and personnel are being allocated across various business sectors served by the carriers in what appears to be continuing robust demand for rail services across various industry sectors. Such reporting also would provide the Board with information to determine whether any sectors are being demarketed or disadvantaged at the expense of others.

In addition, the NGFA recommends that the Board obtain and make available publicly the following information for each Class I carrier:

1. What plans, if any, do each of the Class I carriers now experiencing service disruptions have to take on additional business before current service issues are resolved? For instance, will carriers award power and crews on a first-come, first-served basis during this period of severe service disruption?

2. What plans do Class I carriers have for reducing operations-related service disruptions that occurred last fall – including maintenance-of-way restrictions. Specifically, we believe the Board should require Class I carriers to provide rail customers with advance information on the precise location and duration of specific service disruptions caused by infrastructure projects.

Finally, we believe that during this period of service disruption, the Board should require affected Class I rail carriers to provide consistent, web-based communications and e-blasts to all of their rail customers on the status of their service and train orders. Some Class I railroads are doing a commendable job in in this regard – the BNSF and CSX, in particular. But others clearly are not, relying more on word-of-mouth or calls to specific, but not all, customers. Rail users need more consistency in communications across-the-board, particularly in this service-disrupted environment.

Conclusion

Rail users need sufficient logistical information from their carriers to manage market risk and serve customers. Simply put, there needs to be significantly more predictability in the level of rail service, and mechanisms need to be put in place to reduce service variability that our industry has experienced over the last six months or longer.

At this stage, the NGFA does not believe it is advisable for the Board to take actions in the United States similar to those implemented by the Canadian government. We fear such measures could exacerbate and further slow the recovery and restoration of predictable, reliable U.S. freight rail service. Thus, we are not at this time asking the Board to issue directed-service orders that would create preferences for agricultural shipments. But the NGFA is asking the Board to exercise very vigilant oversight during this period of service disruption to prevent rail carriers from allocating limited available capacity to serve new business from non-agricultural sectors, such as coal and energy, to the detriment of agricultural customers.

We also believe the current rail environment points to the importance of the Board's proceeding on competitive switching rules under Ex Parte No. 711. The rail service disruptions experienced by agricultural shippers are tangible examples of why captive rail shippers and receivers need enhanced access to the lines of other carriers wherever possible to keep facilities open and operating, and markets served. Competitive switching also is integral to maintaining a national rail freight network and to preserving the competitive fabric of U.S. agriculture and the nation's economy.

The NGFA also believes strongly that these rail service disruptions point to the urgency of the United States adopting a comprehensive, "all-of-the-above" transportation infrastructure policy that supports all modes – including inland waterways, harbors and ports, and trucks. We need all transportation modes if we're going to move this nation.

The NGFA appreciates the opportunity to express its views and recommendations concerning U.S. rail service issues, and would be pleased to respond to any questions the Board may have.

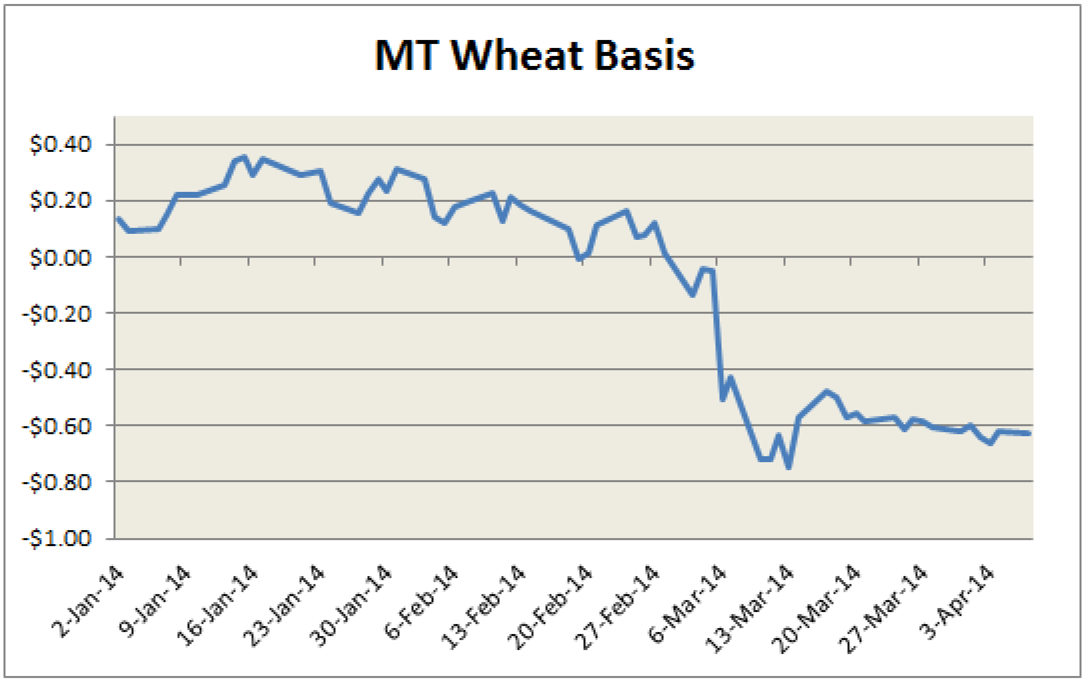
Sincerely,

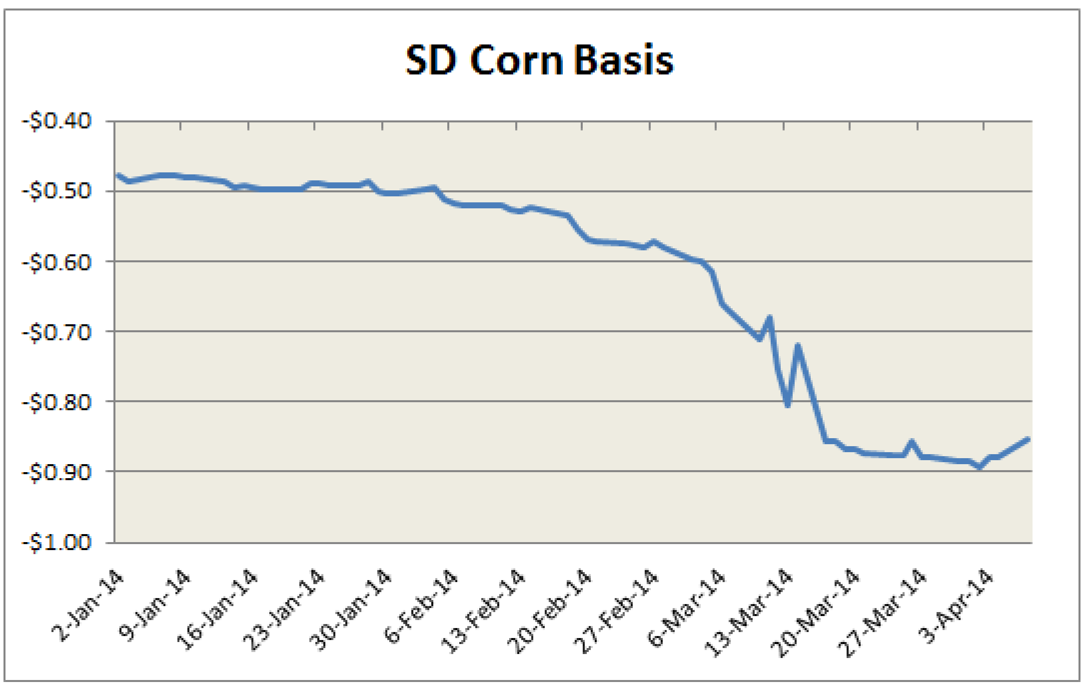
Kevin Thompson
Chairman
Rail Shipper/Receiver Committee
National Grain and Feed Association

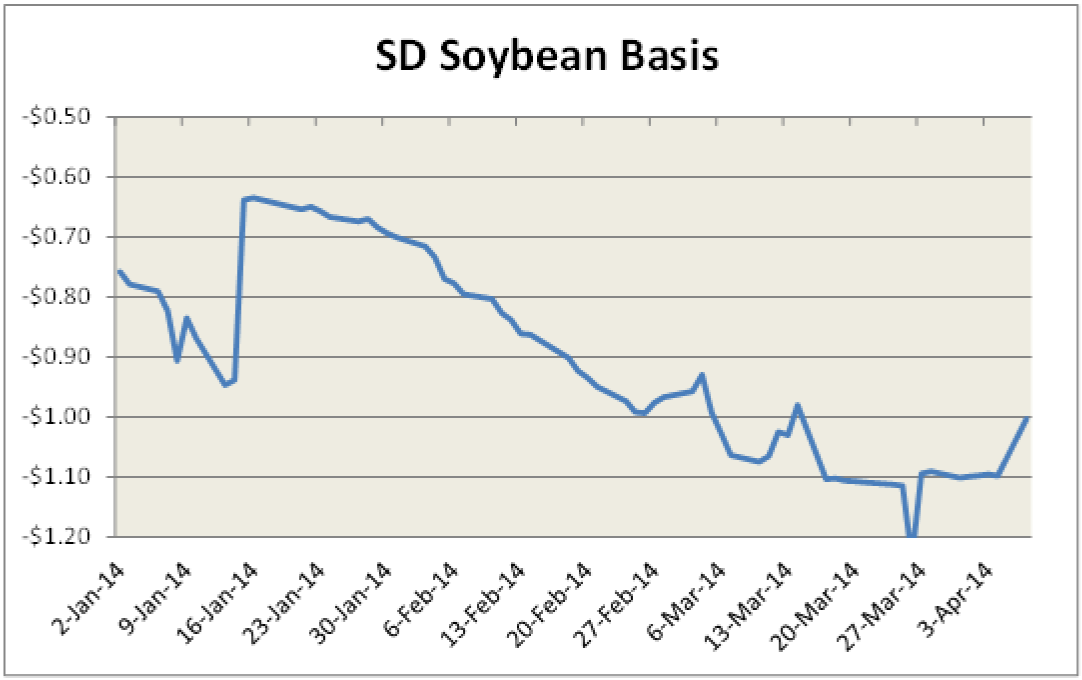
Randall C. Gordon
President
National Grain and Feed Association

Appendix

Rail Service Disruptions – Impact on Prices Bid to Farmers



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-$0.80
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-$1.00
-$1.10
-$1.20
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9-Jan-14
16-Jan-14
23-Jan-14
30-Jan-14
6-Feb-14
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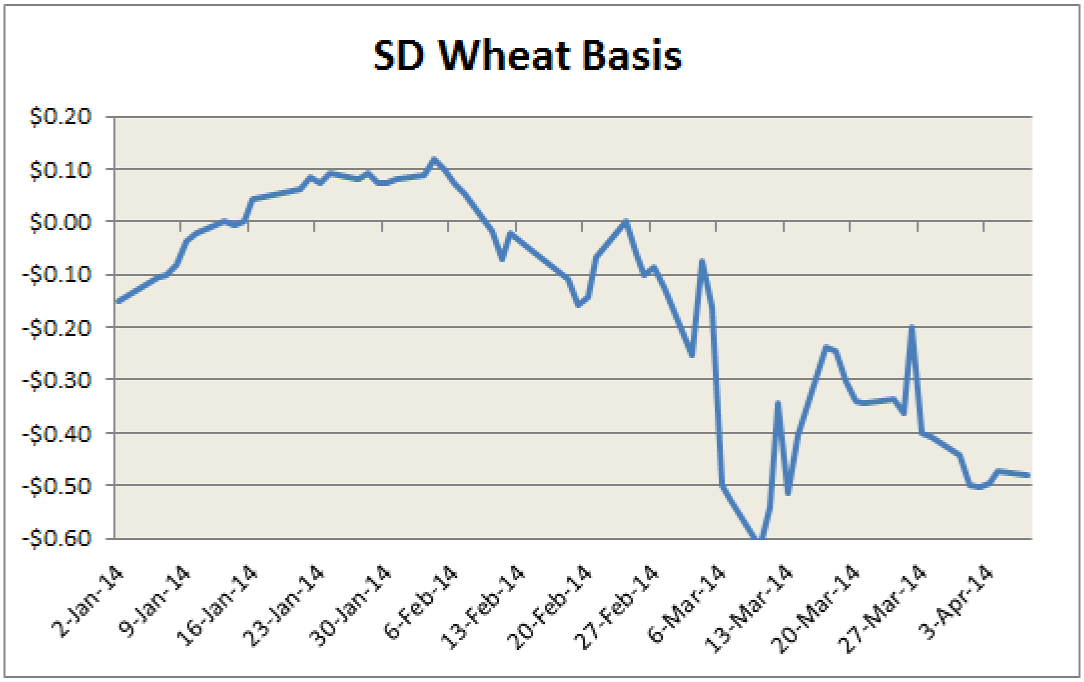
3-Apr-14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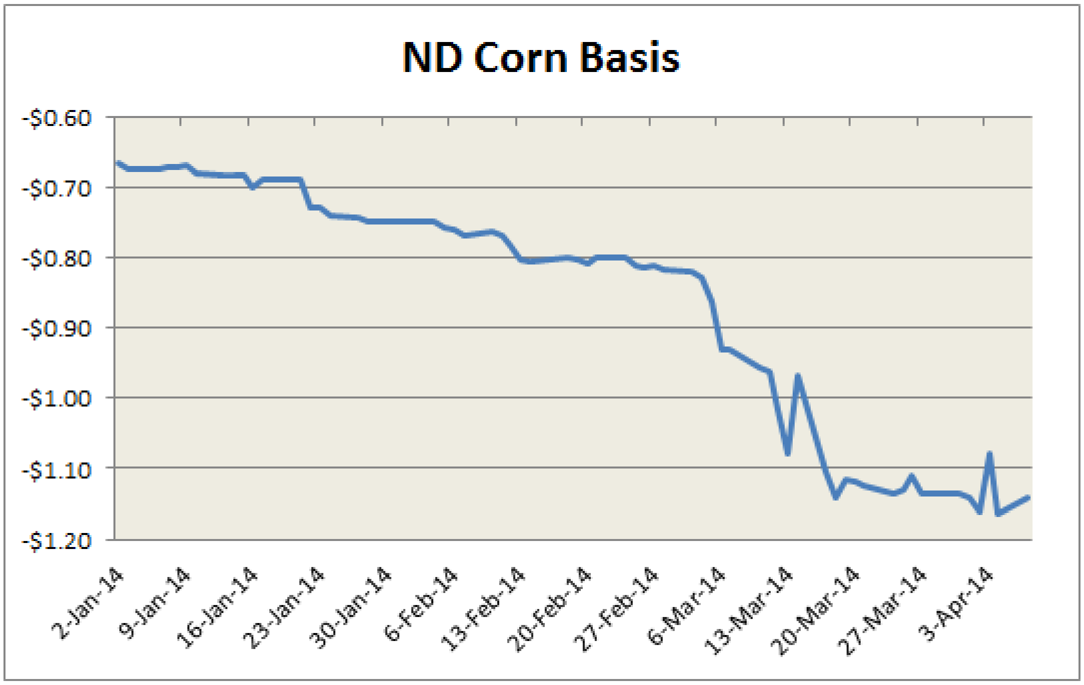
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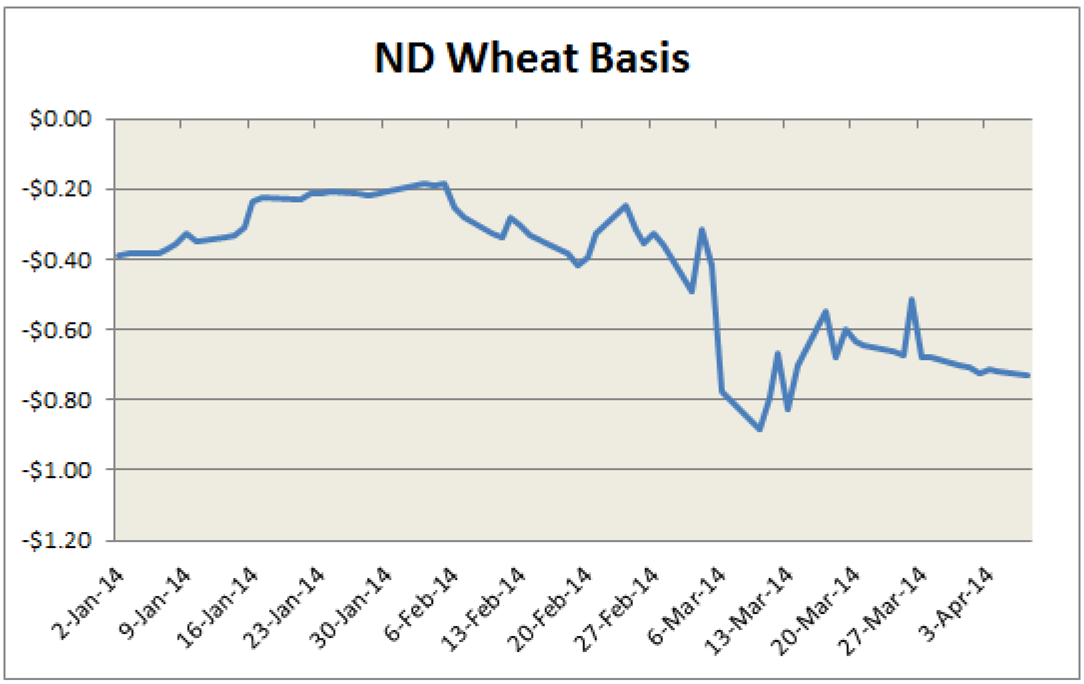
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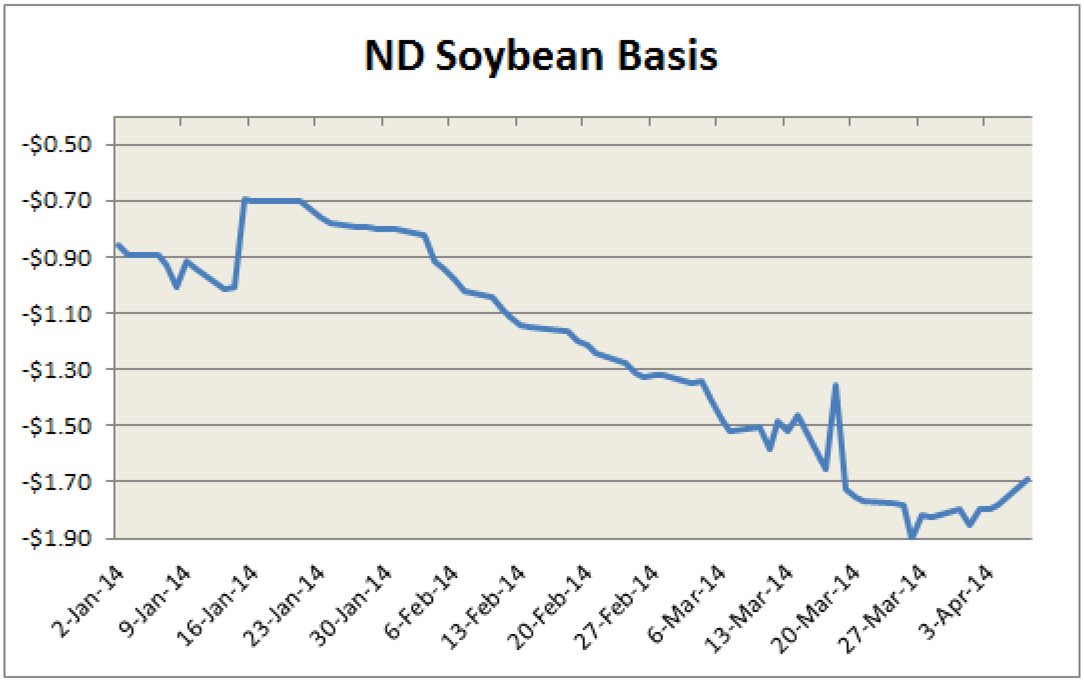
ND Soybean Basis
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