



**South Dakota
Farmers Union**

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Statement for the Record

South Dakota Farmers Union Marshall County President DuWayne Bosse Surface Transportation Board Hearing on United States Rail Service Issues

April 10, 2014

Good afternoon Chairman Elliot and Vice Chairman Begeman. Thank you for the opportunity to testify today on service problems in the United States rail network.

My name is DuWayne Bosse. I am a fourth generation South Dakota family farmer from Britton, South Dakota. My family farming operation consists of 4000 acres of cropland in Minnesota, North Dakota, and South Dakota. In addition to farming, I also operate a small commodity brokerage firm that trades commodity futures options for farmers in the area. Presently, I serve as the Marshall County Farmers Union President and today I am testifying on behalf of South Dakota Farmers Union.

The work of South Dakota Farmers Union began in 1914, when farmers united to work together for the good of agricultural producers across our state. Today we continue our work as a nonpartisan, grassroots organization comprised of over 10,000 family farmers and ranchers.

Over the course of our organization's history, we have continually advocated for equitable rail service for agricultural commodities, cooperation between the railway companies, healthy competition among railroads, protecting shippers from excessive rates, and the continual improvement of rail service for our producers.

We appreciate the Surface Transportation Board's recent efforts in closely monitoring the rail industry's performance metrics and the service problems occurring on the rail network.

South Dakota Farmers Union was fortunate to meet with officials from your Office of Public Assistance, Governmental Affairs and Compliance on Thursday, March 27th in Fargo, North Dakota. Six South Dakota farmers, including myself, informally met with representatives from the STB and collectively shared our concerns over the rail service problems in South Dakota.

While we understand the challenges that the rail industry faced due to the extreme cold, there is a legitimate concern about how the delays and lack of service are affecting the agriculture industry.

These rail services problems have already begun to negatively impact our producers and I want to draw your attention to three things that our agricultural producers are most concerned about.

For South Dakota Farmers Union, our first major concern is the fluctuation in the grain commodity markets and how that has impacted and will continue to impact farmers.

UNITED TO GROW FAMILY AGRICULTURE

In South Dakota and across our region the basis has drastically widened, and can be directly attributable to the delay of rail service, lack of availability of railcars, and grain not being shipped out of the Midwest.

Basis is the term used to describe the futures price for grain commodities minus the local cash price. It is calculated using a variety of components including storage costs, profit margins for sellers, quality variations from those listed in the futures contracts specifications, local market conditions, and most importantly, transportation costs.

As a farmer, basis is critical in the marketing of crops. It helps us determine when it is best to sell or hold our crops. We use it as a way to hedge, evaluate cash contracts, and cash prices at a specific point in time. Basis can determine whether or not we make a profit on our grain.

Typically during the spring the basis narrows and is strengthened, but this year it continues to dramatically widen because of the increased demand for trains to move commodities in the Midwest.

For example, in Oakes, North Dakota, where I market my grain, the basis at this time last year for corn was -.35 cents, this year it is -\$1.10. For soybeans last year the basis was -.65 cents, today it is -\$1.50. For wheat last year the basis was -.40 cents, this year it is at -70 cents.

Taking it one step further and using the basis numbers previously mentioned, I estimated the potential loss in farm income from last year to this year.

Last year, North Dakota produced 396 million bushels of corn. Comparing the widening of the basis from last year to this year, the result for corn production would be a \$297 million loss in farmer income. For soybean production the loss in farmer income from last year to this year would be \$62 million and in wheat it would be \$82 million.

For the three major grain commodities that is a combined estimated loss of \$441 million in lost farmer income, simply from the change in basis attributable to transportation costs.

The current inability to move agricultural commodities is causing a loss of profit for grain farmers and only has the potential to increase if the problem is not corrected.

This is taking money directly out of the farmers' pockets and is of great concern to our members.

Secondly, South Dakota Farmers Union continues to be concerned for the grain facilities in our state. With the decrease in rail shipments, grain storage facilities, both commercial and private, are currently maxed out on storage options.

Many producers have signed contracts with grain facilities and need to deliver their grain by a set date. Because of the delay in railcars, some grain facilities have been forced to dump more grain outside on the ground to make room for grain that had been previously contracted.

With grain continuing to pile up, many facilities are unsure if they will be able to empty their stored grain prior to the upcoming harvest. If we are fortunate enough to have a large crop this year, the lack of rail service will only further exasperate the problem.

If a farmer cannot deliver his or her grain to a grain facility, their most likely options are to store it themselves, pile it up on the ground, or leave it in the field. Each of these options comes with additional costs and the potential for unnecessary monetary losses.

The most precarious situation would be a farmer having to leave their grain unharvested in the field. Crops that have not been harvested by December 10th of that calendar year are not covered under Federal crop insurance. A farmer would no longer be protected for any unforeseeable loss to their unharvested commodity.

If the grain facilities are not able to empty their storage capacities before the harvest, the consequences would be devastating to the agricultural industry and our producers.

South Dakota Farmers Union's third concern is the impact that the rail service issues are having on value-added agriculture products, including the renewable fuels industry. At this moment in time, rail service cannot handle value-added agriculture commodities, including ethanol and dried distillers grains, also known as DDGS.

The South Dakota ethanol industry is an integral part of our agricultural economy, having an estimated \$3.8 billion economic impact and giving new market opportunities for farmers.

Not only has the renewable fuels industry contributed to South Dakota's farmers, it has become an integral component of our livestock industry. Livestock is raised on an estimated 56% of the farms in South Dakota. DDGS, an ethanol byproduct, are a low cost and efficient feed option for these livestock producers. South Dakota's 15 ethanol plants produce more than 3.2 million tons of DDGS for livestock feed each year. The continued inconsistency of rail service for the ethanol industry is negatively impacting the production of DDGS and may result in the livestock industry having to seek an alternative, and potentially more costly feed source.

Unlike grain commodities, the renewable fuels industry in South Dakota is a constant market. The industry needs to continue to produce, and if it cannot ship ethanol, it has to lower its production capacity.

Even today, South Dakota ethanol facilities continue to cutback on production. Some facilities have been trucking more ethanol because it is taking longer to receive empty cars. Additional cars are costing five to six times as much as the regular car rates.

Nationwide, the ethanol industry was producing at an average rate of 949,000 barrels per day this past December, but by the first week in March of this year, ethanol output had fallen to 869,000 barrels per day due to the lack of rail service.

The negative impact that rail delays are having on the renewable fuels industry has added to the challenges and burden facing our producers.

These challenges have also increased the price of ethanol to the point where it is no longer competitive in some parts of the country. Consumers who want to purchase ethanol are finding it harder to do so and paying more at the pump.

The impact that the rail service issues are having on value-added agriculture products is very real and of the utmost concern to our members.

While the challenges created by the rail service issues are complex, the solution is fairly clear. We need to collectively find a way to improve rail transportation so that it is consistent and reliable for grain commodities in South Dakota and the Midwest.

In the short-term, a concerted effort must be made to expedite shipping service to our grain facilities and reliable and consistent service is necessary for sustaining the renewable fuels industry. Without resolving these two issues, our farmers will continue to lose profit and be significantly burdened with the brunt of the costs attributed to the rail service issues.

While a solution is real and possible, the perpetual advancement in the production of our grain commodities in the Midwest will place continued stress on our rail network's capacity. A long-term solution is needed to address the growing demand on our rail network.

We are hopeful that STB's efforts will lead to a positive solution and we strongly encourage the STB to consider another informal meeting in South Dakota in the coming weeks to learn more about the service problems we are facing in our home state.

South Dakota Farmers Union greatly appreciates and supports the continued investigation and monitoring of this issue. As you can see by those of us who made the trip from South Dakota, this issue is of the utmost importance and we hope that a short-term fix is attainable as soon as possible.

On behalf of South Dakota Farmers Union, thank you for the opportunity to speak with you today. I would be happy to answer questions that you may have. Thank you again.