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SURFACE TRANSPORTATION BOARD HEARING

April 10, 2014 • Washington, DC

North Dakota Farmers Union (NDFU) appreciates the opportunity to provide comments at the April 10, 2014, hearing. NDFU is the state's largest general farm organization in North Dakota, representing more than 40,000 farm and ranch families. Our comments will focus on rail's present shipping priorities, the availability of railcars for agricultural shipments, and the potential costs to producers.

In January, we began to hear from our members about a lack of availability of grain railcars at their elevators. We immediately began calling members and elevator managers to hear how widespread these issues were. The availability problems didn't seem to be concentrated; rather, these member concerns came from all over the state. In southeast North Dakota, railcars were as much as 17 days late. In northwest North Dakota, cars were 40 days behind schedule.

After visiting with our state's congressional delegation, we began to contact shippers in the state. Although we were being told that a substantial amount of delays were caused by abnormally cold weather and snow accumulation, it became increasingly clear that North Dakota agricultural commodities were not being given the same treatment as oil industry commodities. We believe railcars are prioritized as follows: oil (with 1,600 cars per day moving out of North Dakota), coal, container shipments and then agriculture.

Agriculture groups had heard in previous meetings with BNSF that they were making attempts to "harmonize" agriculture and oil shipments; it appears that ag has fallen down on the list of priorities. When the oil boom was just beginning, BNSF officials seemed to believe that oil shipments would not affect agriculture shipments because oil goes south and grain goes east and west. Obviously, no one could have known the significant impacts oil would have on our rail infrastructure, as we have oil heading in all four directions.

Without engines to pull cars to and from elevators, elevators have a difficult time marketing grain because of scheduling. Here's a common scenario:

Traditionally, when a farmer sells grain, the manager simultaneously offsets that purchase on the futures market to cover himself. Basis (the difference between the futures price at which the manager sells the grain and the cash price that he pays the farmer) generally covers handling (operating expenses) and transportation costs. (Other factors such as grain spot shortages or harvest gluts can affect the basis either positively or negatively. But ordinarily, basis moves are seasonal based on user need and deliveries to the elevator.) Arrangements are made for delivery to an end user or exporter, and in order to meet a delivery date schedule, the manager orders/purchases cars months in advance. Normally, trains arrive within a four to five-day period *of a prearranged schedule. With the shortage of horsepower to pull shuttles (110 cars) of grain, these delivery schedules are now delayed two to three weeks. Therefore, to cover their potential losses, the manager will widen the basis, deducting that from the producer.*

Ordinarily, end users or ocean-going vessels can work with a four to five-day delay. When delays are beyond that time frame, the end users impose stiff penalties of $.05 to $.10/bushel per day. If we use wheat as an example, this cost has been estimated to be between $.40 to $1.00/bushel of wheat due to additional basis cost. If this is accurate (using $.40/ bushel), it has an impact of $9600 per average farm for wheat alone, assuming one-third of the acres would be planted to wheat.

It is costly to an exporter to wait two to three weeks for cargo. We saw this last year with Brazil's harvest: after waiting in port for months, ships finally left Brazil's ports and came to the U.S. to fill orders for soybeans. Will the same thing happen to U.S. producers this year?

NDFU believes that the "secondary market" issue is a side effect of both the prioritization of agriculture exports and lack of horsepower. The rail industry sells the rights to elevators to receive cars on a given date in the primary market (usually around $300/railcar). If the elevator does not need the cars, it can sell them in the secondary market. When the supply of cars is tight, as it has been lately, those cars are being "sold" at a premium, which widens the basis for the farmer hauling to these elevators.

We have heard from co-op managers who believe that 85 percent of this year's corn crop is still in either on-farm or warehouse storage. They also believe there is a good chance that this year's crop will not be moved before the new crop has to go into storage. To take this even one step further, there is a growing fear that cooperatives will not be able to get access to the fertilizer needed to plant this year's crop. This "perfect storm" will create huge problems down the road; add in oil trains and you have a huge bottleneck on the tracks.

At the invitation of Sen. John Hoeven (R-ND), I was given an opportunity to meet with BNSF railroad officials, Sen. Heidi Heitkamp (D-ND), and Rep. Kevin Cramer (R-ND). BNSF shared with us their plans to address the challenges they face in moving product from North Dakota. The plan included 125 additional engines, hiring and movement of key employees, and the hope that the subzero weather would moderate so train size could be increased to full-sized trains. Although this paints a rosy picture for the future, we are still not seeing the movement of commodities.

North Dakota farmers are paying a huge price because of this transportation crisis. Our organization sees this as a continuing problem that is being given plenty of face time, but a lack of real solutions. It is time for the railroads to stop seeing our state's agricultural industry as a mere "bump in the road," and give it the respect that a state's top industry deserves.

Respectfully submitted,

NORTH DAKOTA FARMERS UNION

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