

Surface Transportation Board; Public Hearing; September 4, 2014

Good morning, my name is Doug Goehring and I am the North Dakota Agriculture Commissioner and a third generation farmer. Thank you for the opportunity to testify today and for initiating this public hearing. My department provides over 100 different programs that help promote a healthy economic, environmental and social climate for our state's agriculture, rural and urban citizens. As you know, we are all here because of the extreme service disruptions that are preventing North Dakota's producers, processors and elevators from getting their product to market, harming their reliable reputations, their bottom-line, and jeopardizing our domestic and overseas markets.

In North Dakota and throughout the entire upper Midwest a reliable and accessible transportation system is necessary. In North Dakota, 82-percent of our grain and oilseeds move via rail, with a significant portion of these shipments traveling nearly 1500 miles to the Pacific Northwest. The distance our products need to travel for export and processing requires timely shipping, especially when we are dependent on rail. The slower cycle times and unprecedented shipment delays from Burlington Northern Santa Fe (BNSF) and Canadian Pacific (CP) created a problem where the only option our farmers have is to store their crops, which is an unacceptable solution. Both BNSF and CP need to prioritize grain and oilseed shipments. For example, soybean shipments have a very small window to meet marketing demand in Asia and Southeast Asia. These products must be shipped between October and February, demonstrating the need for certainty in our rail service because we cannot store our way to prosperity.

Planted acres in North Dakota for corn, soybeans and wheat are record-breaking, or near record breaking this year. This should be good news instead; it is increasing producer anxiety because these products could be trapped within the system on farms or in elevators. Also, compounding the problem is that over 15-percent of our 2013 crop is still in storage.

In the short-term the agriculture community needs communication about deliveries and plans for improvement; and to know that their business is valued. BNSF has added locomotives and employees and undertaken drastic rail construction measures to try and meet the future and expanding needs in North Dakota, but there are still delays in cars received or shipped and costs for shipping are extremely high. The more open communication between BNSF and the agriculture community have been appreciated

while they work towards these solutions. However, agriculture products have to be moved by both companies. I am more disturbed when I hear stories about individuals who haven't seen grain cars from CP in months; it is clear that the backlog is not the only problem. I'm not telling railroads how to run their businesses, I'm telling them they have businesses here in North Dakota that they need to serve.

Long-term, it seems that the problems we experienced last spring and winter; could happen again this fall and winter. In the spring, the Surface Transportation Board (STB) ordered BNSF and CP to provide their plans and data regarding movement of grain and fertilizer because of the fertilizer deliver delays. These delays cost producers the opportunity to move grain at a time when the market was higher and shore up fertilizer for the planting season. Now this fall, the STB ordered the railroads to disclose more information about their backlogs. The trust between producers and railroads is only weakening. With 2013 crop still needing to be moved and this year's harvest fast approaching, we need to know that there are plans are in place so we can enter the 2014-15 marketing year with confidence. Producers want to know that this cycle can be broken and that progress is being made with real solutions for our real problems.

Service is critical, knowing that grain, coal, oil and ethanol all share the same rail system in the state and all need to reach other markets. These delivery problems are pushing more products onto trucks and straining other transportation systems that already have enough pressure, raising safety concerns, reducing efficiency and increasing costs. At an August 11th meeting in Minot with CP, an option was suggested to them about using short-lines to help alleviate pressure from within their system and move cars to hub locations where CP can pick them up and move them to end users. This solution was dismissed as "not an option." If these problems are going to be addressed and short and long-term solutions are going to emerge it is going to require investment in equipment, workforce and communications with those receiving the service. Agriculture and our agricultural markets are seasonal. Products are not delivered year round. And to retain customers, we need to supply products in-line with when they historically were received and are currently expected. A thriving transportation system benefits all industries in the state of North Dakota, and we want to work with BNSF and CP. Breaking this cycle of delivery failures is crucial in order for all industries involved to flourish.

Railroad Delays Cost Farmers Big Time

Most folks living in the Dakotas are quite familiar with the many perils faced by this area's farmers. One year it's drought, the next year it's a flood. Or it's a late freeze that kills the young upstarts or an early freeze that reduces the final harvest. And when the weather cooperates there are still the insect problems and the never-ending yet always-volatile price swings of the world commodities market.

If you thought those were all the perils faced by our local farmers, think again. There's a new issue being added to the fray that, like many others, is completely out of a farmer's control while at the same time, like the others, has the capacity to virtually ruin them. That new issue is access to reliable rail shipments for grain and ethanol producers.

If the federal government, under the management of the Surface Transportation Board (STB), doesn't start producing some impressive results from the local railway monopoly — BNSF Railway (BNSF) and Canadian Pacific (CP) — the area's farmers, farm families and the rural economies they fuel are going to be feeling a whole lot of hurt.

In North Dakota, where shipping by rail is the only option for many, farmers have told me that four different grain elevators indicate that their oldest orders are from early March — that's four months behind — and shuttle orders are up to 2,000 cars behind. These numbers are staggering and simply unacceptable.

In South Dakota, farmers will soon be forced to pile wheat on the ground because elevators can't accept the increased liability. At one particular elevator, 3 million of the yearly 15 million bushels of grain will not move before this year's harvest comes in. What is most disconcerting is that local elevators are simply losing faith and no longer ordering cars. This may actually be skewing the railroad's unacceptable reported delays, which may be much worse than are being reported.

The ethanol industry, with up to 61 percent of ethanol being transported in that fashion, has also been frozen out of rail shipping. Earlier this year, ethanol prices dramatically increased due to lack of supply brought on by the shipping delays. Failure to bring ethanol to market will hurt consumers because of higher gasoline prices and will work against our efforts to offset imports of foreign oil. Ethanol will only fuel the nation if it can get to the nation's consumers.

When the federal government allows the existence of a monopoly, like the railroads, the onus is on the federal agency in charge to ensure that the monopoly is being both competitive and responsive to its paying customers: farmers and ethanol plants.

BNSF and CP's will and ability to deliver grain shipments in time for the upcoming harvest is simply inadequate. This could be especially bad for the area's wheat growers, since harvest has

already started and grain remains in the bin from last year's harvest. While BNSF claims that the total number of late shipments of wheat has declined nationwide, more than 95 percent of all past due cars are concentrated in Montana, North Dakota, South Dakota and Minnesota. BNSF has made progress in improving their performance, but with a record corn crop on the way, the stage is set for things to get much worse.

When shipping delays reach the level farmers are facing in the upper Midwest, you can literally hear the money being sucked out of their back pockets. That's because the end buyers impose stiff penalties on the grain elevators who have promised delivery on a certain date, and the elevators pass this expense onto the farmer. This past winter, farmers paid a steep price for rail deliveries. In the meantime, BNSF is catching up on delays and has taken steps to alleviate congestion. But CP service remains problematic, and the real test lies ahead as an enormous harvest approaches with bins still full from last year's bumper crop. We won't know until after harvest whether the railroads have made sufficient investment to cope with the new, long-term increased demand for shipping capacity in the Upper Midwest.

For most of the issues farmers face, they have tools in their belt that can help them deal with an impending disaster. For many weather and market related issues, they have crop insurance. For soil erosion, they can vary their tilling practices and plant cover crops. For train issues, the only place to turn is the STB. Clearly, someone there needs to wake up at the switch and get things back in order because innocent farmers are paying the price.

Roger Johnson is president of National Farmers Union.