



United States  
Department of  
Agriculture

Marketing and  
Regulatory  
Programs

Agricultural  
Marketing  
Service

Washington, DC  
20250

JAN 16 2007

Mr. Vernon A. Williams  
Office of the Secretary  
Surface Transportation Board  
Case Control Unit, Attn: STB Ex Parte No. 665  
1925 K Street, NW  
Washington, D.C. 20423-0001

Dear Mr. Williams:

The Department of Agriculture (USDA) requests that the Surface Transportation Board grant it leave to file supplemental comments regarding Ex Parte No. 665, Rail Transportation of Grain, by close of business Tuesday, January 16, 2007. The comments were due by close of business Friday, January 12, 2007. USDA was still reviewing its comments. Thank you.

Sincerely,

Arthur L. Neal, Jr.  
Acting Associate Deputy Administrator  
Transportation and Marketing Programs



**Additional Responses by Under Secretary Bruce Knight, U.S. Department of  
Agriculture, to Questions Raised During  
STB Hearing on Grain Rail Transportation  
November 2, 2006**

**Commissioner Mulvey (33:53)**

There is a tremendous capacity constraint in the rail industry. Even some of the lines relied upon for grain shipments are affected because it is a network industry. Public efforts to alleviate the rail capacity shortage, including Senator Lott's proposed legislation that offers 25 percent investment tax credits for the railroads, could be used to expand rail capacity and take some of the pressures off the railroads to raise rates for captive shippers. **Has the Department of Agriculture taken any position on that bill?**

**Under Secretary Knight Additional Response:** USDA has not taken a position on this bill.

**Commissioner Buttrey (39:02)**

There has been a lot of attention given recently to this idea of specialty markets and specialty grains. Also a lot of attention to creating capacity in the current system without having to spend huge amounts of capital. **Is the USDA doing anything to encourage this idea of using backhaul containers to take grain to the PNW export markets?**

**Under Secretary Knight:** There are intriguing opportunities in this area. Markets are opening up for smaller mills in the export markets. Purchasers often spec for specific qualities in the grain, i.e. milling qualities and feed qualities. We will get back to you regarding the movements in these markets.

**Under Secretary Knight Additional Response:** Since 2000, USDA has been involved in several endeavors promoting the use of containers to export traditionally bulk commodities such as grain. In cooperation with grain associations in the Upper Midwest, the USDA has co-sponsored or given presentations at three workshops on the fundamentals of moving grain in containers and educated participants about the increasing global demand for alternative grain marketing tools.

USDA has also published a series of U.S. Containerized Grain Export Industry Profiles. These profiles provide a market analysis for containerized grain exporters; the reports include: location of intermodal freight centers; efficient supply chain routes; major domestic and foreign port regions; estimated volumes and seasonality trends; and container rate analysis.

### **Commissioner Mulvey (41:00)**

Regarding ethanol markets. We have talked about the need for competition among railroads and to make sure the capacity is there to handle all of the farm shipment needs. But the farming community right now is very dynamic and there is a lot of movement from shifting corn from export markets to ethanol plants which may be closer to the point of origin and that would have a tremendous impact on the railroads. **Could DDGS cause a shift of the cattle production north from Texas into the Plains states and again change the demand for rail and truck transportation? Is USDA looking at these issues and trying to make some sense as to what the possibilities might be and what that would mean for investing in our rail infrastructure?**

**Under Secretary Knight Additional Response:** USDA is examining the corn supply/demand implications of increased ethanol production, including the potential quantity of corn shifting from exports to ethanol, the use of DDGS in feed rations, and potential shifts in the livestock and poultry sectors. Near-term developments as they relate to the agricultural transportation sector also are being monitored.

A feature article in the Agricultural Marketing Service's December 7, 2006, Grain Transportation Report focused on the significant increase in orders placed for tank cars used to transport ethanol. AMS' Livestock and Grain Market News also improved its distillers grain reporting to include prices for corn sold to ethanol plants and the price for ethanol. Distillers grain prices have been reported in several regions of the Midwest, but this is the first time that corn prices destined for ethanol plants have been identified and reported separately from corn being used for feed. In addition, ethanol plants are providing spot prices for ethanol. A new "Iowa Ethanol Plant Report" includes corn bids, three moisture levels for distillers grain that is used in animal feed, and the spot market price for ethanol. AMS Market News is evaluating other regions to determine if information concerning ethanol production can be expanded.

More research is needed on issues that could affect rail infrastructure. Such issues include: What will happen to rail transportation of corn for the export and U.S. feeding sectors, as more corn is diverted to the ethanol plants? What is the effect of railroad pricing structures on determining the location and structure of ethanol production? What is the impact of increased utilization and transportation of DDGS on the U.S. feeding and agriculture transportation sectors?

**Commissioner Mulvey (43:46)**

Ethanol plants are being constructed and built and no one is asking the question as to how the ethanol is going to move once the plant is built. **Does USDA have any responsibility or authority to work with the ethanol producers to make sure that what they plan can be carried forth? Making sure that the railroads have enough tank cars available when they start production?**

**Under Secretary Knight Additional Response:** Market forces determine the need for rail cars. USDA serves in the role of informing and educating the industry about developments in the agricultural and transportation sectors.