NATIONAL GRAIN CAR COUNCIL SESSION
APRIL 30, 1997

8:30 A.M. - 11:30 A.M.
Reserve Officers Association Building, 5th Floor
One Constitution Avenue, NE, Washington, DC

AGENDA

I. Welcome and Opening Comments

II. Status of Grain Transportation

- **Report by Railroads - Fourth Quarter 1996 and First Quarter 1997 Results**
- **Shipper Expectations - Demand Outlook for Balance of 1997**

III. Report and Discussion of Mexico Equipment Issues

Drew Collier

IV. Report and Discussion of Measurement Task Force Issues

Fred Yocum

V. Report and Discussion of Grain Car Efficiency Task Force Issues

Phil Weaver

- **Arbitration Procedures**
- **40% Rule**

VI. Additional Issues and Follow-Up Assignments

UNION PACIFIC RAILROAD COMPANY

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July 1, 1997

NATIONAL GRAIN CAR COUNCIL MEMBERS:

Attached are the minutes of our April 30th Grain Car Council meeting. Please let me know if you have any questions or comments.

Very truly yours,

Joe Adams

NATIONAL GRAIN CAR COUNCIL

SPRING 1997 MEETING MINUTES

April 30, 1997

Dick Davidson, Chairman of the National Grain Car Council (NGCC) opened the meeting by welcoming the attendees and observing that it was the sixth session of the Council. He paid tribute to former Surface Transportation Board Vice Chairman Jake Simmons who, with former Senator Jim Exon, pressed forward the belief that open discussion among railroads, shippers and grain car owners would lead to reasoned solutions in addressing equipment shortage issues.

STB Vice Chairman Owen welcomed the members of the Council and urged they continue to move forward on free markets solutions to improve transportation flows and keep the nation competitive in world grain markets.

Chairman Davidson then called on railroads, shippers and car owners for reports on recent market conditions and their assessment of the outlook for the balance of 1997.

Grain Transportation Outlook

Phil Weaver of BNSF reported that last fall his railroad geared up for strong opportunities in the corn and wheat markets. After a late harvest, corn developed well but the wheat market has been disappointing. Wheat is seeing strong domestic growth from millers but there is very little international flour business, in part because of the Common Market subsidy program.

Mr. Weaver noted that investment has been taking place in the grain car fleet. The market is doing its job and shippers and railroads are bullish on the long term outlook. There has been significant investment in new cars with bigger cubic capability.

The severe winter weather and spring flooding caused problems throughout BNSF's northern territory, with heavy snow storms followed by spring floods. BNSF faced significant track repair costs and suffered revenue loss.

Mr. Weaver stressed that the US needs to be competitive in world markets, especially against Canada and Europe. He predicted that the CRP acreage program would be maintained, although acreage reduced.

BNSF currently has about 2,000 cars in storage out of a fleet of 37,000. Mr. Weaver expressed concern about the hard red winter wheat crop because of cold conditions in Oklahoma and Kansas. Wheat movements are an important product line for BNSF in late June and July. Mr. Weaver predicted corn would begin to move later in the summer.

Pete McNamee, of CP Rail, noted that while the grain market was soft, there was a backlog of orders and he predicted that his railroad would be busy through the fall.

Dave Bastress of KCS noted that his road relied heavily on the feed mill business and that business had been fairly consistent. Market patterns on corn were normal and he thought the next quarter would be steady.

Mike Mohan of the Illinois Central observed that his road's loads were down by about 8 percent for the first quarter. The combined IC/Chicago Central currently has about 41% of its 4,600 covered hopper cars in storage. The export market is very soft. He hopes that the second and third quarter will turn around.

Drew Collier of Union Pacific stated that his railroad's business had met expectations in the 4th quarter of 1996 and 1st quarter of this year. Second quarter business was very soft. UP presently had 6,000 cars in storage. Mr. Collier expressed concern about the 3rd quarter when the railroad might be faced with moving a significant part of last year's crop and this year's harvest at the same time. Iowa and Minnesota are likely to have strong plantings and a good crop if weather conditions are favorable.

Dennis McLeod of the Red River Valley & Western Railroad noted that most of his road's lines were open despite flooding. Culverts were being cleared and new ones opened. There is much grain in local storage and he expects a good summer.

Fred Yocum of the Iowa Interstate Railroad reported that their is a significant amount of corn in storage in his territory. Mr. Yocum expressed concerns about the impact of deprescription of car hire rates and felt that there be some clarifications to better ensure return on investment.

John Manetta of NS noted that his road was getting a good flow of received grain from connections but that the export market had been soft. Overall, NS carloads were down five percent in the first quarter but were currently running three percent ahead of 1996. NS has added 2,000 covered hoppers to its fleet and taken delivery of 100 new locomotives. Ed Martin of NS noted that 92 percent of NS's movements were domestic and only 8 percent export. Export moves through Mobile were being impacted by low barge rates. Mr. Martin predicted that growth in poultry movements should pick up again. Last year, because of pricing conditions, local wheat was substituted for corn moving into the region.

Tom Owen of CSX was optimistic that corn movement for poultry would improve during the second quarter. He noted that a number of new poultry facilities were coming on line in the southeast and even soybean processors were moving into the region. CSX will continue to invest in grain-related assets.

Rick Cecil of Kyle Railroad expressed concerns about another poor wheat crop in 1997. He noted that the outlook north of Interstate 70 seemed to be good but conditions had been poor in southern Kansas and Oklahoma. Kyle has 35% of its grain car fleet in storage.

Ian Muir of Bunge reported that while last year had been a good one for the soybean processing business, conditions had turned around. Farmers were continuing to hold corn and wheat in the hope of getting higher prices. Low barge rates were encouraging exports through the Gulf rather than by rail over the PNW. Mr. Muir thought that business would be slow for another two months.

Bill Sebree of NIK Non-Stock Marketing noted that his facilities were 70% shipped and were about 2,000 cars ahead of last year. While exports had slowed, California was providing a good market. His region was 30 percent planted and he anticipated a good crop.

Ed Sims of Tom Wade Companies stated that producers were looking for high prices in Tennessee. He expects an early local corn harvest and thinks that the second half of the year will be strong.

Kevin Kaufman of LouisDreyfus noted that world market conditions present problems. There are huge crops in Argentine and Brazil and China is reducing imports of wheat this year and beginning to export corn again. Mr. Kaufman stated that given the good poultry market in the east, the western railroads should work with their eastern connections over St. Louis and Memphis. Mr. Kaufman echoed concerns that with market volatility there will be a sudden surge in demand later in the year.

Terry Voss of AgProcessing noted that farmers wanted $5.00 a bushel but predicted they wouldn't get it. Mr. Voss believes that business will pick up soon.

Chris Frye of Citizens Grain stated that he had new markets opened up to him as a result of the western railroad mergers. He agreed with the outlook offered by other shippers and looked forward to a very busy summer.

Larrie Owen of the Arkansas Industrial Traffic Association was optimistic about the continued growth of the domestic corn market. He noted the three new feed mills were being built in the Southwest and two in the Southeast. He continues to be bullish about the growth of the poultry business.

Fred Parsons of Southern Illinois Railcar noted that there was good availability of 5150s for $350 per month. Three to five year lease terms were readily available.

Drew Collier presented a report by the task force that is addressing problems on damage to cars while in Mexico. Mr. Collier noted that some good data had been gathered in a few areas. He distributed a handout noting the Task Force's findings. Mr. Collier observed that the vandalism problem is not limited to grain cars. While the privatization of the Mexican railway system should provide a long term solution, efforts need to continue on the political front. The Task Force will attempt to survey Mexican receivers. Mr. Bastress noted that the new northeastern railroad plans to increase security and work with the grain trade in Mexico in an effort to reduce damage.

Measurement Task Force

Mr. Yocum reported for the Measurement Task Force. He noted that there was good cooperation from the AAR. It is important that data be provided on a continuing basis and car types be matched with loads by commodity. Shippers are comfortable with how loads are categorized by the railroads but not with fleet size definitions. Efforts are being made to provide better coverage for loads originating on shortlines and regionals. Mr. Yocum hopes that his task force will be able to provide a report soon.

Efficiency Task Force

Phil Weaver reported on behalf of the Efficiency Task Force. He provided an update on efforts to resolve disputes through voluntary arbitration. National Grain & Feed has set up a procedure which only requires a $500 fee, is binding and should produce a written decision within 90 days.

STB's Railroad Shipper Transportation Advisory Council has proposed rules that would provide means for binding, voluntary arbitration of certain disputes - - rules that would foster dispute resolution with limited Board involvement.

The rules would provide for arbitration between specific parties to resolve disputes involving payments, rates or practices related to transportation or service under STB jurisdiction. The rules wouldn't apply to STB licensing (construction, abandonment, purchase, trackage rights, merger pooling) or exemption; they also wouldn't apply to rules or results of general industry-wide applicability.

The STB Chairman would select arbitrators from a roster of active or retired federal administrative law judges or other senior officials experienced in rail transportation. Parties would be charged $75 for each complaint and answer filed under the procedure and $150 for appeals.

The STB process was unanimously proposed by a committee composed of NS, IC, BNSF, shortlines and shippers. As well as handling railroad/shipper disputes, the STB forum would allow two railroads to submit a dispute to arbitration.

Mr. Weaver then noted that the Council was charged by statute with making a recommendation as to whether the 40% rule should be extended. He noted that the rule had not produced a hardship for the rail industry and was basically a moot issue up until this point. Shippers and some small carriers wanted it to remain on the books should circumstances change. Mr. Weaver recommended extending the rule without change. Mr. Yocum offered a contrary view. He was concerned that at some point in the future, swings in supply and demand might force a literal reading of the rule and create severe dislocations. He was in favor of letting market forces continue to work and not continuing the rule. Mr. Weaver noted that all parties agreed that there are incredible definitional problems with the rule and to try to resolve interpretation issues would open up Pandora's box.

Mr. Weaver moved that the Council recommend that the 40% rule be maintained as currently written. The motion was seconded and carried by a strong majority.

Mr. Weaver will prepare a formal recommendation to be transmitted by the Council. Mr. Kaufman will help in the process and coordinate with the Railroad Shipper Transportation Advisory Council, of which he is a member.

As to new business, Commissioner Owen noted that the grade crossing issues were becoming more of a problem. He urged that railroads and shippers work together in promoting a national program to encourage closure of crossings while providing more protection and additional separations.

Linda Morgan commented on how encouraging it was to have so many people participate in the meeting and that before the next meeting it would be good to isolate more issues.