**Meeting of the National Grain Car Council**Thursday, September 11, 2014
Radisson Blu Minneapolis

35 South 7th Street

Minneapolis, Minnesota, 55402

**Public attendance**

| **Name** | **Firm** |
| --- | --- |
| Jon | Allyn | Metro Ports |
| Antonio | Amerigo | Kansas City Southern  |
| Matt | Anderson | Bank of America |
| Bill | Arnold | Louis Dreyfus Commodities |
| Jason | Balazs | CIT Rail |
| Bruce | Benschoter | TEGMA |
| Robin | Bergeron | Twin Cities & Western |
| Shane | Berrett | Gavilon |
| Keith | Borman | ASLRRA |
| Mike | Brainerd | Union Pacific |
| Tom | Bright | South Dakota Wheat Growers |
| Dustin | Buntrock | South Dakota Wheat Growers |
| Doug | Conway | Canadian Pacific |
| Pete  | Cyr | Land O'Lakes |
| Aaron | Degodny | Canadian National |
| Anne | Erickson | BNSF |
| Joe | Fiereck | Riverland Ag |
| David | Fuchs | Wheeler Brothers Grain |
| Hector | Garcia | Bartlett Grain |
| Steve | Glischinski | *Trains Magazine* |
| Pete  | Goetzmann | Archer Daniels Midland |
| Jim | Greufe | FCS of America |
| Jeff | Griffin | SMBC Rail Services LLC |
| Joe | Griffith | Bartlett Grain |
| Barb | Haertling | BNSF |
| Jason | Hess | Union Pacific |
| Amy | Homan | Iowa Northern |
| Cynthia | Hultine | General Mills |
| Emily | Jerre | Minnesota Department of Agriculture |
| Luke  | Jones | GATX Corporation |
| Rob | Keller | BNSF |
| Keith | Kelsey | David J. Joseph Co. |
| Greg | LaRue | Louis Dreyfus Commodities |
| David | Long | Twin Cities & Western |
| Alicia | Martin | RCP&E |
| Terry | McDermott | Bunge North America |
| Kevin | McEwan | Paducah & Louisville |
| Dick | McGuire | EKN Rail |
| Jim | McKinstray | The Andersons, Inc. |
| Brian | Mehrmann | Gavilon |
| Shaun | Meiners | Lansing Trade Group |
| Tom | Meyer | Kansas Grain Inspection Service |
| John | Miller | BNSF |
| Steve | Milligan | BNSF |
| Scott | Mills | Lansing Trade Group |
| Raul | Morales | Kansas City Southern  |
| Randy | Narloch | Archer Daniels Midland |
| Joe | Needham | The Andersons, Inc. |
| Michael | Peterson | USC |
| Marvin | Prater | US Department of Agriculture |
| Mark | Ramsland | General Mills |
| Chris | Reck | Paducah & Louisville |
| Phil | Reusch | Aero Transportation |
| Dan | Ricke | Bank of America |
| Ken | Roseberry | David J. Joseph Co. |
| Mike | Rowan | West Plains LLC |
| Greg | Schneider | Bunge North America |
| Jon | Setterdahl | Farmers Cooperative Co. |
| Tom | Sexter | Louis Dreyfus Commodities |
| Matt | Siemer | David J. Joseph Co. |
| Tom | Slunecka | Minnesota Soybean |
| Dave | Smith | Midwest Railcar Corp. |
| Joe  | Smith | Arizona Grain |
| Lee | Steinhauer | Agrex |
| Rich | Stroot | Port of Corpus Christi |
| Mark | Summers | BNSF |
| Brian | Sweeney | BNSF |
| Charlie | Threlkeld | Consolidated Grain & Barge |
| Luke | Vander Aarde | USC |
| Mike | Vaupel | Archer Daniels Midland |
| Ryan | Warner | Bunge North America |
| Mark  | Wegner | Twin Cities & Western |
| Terry | Whiteside | Montana Wheat & Barley Alliance for Rail Competition |
| Jeff | Wilson | Consolidated Grain & Barge |
| Bob | Zelenka | Minnesota Grain & Feed Association |

**NGCC members and substitutes in attendance**

|  |  |
| --- | --- |
| **Name** | **Firm** |
| Larry | Abraham | Chicago Freight Car Leasing Co |
| James | Bobitt | Tate & Lyle Ingredients Americas |
| Sharon G.  | Clark | Perdue AgriBusiness LLC |
| Rob | Cook | Bunge |
| Carrie  | Evans | Iowa Interstate Railroad |
| Jarad | Farmer | Canadian Pacific |
| Mike  | Fernen | Union Pacific  |
| Roger | Fray | West Central Cooperative |
| Keith | Friedericks | Canadian National |
| Steve  | Gehrt | Canadian National |
| John  | Glynn | CIT Rail |
| Brian | Groskreutz | NIK Marketing Cooperative |
| Gregory | Guthrie | BNSF |
| Katie | Hadenfeldt | GATX Corporation |
| Michael A.  | Haeg | Rio Grande Pacific Corporation |
| Jerry | Hall | Norfolk Southern |
| Dana | Hansen | Archer Daniels Midland |
| Brad  | Hildebrand | Cargill Inc. |
| Mark A. | Huston | Louis Dreyfus Commodities |
| Hasan | Hyder | Union Pacific |
| Michael S.  | Jones | North Dakota Mill & Elevator Assn. |
| Timothy J. | McNulty | CSX |
| Angie  | Nicely | CSX |
| Thomas D. | Novitske | BNSF |
| Eric | Parthemore | Heritage Cooperative |
| David  | Pope | CHS Incorporated |
| Micah | Powell | Genesee & Wyoming Inc |
| Bill | Ratcliff | GE Capital Rail Services |
| Daniel R. | Sabin | Iowa Northern Railway |
| Ed  | Sims | The Andersons, Inc |
| Sharon  | Trudell | Red River Valley & Western |
| Mark C. | Van Cleave | Trinity Rail  |
| Brad  | Yeatts | Norfolk Southern |

**AGENDA**

1:00 pm\* 1. Welcome and call to order

 - Safety Briefing –Vice Chairman Mark Van Cleave

- Chairman Mike Bilovesky

- Mark Huston, Chairman – TEGMA

2. Member Introductions

 - Fred Forstall – Approved Substitutes

 - Members – Self introductions

3. Adoption of 2013 Minutes – Mike Bilovesky

4. Financial Report – Sharon Trudell, Secretary/Treasurer

5. Opening Remarks – Cochairman Deb Miller

6. Governor Mark Dayton – Minnesota Basis Analysis: The Impact on Minnesota Farmers

7. Guest speaker, Jay O'Neil, Senior Agricultural Economist, IGP at KSU

2014 United States Grain Industry Production and Markets – What it means for rail transportation

2:45-3:00 pm Break

8. Railroad response panel

 - Moderator: Tim McNulty

 - Panelists: Tom Novitske, Jarad Farmer, Pat Simonic, Micah Powell

- Comments from other railroads

- Questions & answers

9. Shipper response panel

 - Moderator: Brad Hildebrand

- Panelists: Mike Jones, Sharon Clark, David Pope, Rob Cook, Brian Groskreutz

- Comments from other shippers

- Questions & answers

10. Manufacturers/Lessors response panel

 - Moderator: Mark Van Cleave

- Panelists: Katie Hadenfeldt, John Glynn, Dean Sawyer

- Comments from other manufacturers/lessors

- Questions & answers

11. Establish subcommittee to consider future of the Council – Mike Bilovesky

12 Closing Remarks

- Chairman Daniel Elliott

- Commissioner Ann Begeman

- Cochairman Deb Miller

5:00 pm 13. Adjourn – Mike Bilovesky

\*Start time is tentative based on arrival of out-of-town members and guests.

**Minutes**

The Vice Chairman, Mark Van Cleave, called the meeting to order with 33 members present, and after a short safety briefing, called on Mark Huston, who welcomed the group on behalf of TEGMA.

Adoption of 2013 Minutes

Copies of the minutes of the 2013 meeting were distributed. No corrections or additions were offered. A motion was made and duly seconded to approve the 2013 minutes as written. The motion carried by unanimous voice vote.

Financial Report

The Secretary/Treasurer, Ms. Trudell, presented the following financial report. On her recommendation a motion was made and duly seconded to assess dues of $100 per member for 2015. The motion carried by unanimous voice vote.



New Member and Member Introductions

The Designated Federal Officer, Fred Forstall, introduced the new members of the Council as well as the approved substitutes for the meeting. Following past practice, other members introduced themselves.

Opening Remarks

Board Vice Chairman (Council cochairman), Deb Miller, called the members attention to the change in format for the meeting. She noted that the intent of the new format was to encourage a “lively conversation” about the important issues. She noted that the Commissioners had traveled quite a bit during the year and also met with a number of shipper groups in Washington, DC. As a matter of policy, her “doors are always open,” and her goal is to use Board authority in a judicious way to improve the situation.

Minnesota Basis Analysis: The Impact on Minnesota Farmers – Charlie Poster

Mr. Poster addressed the group, substituting for Governor Mark Dayton, who was unavoidably detained at the last minute. In part, his remarks were based on a report by Edward Usset at the Center for Farm Financial Management (July 10, 2014) titled Minnesota Basis Analysis – Preliminary Report for the Minnesota Department of Agriculture. In a nutshell, a lack of railcar supply to Minnesota agricultural shippers adversely effected the basis (cash price minus futures price) received by Minnesota farmers. The study estimates the loss to Minnesota farmers from March to May 2014 across all crops (i.e., soy beans, corn, and wheat) to have been approximately $100 million.

Collectively, Minnesota farmers have successfully grown their harvest over the last 20 years. From 1994 to 2012, the reported annual harvest of corn increased from 906 million to 1.4 billion bushels. Soybeans have increased as well. The growth of exports (which increased in value from $1.4 billion in 1994 to $8.2 billion in 2013) has been a key factor in allowing Minnesota farmers to increase their output. Continued success is at risk due to transportation issues such as lack of equipment and a dearth of information regarding service improvements. Minnesota is pressing for more open access and for “state-specific” turn times on shuttle equipment.

2014 United States Grain Industry Production and Markets – What it means for rail transportation – Jay O'Neil, Senior Agricultural Economist, IGP at KSU

Mr. O’Neil has a background as a consultant in the grain industry. His main focus was not to discuss the past but rather to call attention to the importance of logistics to the grain industry. Across all sectors, there is at the moment increasing demand for transportation services. Grain exports are up, and there are record amounts of grain and other commodities that need to move. The question is, “How will the demand be met across all sectors?”

Infrastructure improvements are needed to get more grain to the ports. A large increase in the number of cars is not needed. Mr. O’Neil suggested that three things are necessary. 1) the Keystone Pipeline, 2) better logistics, and 3) better (i.e., more timely) information. The financial impact of the current situation was attributed to lower interior basis prices for grain and the necessity for more storage. Mr. O’Neil foresaw that this would ultimately lead to increased demand for feedstock as the animal feed and industrial processing sectors expand and soak up the surplus grain, and he also suggested that wider basis spreads will very likely impact future planting decisions.

What if the economy continues to recover? Mr. O’Neil suggests that we should be looking ahead 3 to 5 years. In certain states, it appears certain that storage space will be exceeded, and Canada wheat stocks are at a 20 year high. Increases in railroad resources and velocity are necessary. More capital is necessary, and it needs to come faster. In the secondary car market, it might cost $1.00 per bushel just for equipment.

Logistic problems are not confined to the rail network. There have been issues with the river system. O’Neil nevertheless anticipates that expansion of the Panama Canal will allow the Mississippi River “draw area” to increase. It is not clear, however, where the grain will move, which ultimately depends on rail, barge, and ocean rates as well as other factors. With respect to over the road freight, Mr. O’Neil alluded to the capacity issue created by the shortage of qualified drivers.

With respect to port operations, Mr. O’Neil suggested that it isn’t so much how fast one can load a ship but how fast one can get grain to the port that is the constraining factor that determines port capacity. He also noted that there are indications that some customers won’t be able to take post-Panamax cargoes.

Railroad response panel - moderator: Tim McNulty panelists: Tom Novitske, Jarad Farmer, Pat Simonic, Micah Powell

There are 3 essential issues to consider. 1) The long term perspective in the context of the unprecedented growth in traffic. 2) The short term focus. 3) The volatility or cyclicality of the system.

With respect to the long term, BNSF pointed to the “new norm” created by the additional traffic (~ 800,000 carloads) in 2013 and the difficulties created by added traffic on routes that had heretofore been relatively stable. BNSF efforts to increase capacity include installation of new sidings, CTC operations, and new double track as well as the extension of many existing sidings. CP noted that it has experienced a large spike in demand in North Dakota. It is also spending to increase capacity and fluidity for example by installing an automatic switch in Saint Paul. CP is using alternate routes where practical (e.g., around the lakes) to handle the increased traffic. With respect to resources in North Dakota, which currently has an unemployment rate of 2.8 percent, CP is providing housing and incentives to relocate. RCP&E was the 112th acquisition for G&W. The RR serves 24 elevators and 2 ethanol plants. As a record wheat crop has been projected, RCP&E expects to be busy into the middle of 2015. NS began regarding the surge in traffic as sustainable in April but also identified a shift in the mix of traffic (commodities). Growth in the northern sector has been the big factor. This resulted in an increase in the number of unit trains and a corresponding increase in the number of crew starts. Track work related to PTC and pending tank car regulations were also mentioned as issues to be considered. NS has compressed training programs to facilitate the addition of new train crews and continues to invest in its system. CSX expects to invest 17 percent of its revenue.

Short term expectations are better for this year relative to last year. Crew, power, and track capacity are all necessary, and to that end, BNSF has new locomotives, 900 new grain cars, 3000 new conductors (a net increase of 2300 new employees), and 27 miles of new double track. CP has new sidings in Saint Paul, alternate routes around Chicago, and a new car ordering system (dedicated train product). Its target for PNW traffic is a cycle time of 13 days. RCP&E expects to have additional crews available by the end of October, expedited repairs of heavy loads, and enhanced coordination with its connecting carriers. Additionally, it is looking to lease additional hopper cars for 2015. In addition to new crews, NS is offering “stay” bonuses to trainmen who are approaching retirement. NS is generally running longer trains (75 to 85 cars) and has instituted preharvest planning meetings. At the moment, its grain fleet is level at 4500 cars.

Communications and managing customer utilization are seen as keys to managing volatility. How can the industry better report velocity. NS has new crews (150 per month), which will help manage dwell times for manifest traffic and increase the timeliness of local switching and with it the consistency of empty equipment. (NS has seen a 20 percent decline in its merchandise traffic over the last ten years.) According to BNSF, its carload business last winter was the “most difficult” in the history of the railroad. CP has 8000 cars in its “US” fleet, and does not anticipate moving any cars out of storage this year. There was some discussion of Class 1 grain car fleets and contingency plans for production spikes. However, it was noted that railroads inherently react to production spikes. Adding track and crews (6-8 months) were recognized to be long term events. Regrettably, improved planning would require projecting what is going to happen to a crop that hasn’t been planted yet. There was mention of the need for better modeling to identify necessary expansion projects.

Shipper response panel - moderator: Brad Hildebrand panelists: Mike Jones, Sharon Clark, David Pope, Rob Cook, Brian Groskreutz

There has been a switch to beans in the northern tier. A huge crop and increasing carry out are expected. The harvest will start about 9/25 with beans starting about 9/29. Most will be off in about 10 days. There is a very strong U.S bean export program.

With respect to corn, there were some replanted acres, which are running about 11 percent behind normal. Those acres will start about the second week of October. The net effect will be to spread out the harvest. It is expected to be a wet crop, and the question is, “How are farmers going to handle that?” Pile a lot of bushels? The farmer is the wild card; producers “checked out” 2 or 3 months ago. The price of corn is at a four year low. It is expected that much will be left as long as possible. [Is there a] propane issue? A lot of corn is going to the US Gulf. The Gulf is expected to be at or above capacity. PNW exports are expected to be near [all time?] lows. There has been a temperature impact on corn quality, and there is corn “piled up all over.”

Regarding exports to Mexico, more corn and beans are expected to move south of the border by rail. (Vessel logistics issues). Also, more soy bean meal. The question is how to get products to Mexico as inexpensively as possible.

In the south, winter wheat was stored. The yields in ND and MT were much higher than expected. Exports are steady, at least. There is a quality issue in the north with spring wheat. Rail to the PNW is the constraining factor at the moment.

In the United States, demand for poultry is down from about 220 lbs per capita to about 200 lbs per capita on an annual basis. Russia embargoed US poultry in reaction to the US response to the situation in Ukraine. Mexico is threatening tariffs on poultry.

Rail service has been “erratic” such that it is no longer possible to by grain for a specific time frame, and turn times are increasing. There is a high bad order rate. There has been an impact from government regulations. PTC work has had an impact on capacity. The proposed FRA regulations have put pressure on builders. Sanitary transportation requirements also have had an impact on capacity.

Exports of wheat are “sideways.” Usage is consistent; wheat is not the driver of rail issues. There has been a shift to higher yielding crops (migration toward row crops). There have been quality issues in pockets.

Regarding beans, it has been a good year so far in the domestic crush business. The forecast is strong. There may be volatility toward the end of the growing season.

Ethanol production is projected to be 14.4 billion gallons this year and about the same next. The consumption attributable to blending for gasoline capped out at 13 billion; therefore, the net will have to go for export. With respect to rail service and ethanol, there are similar themes to what has already been discussed. The ethanol market is good at the moment, but there is a constrained supply. The question is how much can be moved. The industry would still want to consume ethanol even without the mandate. Thankfully, there has been a positive impact on prices.

GPS has increased the capacity of farmers to bring the crop to market by making nighttime harvesting possible. The adage, “Make hay while the sun shines,” no longer holds true.

Manufacturers/Lessors response panel - moderator: Mark Van Cleave panelists: Katie Hadenfeldt, John Glynn, Dean Sawyer

Car supply was ample last year until November and December. Car supply tightened due to 1) the size of the harvest, 2) the lateness of the harvest, and 3) weather. These factors soaked up all capacity. It became hard to judge supply and demand due to the velocity issue. CIT would probably wait to add cars to see what would happen to velocity.

GATX has a total of about 150,00 cars, of which about 20 percent are covered hoppers. Rates have changed, and GATX is adding cars, building for specific orders. Since 2009, attrition has been running about 11 percent. All other cars are taking up build capacity.

Bases on Umler data, there are 270,000 lessor-owned cars, 94,000 railroad-owned cars, and 107,000 shipper-owned cars.

Trinity expects to have about 7,300 grain cars in 2015, which is more than 2014. However, the numbers are expected to decrease in 2016 and 2017. It is predicted that it will be possible to get new equipment if there is an increase in demand, but at the moment, no one appears to be experiencing “supply change” issues. Shop space is tight and will continue to be tight despite expanding capacity. It is expected that the new tank car regulations and the resulting necessary modifications/retrofits will continue to tax the network.

Chairman Bilovesky called for volunteers to serve on a subcommittee to be tasked with consideration of the future of the Council. After the Board members had given their closing remarks, the Chairman adjourned the meeting.