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SURFACE TRANSPORTATION BOARD

Ex Parte 755

Final Offer Rate Review Summary of Telephone Conference Meeting between U.S. Wheat
Associates and Surface Transportation Board Chairman Ann Begeman

July 9, 2020

U.S. Wheat Associates Attendees: Justin Gilpin, CEO, Kansas Wheat, Royce Shaneman, Executive Director, Nebraska Wheat Board, Jim Peterson, Director of Marketing, North Dakota Wheat Commission, Brad Erker, Executive Director, Colorado Wheat, Taylor Williamson, Director of Government Affairs, Kansas Wheat, Claire Hutchins, Marketing Analyst, U.S. Wheat Associates, Dalton Henry, Vice President of Policy, U.S. Wheat Associates, Daniel Elliott, Daniel Elliott PLLC.

STB Attendees: Ann Begeman, Chairman, Craig Keats, General Counsel, William Brennan, Director of the Office of Economics, Lucille Marvin, Director of the Office of Public Assistance, Governmental Affairs, and Compliance, Kim Hillenbrand, Transportation Industry Analyst, Chris Diamond, Attorney-Advisor, Adam Kress, Attorney-Advisor, Amanda Gorski, Attorney-Advisor, Valerie Quinn, Attorney-Advisor.

Daniel Elliott began the meeting by introducing the U.S. Wheat Associates (USW) attendees. He also stated that USW had provided slides to the Chairman but would not be presenting them during the meeting. These slides are attached hereto.

Justin Gilpin and Royce Shaneman then introduced USW and how it operates. USW is the export market development organization for the U.S. wheat industry. USW promotes the reliability, quality and value of all six U.S. wheat classes to wheat buyers, millers, bakers, food processors and government officials in more than 100 countries around the world. Its mission is to "Develop, maintain, and expand international markets to enhance wheat's profitability for U.S. wheat producers and its value for their customers." Funding is made possible through checkoff dollars, goods and services from 17 state wheat commissions and cost-share grants from the USDA's Foreign Agricultural Service. They also thanked the Board for its work on Final Offer Rate Review ("FORR"). Chairman Begeman asked about the difference and interaction between wheat growers and wheat associates.

Dalton Henry thanked Chairman Begeman for her time and efforts on FORR. He also expressed USW's strong support of this proposal. In addition, he stated that USW believed increasing the recovery cap would improve the proposal and allow greater use of FORR by wheat shippers. He then explained some of his concerns about using arbitration as an alternative to FORR, including time and costs, appeal process, potential retaliation, and the need to raise the cap on recovery. Chairman Begeman asked USW about its members'

concerns regarding retaliation now and whether those concerns would continue if FORR were adopted.

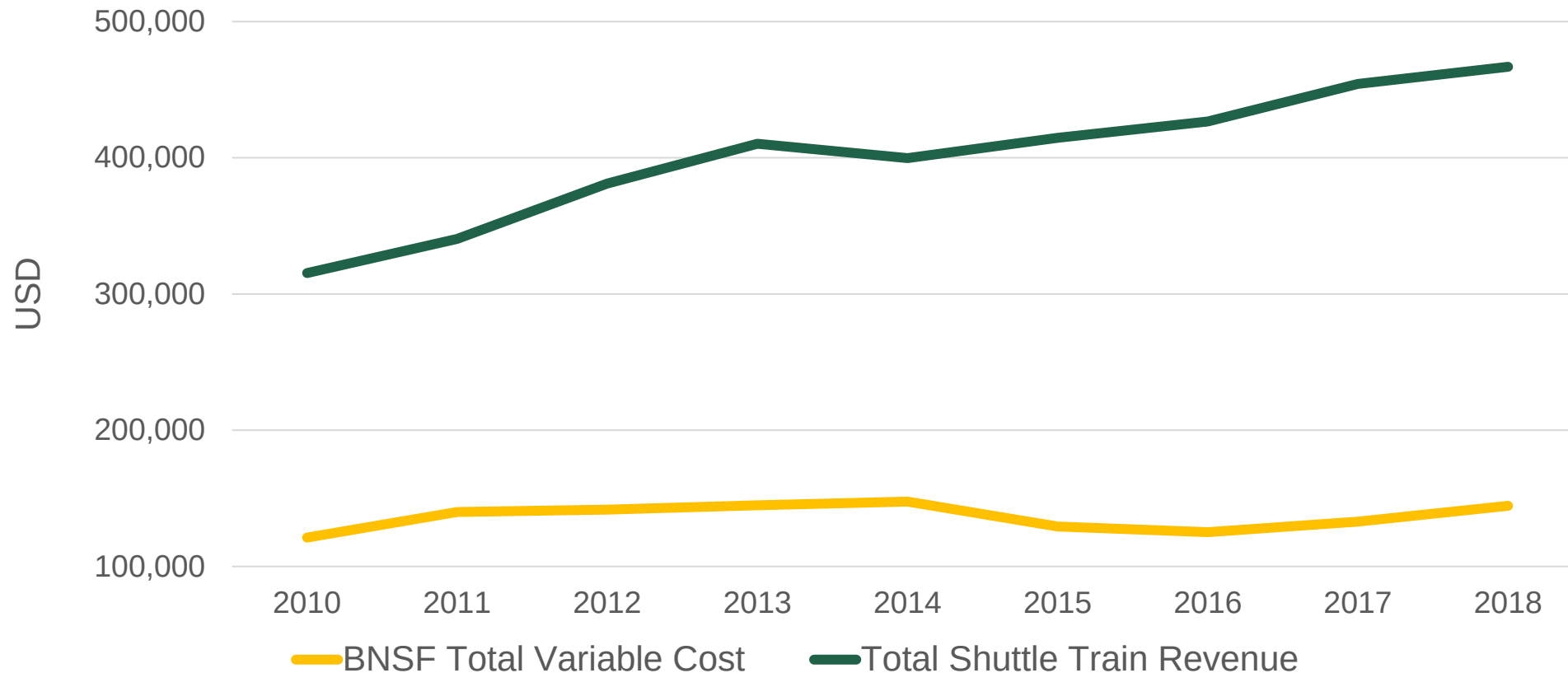


U.S. WHEAT
ASSOCIATES

*July 2020 Meeting with the
Surface Transportation Board*

Wheat Shuttle Rates: Wichita, KS to Galveston, TX

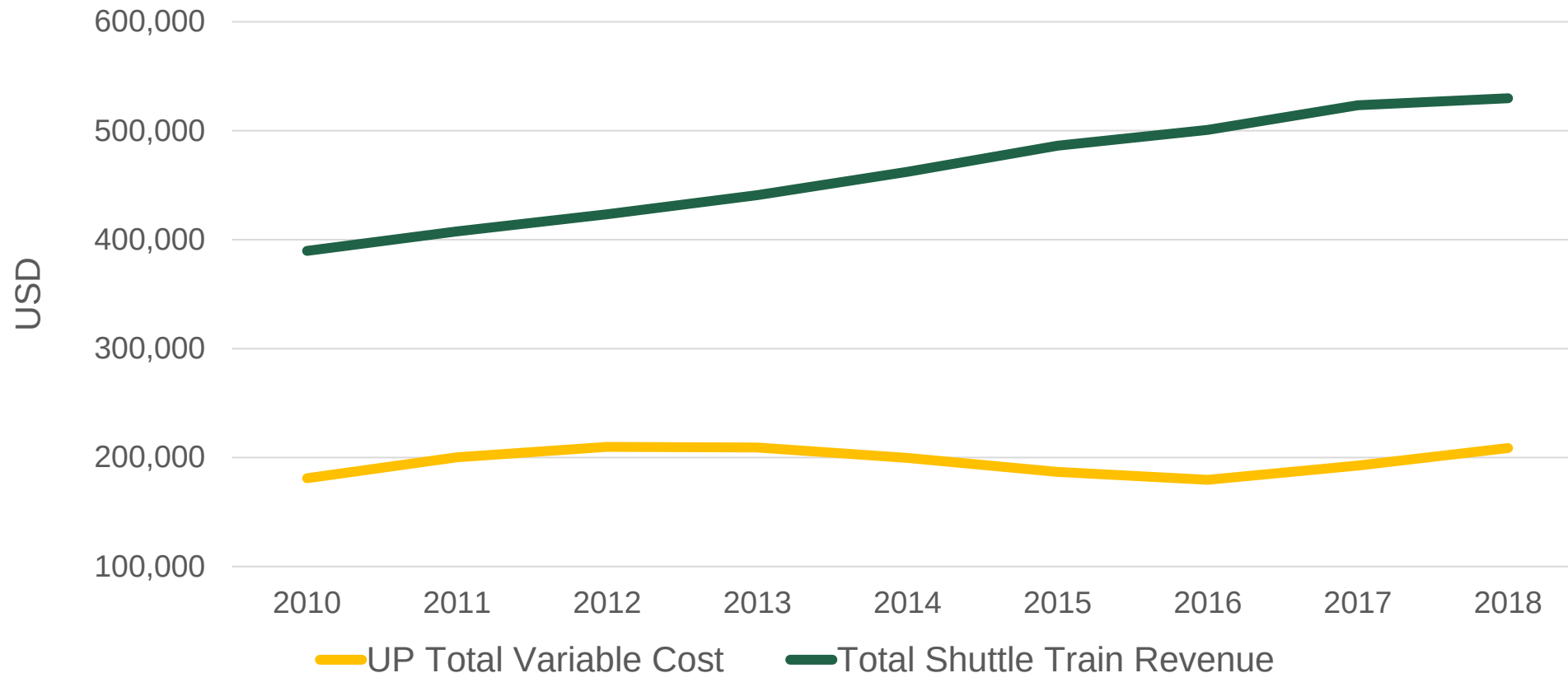
- Wheat rates have climbed substantially over the last decade, irrespective of other factors, including railroad's variable costs



Source: STB Railroad Cost Program and USDA AMS

Wheat Shuttle Rates: Colby, KS to Galveston, TX

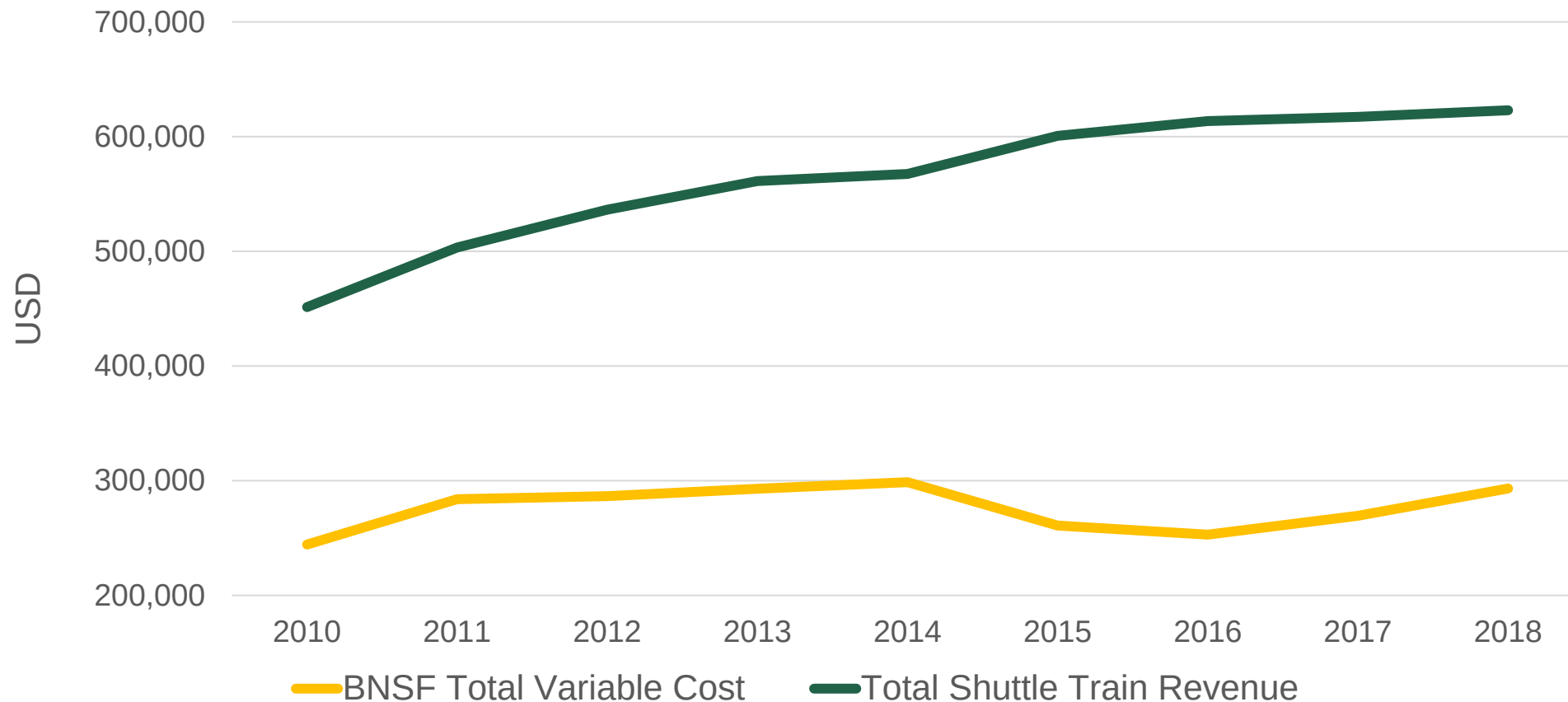
- Wheat rates have climbed substantially over the last decade, irrespective of other factors, including railroad's variable costs



Source: STB Railroad Cost Program and USDA AMS

Wheat Shuttle Rates: Grand Forks, ND to Portland, OR

- Wheat rates have climbed substantially over the last decade, irrespective of other factors, including railroad's variable costs



Source: STB Railroad Cost Program and USDA AMS

Tariff Rate by Commodity and Route (\$/Car)

	Wheat	Corn
South Central KS to TX Gulf	4,423	3,430 (-22%)
Eastern Colorado to TX Gulf	5,217	3,346 (-36%)
Eastern NE to Center Gulf	5,577	3,480 (-38%)
Eastern ND to Portland, OR	5,144	3,149 (-39%)

- Rates pulled from grain handlers in early July 2020 for corn and wheat with the same origin and destination. As the chart shows, wheat faces substantially higher rates than corn despite the similarities in commodity and being on the same route.
- Higher wheat rates are often attributed to a lack of market and transportation alternatives outside traditional export channels.

Rate difference has been noticed by other federal government agencies.

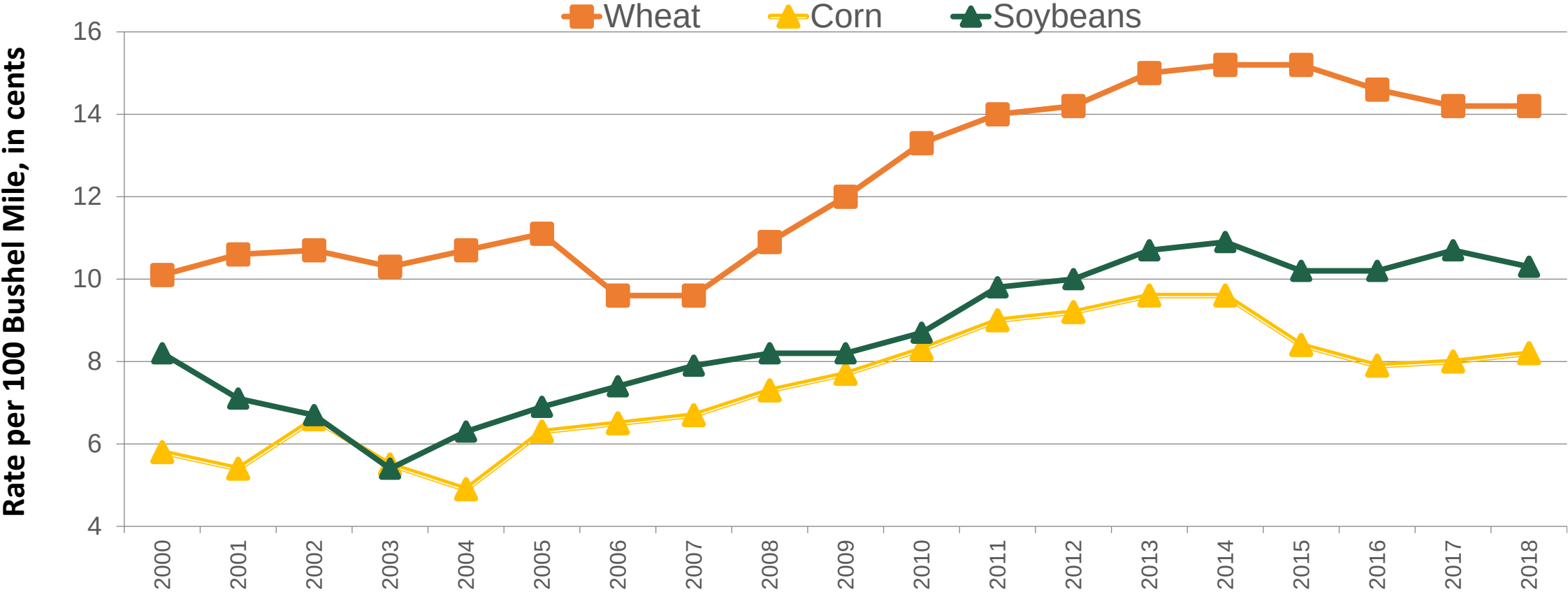
Quotes from the June 2017 USDA AMS Wheat Rate Study:

- “Wheat shippers in particular have found it difficult to compete in export markets, as they face higher rail rates than other grain shippers over similar corridors and rates that have not declined in response to changes in world wheat markets.”
- “While wheat prices have declined significantly in recent years, wheat rail rates have continued to increase. The puzzle is why rail rates for wheat have not declined as wheat prices have fallen.”
- “The factors driving wheat rates is still an open question. A better understanding would benefit wheat and other grain producers and shippers, who rely on transportation to reach end markets.”

Excessive Rail Rates for Wheat Reduces its ability to compete with other crops.

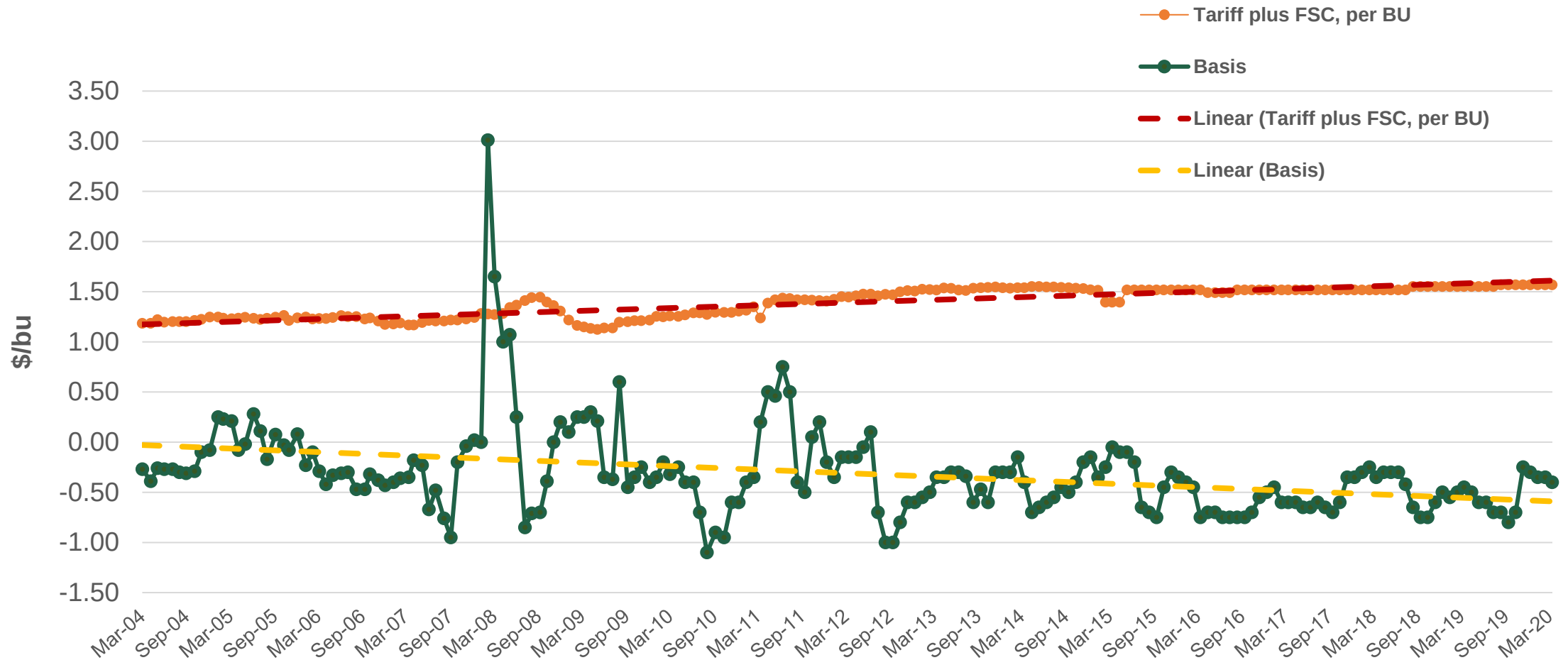
- Average rail costs for wheat are significantly higher than corn and soybeans and have increased at a sharper incline in the past 10 years
- This impacts the profitability of wheat relative to other crops at the local level by reducing the basis value at origin
- In our region there is intense competition between corn, soybeans and wheat for acres
- There are many variables that impact local wheat basis values, but rail freight tariffs are often the largest, and the one which reacts least to wheat market price trends

North Dakota Average Rail Costs by Commodity



Source: US Public Use Waybill

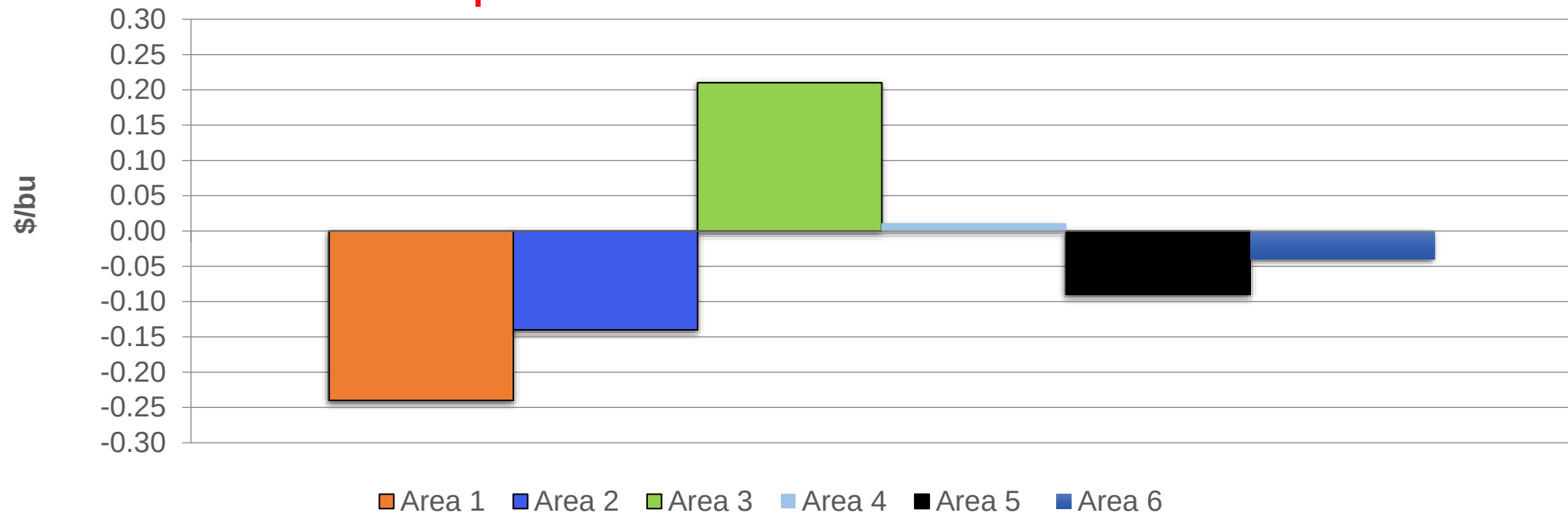
Wheat Basis vs. Tariff: Grand Forks, ND to PNW



North Dakota Wheat -- Per Bushel

**Profit / Loss Across the State

Cents per bushel matter, in determining profit or loss on the year.
Wheat competes with corn and soybeans for acres, often based on the best price at the local elevator.



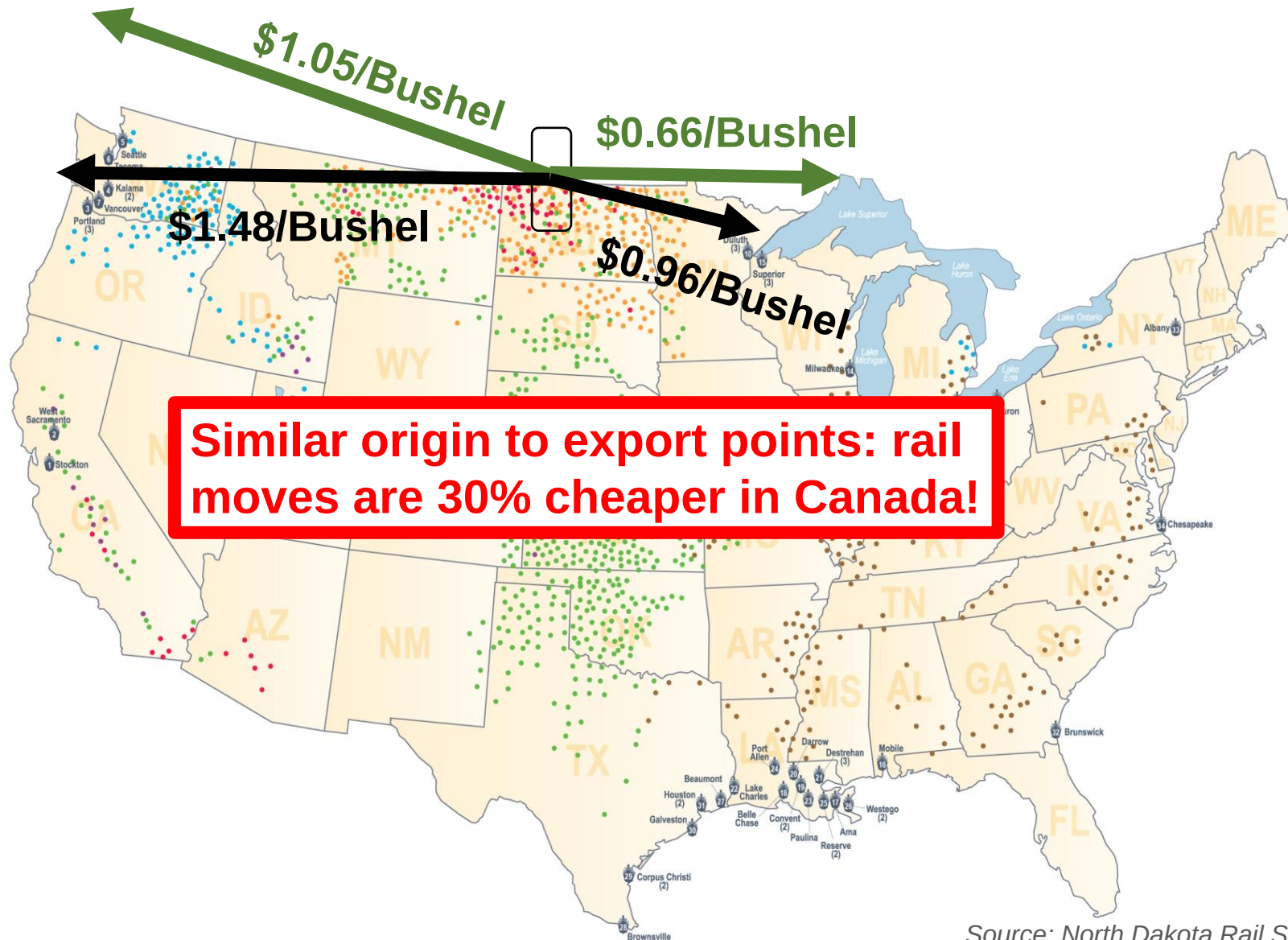
**** 3-Yr Average Market Price for Hard Red Spring wheat, at local elevator, less
Production Breakeven price (total production costs per acre / average yield)**

Source: USDA & NDSU Extension

Excessive Rail Rates for Wheat Impacts our Ability to Compete for Overseas Customers

- Excessive rail rates raise the “origination” cost of North Dakota wheat to U.S. and international customers
- The higher origination cost becomes acute for U.S. hard red spring and durum wheat when competing with Canada
- Local shippers and U.S. export companies often cite the higher rail costs within the U.S. market as the primary reason for lost sales in Asia, Central America and the Caribbean for similar qualities and classes of wheat from competitor countries

U.S. versus Canadian Rail Cost (112 Car Shipment - CP Rail -2019)



Source: North Dakota Rail Shipper

Conclusion

- Wheat tariff rates have increased nearly continually over time and those rates are substantially higher than those faced by similar commodities over the same routes.
- Current options available to challenge rates are too costly, time consuming and invite railroad retaliation against shippers.
- Wheat growers and shippers need new and creative options to challenge rail rates like the Final Offer Rate Review concept. We appreciate and support the STB's consideration of the proposal.



U.S. WHEAT
ASSOCIATES

Thank you!