

Before the Surface Transportation Board

**Ex Parte No. 665
Rail Transportation of Grain**

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**Testimony Submitted by Mr. Evan Hayes
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**On behalf of
National Barley Growers Association
American Malting Barley Association
Idaho Barley Commission
Idaho Grain Producers Association
Maryland Grain Producers Association
Minnesota Barley Growers Association
Montana Grain Growers Association
Montana Wheat and Barley Committee
North Dakota Barley Council
North Dakota Grain Growers Association
Oregon Grains Commission
Washington Barley Commission
Washington Association of Wheat Growers**

I am pleased to represent the National Barley Growers Association (NBGA) and thousands of barley producers across our traditional Northern Tier production areas in addressing our very deep concerns about the inadequacies of current rail service provided to our barley industry. The American Malting Barley Association, Inc. (AMBA) shares NBGA's assessments regarding the shortcomings of today's rail service. This is not a new concern to the NBGA and AMBA and our member producers and processors. Since its formation, we have been an active member of the Alliance for Rail Competition, and I personally represent U.S. agricultural interests on the ARC Executive Board, because we believe the time is long overdue for a more rational U.S. transportation policy that fosters competition in our rail freight industry.

I would like to begin my testimony by summarizing the economic disadvantages that U.S. barley producers face when moving their crop by rail today. I would then like to share some detailed illustrations that will reinforce these significant market disadvantages.

1. The majority of U.S. barley moves to domestic and export marketing positions by rail.
2. U.S. barley faces the same unique market structure as other grain. While our merchandisers pay the freight charges these expenses are passed back to the barley producers, and unlike virtually all other industries we cannot pass the costs on to anyone else.
3. The majority of our barley rail movements are captive to one railroad, resulting in freight rates well above those rates paid by competing grain suppliers, which enjoy competitive transportation options.
4. Monopoly practices by the nation's railroads have adversely affected U.S. barley markets and producers' net income in all major growing regions in the country.
5. U.S. produces some of the highest quality barley in the world, but we struggle to get our product to market competitively, thus largely negating any quality advantages we might have over our competition.
6. Multilateral trade negotiations that are designed to open foreign markets to our grain products may mean very little to our producers if we are unable to ship our products efficiently and economically.

Monopoly rail practices have and continue to adversely affect U.S. barley markets and producers' bottom line.

Excessive freight rates. A majority of U.S. barley moves to market in areas captive to one monopoly railroad, resulting in differential tariffs well above rates paid by competing grain suppliers. For example, rail rates in North Dakota (largest barley producer) and Montana (third largest producer) are between **250 to 450 percent of the railroad's revenue to variable cost** – far in excess of the Surface Transportation Board's threshold of unreasonableness of 180%.

Loss of traditional feed barley markets in the large California dairy shed. During the past decade, U.S. barley producers have watched their long-established markets erode due to non-competitive rail rates and service problems. As western railroads have become fewer, larger and more dominant due to largely unrestrained federal merger policy, we have lost a very large share of the once dynamic barley market in the northern California dairy shed. Today, this large feed grain market, which has grown in overall demand, is predominantly served by corn shuttle trains from the Midwest, despite longer distances from origination to destination points.

Let me share some details that will underscore these huge losses in U.S. barley markets. Prior to the frenzy in Western U.S. rail mergers – a time when significantly more competitive rail options were available to us – barley easily captured 50 to 60 percent of the California dairy feed grain market, amounting to between **60 and 70 million bushels** annually. For decades, these savvy dairymen recognized the unique qualities that barley could bring to their nutritionally balanced and competitively priced feed rations and were willing to pay a price premium for barley, compared to other feed grains, to realize this value. Then corn shuttle trains arrived in the mid to late 1990s, pricing corn from much further distances at significant advantage to Western U.S. barley. Analysis done by the California Corn Foundation shows Midwestern corn is moving into California at rates of 120 to 145 percent revenue to variable cost.

In addition to the more favorable freight rates, despite longer distances, our customers were forced to dedicate most or all of their facilities and staff resources to a single commodity – in this case Midwestern corn – in order to fully realize shuttle incentives due to very tight turnaround times. That meant little or no room for barley, despite the nutritionists' ration preferences. Today, we move fewer than 50 rail cars of barley per month into the California dairy market, amounting to less than **200,000 bushels**. This represents an astounding loss in market share.

Frankly, it is a poorly kept secret today that the monopoly railroads have no desire to move barley and will price these movements as high as needed to eliminate what would otherwise be competitive barley markets.

Loss of malting barley markets. Rail rates and service failures also have closed off access to traditional malting markets. Here are three very real, not hypothetical, examples of the negative economic impacts on our producers.

Captive freight rates and substandard service effectively foreclosed most, if not all, opportunities to move surplus malting barley from the Western U.S. to Upper Midwestern processing plants during the past three years. The result was an oversupply situation that depressed local prices and resulted in a subsequent 20 to 30 percent cut in contracted acreage in 2006. These U.S. malting markets were captured, instead, by our Canadian competitors, who enjoy lower rates in an environment where railroads operate under regulatory caps.

From a logistics standpoint, these potential eastbound movements could have produced a profitable backhaul for rail cars returning to the Midwest grain belt. However, the railroads focused their resources on shuttle trains and were not willing to participate in shipments that didn't conform to their shuttle configurations.

Second, many of our malting and brewing companies who are captive to a single railroad have faced severe rail constraints in the past two to three years that have resulted in a backlog of barley and rising storage costs. These additional costs came on top of an already difficult business cycle in this industry, which has included rising energy costs, stagnant domestic demand and increasing retail price discounting. The direct result was lower contract prices for our barley. In some cases, as much as 20 to 30 percent lower in 2006.

Finally, I want to share with you a direct quote from a prominent brewing company which completed the construction of its first malting facility in eastern Idaho in 2005. This executive said to our Idaho governor earlier this year..."If I knew then what I know now about the rail situation in eastern Idaho, our company would not have built our malt plant in Idaho."

Why should the Surface Transportation Board or Congress care about these astounding losses in barley markets?

Policymakers at the highest levels of our Federal government should care because the U.S. barley industry has been marginalized to the point of becoming endangered. Acreage and production trends during the past 20 years clearly underscore the loss of our once competitive edge in domestic and export markets. **From 1987 to 2006, U.S. barley acreage declined by 70 percent and production by 65 percent.** This is how the USDA National Agricultural Statistics Service characterized the U.S. barley situation in 2006..."(Barley) Growers seeded 3.5 million acres in 2006, down 10 percent from the 3.88 million acres seeded a year ago, and the **lowest since barley planted acreage estimates began in 1926.** Acres for harvest, at 2.99 million were the lowest since records began in 1885."

Solutions. We need the Surface Transportation Board to move beyond its current narrow view that a larger railroad will be a more profitable railroad. We believe that STB rulings in recent years have shown a strong preference for protecting railroad revenues and far less interest in protecting captive rail customers and the broad economic interests of the U.S. farm economy.

U.S. barley producers deserve better and our future very likely depends on it. Today, we are dependent on a transportation system that has little incentive or expressed desire to carry our products. That must change if we hope to rebuild our competitive strength.

We need bold, proactive solutions to excessive freight rates and poor service that have hampered our ability to compete in feed and malt barley markets across this country and globally.

We need to rebalance the current economic model that encourages railroads to dedicate their capacity and infrastructure improvements to the intermodal movement of imported consumer goods. **In our view, these practices have created a significant weak link in current and future competitiveness of U.S. Agriculture.**

Consider these realities:

- ◆ Whole regions, states and production areas are captive to single railroads, through mergers approved by the ICC and STB.
- ◆ The General Accounting Office has documented in at least three studies (1999, 2002 and 2006) that large areas of the U.S. farm belt are captive to single railroads, paying the highest freight rates and suffering from some of the worst service problems.
- ◆ The most recent GAO report states that captive grain shippers are continuing to see increasing rates at a pace higher than other commodities.

We need immediate remedies. The National Barley Growers Association, American Malting Barley Association and affiliated state barley grower organizations strongly support provisions, such as those contained in the Rail Competition Act of 2005, to reinvigorate competition in the U.S. rail industry. We call on the Surface Transportation Board to work hand-in-hand with Congress to devise workable tools that will help our captive shippers remedy excessively high rates and service constraints.

Thank you for your consideration.

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