

BEFORE THE
SURFACE TRANSPORTATION BOARD

EX PARTE No. 671
RAIL INFRASTRUCTURE

COMMENTS OF
NATIONAL GRAIN AND FEED ASSOCIATION
FOR APRIL 11, 2007 HEARING

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National Grain and Feed Association (NGFA) is a trade organization comprised of 900 member companies involved in country elevator operations, animal feed production, export grain operations, livestock feeding integrators, grain processing and grain and feed merchandising.

In today's marketplace, railroads carry about one-third of all commercial (off-farm) movements of whole grains and oilseeds. Barges account for roughly 20% of all grains and oilseed movements, and trucks account for the remainder of the commercial transportation market. The rail modal share has declined over the last twenty-five years (in 1980 rail modal share was about 50% of total commercial movements), but the rail-served markets today are generally for long-haul movements that have few, if any, competitive alternatives to rail. And while much of the loss in rail market share has been replaced by truck, we anticipate that truck capacity will be strained in the future in ways that will limit its ability to make up for any losses or disruptions in rail service.

Agricultural production, storage, shipping and processing locations form a network for delivery of grains, oilseeds and processed products from many points of origination to many destinations for further processing or consumption, with points of production and consumption frequently separated by distances of 500 to 1500 miles. This is the long-distance marketplace for agricultural commodities, for which there is no good substitute for reliable and competitively-priced rail service. Thus, many agricultural commodity shippers and commodity processors are highly dependent on railroads for efficient, predictable and cost-competitive rail service.

There is no doubt that in the last 3 years we have witnessed a North America-based rail industry that has gone from surplus capacity to one where capacity is strained and sometimes rationed among customers. Thus, there is a compelling need for more investment in rail infrastructure that will truly add capacity. Likewise, some portions of the nation's highways and waterways are reaching the point of strained capacity. Additional investment in infrastructure for all modes is desperately needed to ensure that the U.S. transportation network continues to be reliable to permit economic growth.

The Outlook for Agricultural Transportation

While U.S. Agriculture has grown in the past 10 years, most of that growth has been in domestic food and feed markets, as the U.S. exports of whole grains and oilseeds have leveled off from increasing international competition. But the current 10-year outlook for U.S. agriculture is for the industry growth rate to increase considerably over what we have experienced in the past. Much of the increased demand for grains is expected to come from biofuels, primarily corn-based ethanol.

Ten years ago, total U.S. grain and oilseed production was averaging about 15 billion bushels annually. In today's marketplace, U.S. production of those same crops is about 17 billion bushels. There are private studies that estimate that, depending on crude oil price trends, the U.S. may need to increase its total output of grains and oilseeds in the next 10 years by an additional 3 to 5 billion bushels to satisfy all food, feed, export and fuel markets. This suggests that the rate of growth in agricultural production could easily be double of what we've experienced in recent years.

Where will this kind of expansion come from? Corn will be planted to more acres, in some cases taking away acreage from other crops. But those other crops, such as wheat and soybeans, do not have the per acre yield volumes that corn does which means we will add to the total volume of grains and oilseeds to be handled by those storing, marketing and transporting crops. Additional corn production will come from yield improvements and possibly planting crops to farmland that is now idle.

This emphasis on biofuels is expected to strain truck transportation in origination markets where ethanol markets are supplied by local farmers and grain elevators. Rapid growth in ethanol production will require considerable expansion in tank car capacity as much of the ethanol is being delivered to destination markets by rail. Overall, some private estimates forecast that demand for rail transportation related to whole corn shipments, shipments of ethanol and distillers dried grains (DDGS) could expand at an annual rate of 5-6% over the foreseeable time horizon. While this expanded freight demand for the corn sector may be met with modest declines in freight demand for other grains, the overall growth path for U.S. agriculture appears strongly positive.

The strains on transportation may not be limited to only corn-based ethanol production. If in the next few years technology develops to make cellulose a viable feedstock for ethanol production, the logistical capacity required to gather and deliver cellulose to feed such plants could be massive. Cellulose tends to be less dense, so the local truck traffic impacts could be several times greater than corn-based ethanol for the same volume of ethanol production. Thus, truck transportation may struggle to keep up with its own expanding demand and have little capacity to make up for any losses in rail service that might be caused by inadequate infrastructure investments for rail.

Government's Role in Infrastructure Investment

While it is easy to see the growing need for transportation infrastructure investment, there clearly are issues as to who will or should make the needed investments. NGFA favors an approach that provides for a balanced federal government role across all transport modes. As for rail infrastructure, we would favor an approach that permits a sharing of private and public investment, provided there is appropriate oversight from the federal government to ensure the expansion in capacity occurs where it is most needed and that investments truly do add to the capacity of the system rather than simply replace existing equipment and infrastructure.

We are aware that some legislation to encourage infrastructure investment is now being considered on Capitol Hill. NGFA is of the view that such legislation could be useful in providing necessary incentives to make capacity expansion investments earlier than would otherwise occur. We think it is vitally important any such legislation provide equivalent treatment for railroad and rail customer investments in infrastructure that add to the overall capacity of the rail system.

If such incentives for rail investments are to be made available, we favor the private marketplace making the decisions as to where new investments are most needed to increase rail service. But these private market decisions must have adequate oversight from the government.

It is difficult to obtain investment information that is consistent across the carriers to determine the net impact of the new infrastructure and locomotive investment, and how much capacity is really being added versus just replacement of existing infrastructure. We face a critical time in the rail-served industries in the next 5 years to

determine if the minimally-regulated rail industry can successfully add to its capacity to meet what appears to be secular growth in demand for rail services. The STB could provide a much needed public service by monitoring the nature and extent of net new infrastructure investment by rail carriers and reporting that data to the public and to Congress in a systematic and transparent way.

We appreciate the opportunity to present our views.