

Before the U.S. Surface Transportation Board

STB Ex Parte No. 724
United States Rail Service Issues

Comments of the
U.S. Department of Agriculture

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Authority and Interest

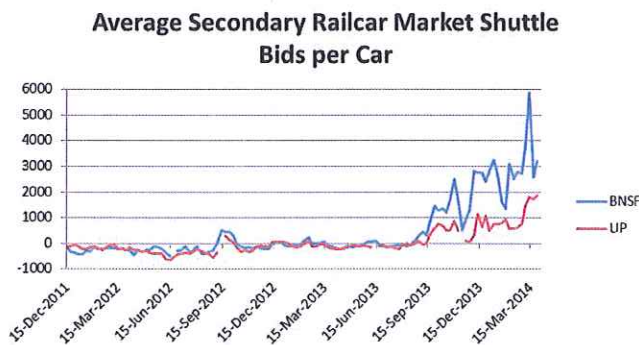
The Secretary of Agriculture is charged with the responsibility under the Agricultural Adjustment Act of 1938 and the Agricultural Marketing Act of 1946 to represent the interests of agricultural producers and shippers in improving transportation services and facilities by, among other things, initiating and participating in Surface Transportation Board (Board) proceedings involving rates, charges, tariffs, practices, and services.

Introduction

The U.S. Department of Agriculture (USDA) appreciates the opportunity to offer comments in this important proceeding. Rail service problems have been occurring across significant portions of the U.S. rail network, particularly on the Canadian Pacific (CP) and BNSF Railway (BNSF) systems. Problems associated with deteriorated rail service include grain shippers paying up to \$6,000 to obtain empty railcars, grain piling up on the ground outside elevators awaiting rail transportation, and some grain shippers either paying ocean vessel demurrage charges, estimated between \$30,000 and \$50,000 per day (\$0.07 to \$0.11 cents per bushel), or missing vessels that departed before the delayed grain shipments could be loaded. These extra costs are reflected in the prices paid to farmers for their crops. In addition, grain shippers are concerned that the backlog created by the current service problems may not be corrected prior to the upcoming 2014 harvest. If old crop grains are still in storage when the new harvest occurs, this will create problems for storage, transportation, and markets.

Grain Shipper Concerns

BNSF grain shippers have paid record-high rates for delivery of empty grain cars in the secondary railcar markets (see figure), reportedly as much as \$6,000 per empty grain car—approximately \$1.65 per bushel, which can make U.S. grain less competitive in world markets and/or reduce the amount of revenue earned by producers. Bids in the secondary railcar market for empty grain cars have continued to climb with new records being set in December, January, February, and March. This indicates empty railcar supply for grain is increasingly inadequate relative to demand.



Bids represent an additional premium to securing guaranteed railcar service during a specific time period. As only so many guaranteed railcars are made available by railroads for a given month, shippers will bid higher and higher premiums to secure railcars as demand increases. Inadequate supply relative to demand has also driven up bids for service on Union Pacific Railroad (UP) as shippers switch carriers.¹ These costs are in addition to what shippers must pay BNSF directly through tariffs and fuel surcharges, which currently total between \$4,000 and \$6,000 per car on key grain routes.

¹ USDA does not have secondary railcar market prices for empty railcars originating on CP and CN.

Rail Operations Impacting Grain Shipments

Train speeds for BNSF grain trains have decreased and cycle times to Pacific Northwest markets have increased. BNSF grain train speed has decreased 15 percent, from 23.8 miles per hour in February 2013 to 20.3 miles per hour during February 2014. During January, grain unit trains from Minnesota or Iowa to the Pacific Northwest were taking as long as 22 days, compared to a normal transit time of 12 days.

As a whole, the amount of grain shipped via U.S.-owned Class I railroads is currently behind expectations given past performance following previous grain harvests. Grain carloads are about 42,000 carloads behind the 2009-2010 harvest and about 110,000 carloads behind the 2007-2008 harvest (Tables 1 and 2). Both harvests set records in terms of corn, wheat, and soybean production.

Period (Oct. through Mar.)	BNSF Carloads	Surplus / (Deficit) 2013 to period	CN Carloads	Surplus / (Deficit) 2013 to period	CP Carloads	Surplus / (Deficit) 2013 to period	U.S. Railroads Carloads	Surplus / (Deficit) 2013 to period
2007-2008	305,189	(74,511)	125,731	(10,760)	125,903	9,342	659,532	(110,784)
2008-2009	258,365	(27,687)	115,797	(826)	149,283	(14,038)	552,300	(3,552)
2009-2010	275,532	(44,854)	103,079	11,892	135,266	(21)	590,772	(42,024)
2010-2011	296,477	(65,799)	105,135	9,836	123,930	11,315	617,488	(68,740)
2011-2012	270,066	(39,388)	101,757	13,214	140,065	(4,820)	553,823	(5,075)
2012-2013	255,588	(24,910)	98,546	16,425	145,780	(10,535)	480,488	68,260
2013-2014	230,678	-	114,971	-	135,245	-	548,748	-
prior 5-year avg	271,206	(40,528)	104,863	10,108	138,865	(3,620)	558,974	(10,226)

Source: Association of American Railroads, Weekly Rail Traffic

Period (Oct. through Mar.)	CSX Carloads	Surplus / (Deficit) 2013 to period	NS Carloads	Surplus / (Deficit) 2013 to period	KCS Carloads	Surplus / (Deficit) 2013 to period	UP Carloads	Surplus / (Deficit) 2013 to period
2007-2008	81,911	(23,580)	82,830	3,645	18,442	7,673	171,160	(24,011)
2008-2009	62,935	(4,604)	75,224	11,251	20,093	6,022	135,683	11,466
2009-2010	60,118	(1,787)	81,557	4,918	21,152	4,963	152,413	(5,264)
2010-2011	58,874	(543)	82,342	4,133	16,628	9,487	163,167	(16,018)
2011-2012	58,470	(139)	77,269	9,206	13,810	12,305	134,208	12,941
2012-2013	41,336	16,995	70,886	15,589	12,948	13,167	99,730	47,419
2013-2014	58,331	-	86,475	-	26,115	-	147,149	-
prior 5-year avg	56,347	1,984	77,456	9,019	16,926	9,189	137,040	10,109

Source: Association of American Railroads, Weekly Rail Traffic

BNSF states that track work to expand future capacity was the primary reason for poor service because sections of track must be shut down at least 10–12 hours daily while the work is being done. Other factors cited by BNSF and CP include severe weather and increased traffic from several commodities, including grain, coal, intermodal, and petroleum.

One of the most severe winters in 20 years has slowed operations across the northern rail network. When temperatures are below -15°F, trains cannot be as long because the cold diminishes the effectiveness of air brakes. This means that railroads require more crew and locomotives to move the same amount of traffic. With significant backlogs already on the network from other factors, weather delays can be compounded and make the overall situation even worse.

On March 21, BNSF reported that 16,761 railcars were past due by an average of 23.4 days. North Dakota had 7,474 railcars past due by an average of 21.4 days, Montana had 3,322 railcars late by an average of 25 days, South Dakota had 1,300 railcars past due by an average of 25.9 days, and Minnesota had 1,463 railcars past due by an average of 23.3 days. However, BNSF has shown recent improvements, reporting that North Region dwell time improved 11 percent since the first week of February and North Region train speed improved 1 percent during the same period.

Although there have been recent signs of improving rail service, there is concern that this year's crop will not be moved before the new crop has to go into storage, which could create major problems during the upcoming 2014 harvest. There are reports of elevator operators storing millions of bushels of grain on the ground and refusing to buy more from farmers. Reports from North Dakota co-op managers indicate 85 percent of this year's corn crop is still in either on-farm or warehouse storage.

Conclusion

USDA understands this is a broad and complex issue affecting all commodities shipped by rail. There is likely no easy solution to alleviate problems faced by shippers in the short term. While all rail shipments are time sensitive to varying degrees and all industries have special considerations, USDA would like to emphasize the perishability of grain stored on the ground and other agriculture shipments.

Respectfully submitted,

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