

STATEMENT OF
RANDAL L. LINVILLE
CHIEF EXECUTIVE OFFICER
THE SCOULAR COMPANY

BEFORE THE

SENATE COMMERCE COMMITTEE
SUBCOMMITTEE ON SURFACE TRANSPORTATION AND
MERCHANT MARINE

HEARING ON
S. 919, THE RAILROAD COMPETITION ACT OF 2003
SEPTEMBER 18, 2003

MY NAME IS RANDAL L. LINVILLE. I AM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE SCOULAR COMPANY (“SCOULAR”). MY BUSINESS ADDRESS IS 9401 INDIAN CREEK PARKWAY, SUITE 850, OVERLAND PARK, KANSAS 66210.

I HAVE BEEN IN THE GRAIN BUSINESS SINCE 1977 AND WITH SCOULAR SINCE 1984 IN VARIOUS CAPACITIES, INCLUDING MERCHANDISING, MANAGEMENT AND EXECUTIVE MANAGEMENT. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE TO PRESENT SCOULAR’S VIEWS CONCERNING S. 919 (THE “RAILROAD COMPETITION ACT OF 2003”).

SCOULAR IS A PRIVATELY-OWNED COMPANY THAT STARTED IN THE AGRICULTURE BUSINESS 111 YEARS AGO. WE CONSIDER SCOULAR TO BE MIDDLE-MARKET IN SIZE AND SCOPE, CONSIDERABLY LARGER THAN MANY LOCAL OR REGIONAL COMPANIES AND COOPERATIVES, YET SMALLER AND MUCH LESS DIVERSIFIED THAN THE MAJOR MULTI-NATIONAL AGRICULTURAL FIRMS HEADQUARTERED IN THE U.S. OUR BUSINESS IS FOCUSED ON MEETING THE SUPPLY CHAIN NEEDS OF PRODUCERS AND END-USERS OF AGRICULTURAL PRODUCTS. ALTHOUGH

WE ARE MARKETING AGRICULTURAL GOODS, WE BUNDLE THESE WITH A LOGISTICAL SOLUTION THAT CREATES THE BEST VALUE FOR OUR CUSTOMER. IN DOING SO, WE REGULARLY USE TRUCK, BARGE, RAIL, CONTAINER AND VESSEL FREIGHT.

FOR PURPOSES OF THE DISCUSSION TODAY, MY COMMENTS WILL FOCUS PRIMARILY ON OUR GRAIN BUSINESS, WHICH IS SCOLAR'S CORE AND LARGEST BUSINESS. GEOGRAPHICALLY, SCOLAR'S BUSINESS SPREADS ACROSS NORTH AMERICA, WITH SUBSIDIARIES IN BOTH CANADA AND MEXICO. WE OPERATE GRAIN HANDLING FACILITIES IN MANY STATES OF THE U.S., INCLUDING CALIFORNIA, MONTANA, UTAH, IDAHO, KANSAS, NEBRASKA, TEXAS, MISSOURI AND OHIO.

SCOLAR'S DIRECT BUSINESS IS PREDOMINANTLY DOMESTIC, BUT DEPENDENCE ON EXPORT MARKETS IS AN INESCAPABLE FACT OF LIFE FOR U.S. AGRICULTURE. FOR BOTH BULK COMMODITIES AND VALUE-ADDED PRODUCTS, PRODUCTION EXCEEDS DOMESTIC DEMAND. THIS MEANS THAT COMPETITIVENESS IN THE WORLD MARKET IS NOT A MATTER OF CHOICE FOR U.S. AGRICULTURE, IT IS A MATTER OF SURVIVAL.

THE RAILROAD COMPETITION ACT OF 2003 COMES AT AN INTERESTING TIME IN RAIL HISTORY. DURING MY CAREER OF OVER 25 YEARS, THE STAGGERS ACT AND THE CREATION OF THE SURFACE TRANSPORTATION BOARD ARE THE ONLY SIGNIFICANT CONGRESSIONAL ACTIONS DIRECTLY ADDRESSING THE RAIL INDUSTRY. BOTH REDUCED GOVERNMENT INVOLVEMENT. THE EVOLUTION OF THE RAIL INDUSTRY IN THAT TIME PERIOD HAS BEEN REMARKABLY BENEFICIAL. FROM THE PERSPECTIVE OF SCOLAR'S BUSINESS, I CAN SAY WITHOUT EQUIVOCATION THAT EFFICIENCY, PRODUCTIVITY, SERVICE AND INNOVATION HAVE IMPROVED SUBSTANTIALLY SINCE 1980.

THE RAILROADS PROVIDE A VITAL LINK, BUT NONETHELESS JUST A LINK, IN THE SUPPLY CHAIN FOR U.S. AGRICULTURE. U.S. PRODUCTION IS CONCENTRATED IN THE HEARTLAND, WHILE CONSUMPTION IS CONCENTRATED INCREASINGLY ON THE PERIMETERS IN LARGE COASTAL POPULATION CENTERS AND THROUGH U.S. PORTS TO EXPORT MARKETS. LIKE ALL INDUSTRIES THAT MUST RESPOND TO SUPPLY AND DEMAND, THE AGRICULTURE INDUSTRY STRIVES TO MEET THESE NEEDS IN THE MOST EFFICIENT WAY POSSIBLE. SCOLAR BELIEVES THAT FREEDOM FROM ARTIFICIAL PRICING INFLUENCE IS AS CRITICAL TO THE DOMESTIC AGRICULTURE MARKETS AS WE KNOW IT TO BE IN GLOBAL MARKETS.

LET ME PROVIDE A FEW ILLUSTRATIONS THAT HELP DEMONSTRATE THE ROLE OF RAIL CARRIERS IN THE EFFICIENCY GAINS OF U.S. AGRICULTURE OVER THE LAST FEW DECADES.

TO MEET THE DEMANDS OF A RAPIDLY GROWING POPULATION, THE CALIFORNIA DAIRY INDUSTRY HAS EXPANDED. WHEN IT OUTGREW THE CAPACITY OF CALIFORNIA GRAIN PRODUCERS TO SUPPLY IT WITH FEED, DEMAND WAS CREATED FOR MONTANA-GROWN BARLEY THAT WAS SHIPPED BY RAIL TO CALIFORNIA. AS THE RAIL INFRASTRUCTURE CONTINUED TO EVOLVE, ALLOWING FOR LARGER UNITS TO BE SHIPPED ON PREDICTABLE SCHEDULES, CALIFORNIA FEEDERS GAINED ACCESS TO THE WESTERN CORN BELT. CORN GRADUALLY REPLACED BARLEY IN THE DAIRY RATION, CONTRIBUTING TO IMPROVED PRODUCTIVITY. TO ADAPT, BARLEY PRODUCERS BEGAN TO SHIP TO THE PACIFIC NORTHWEST FOR EXPORT AND ALSO TO PRODUCE WHEAT FOR SHIPMENT TO FLOUR MILLERS IN THE LA BASIN. NONE OF THIS OCCURRED FOR OR BECAUSE OF THE RAILROADS. RATHER, IT IS AN EXAMPLE OF ADAPTATION THAT OCCURS WHEN PRODUCERS AND PROCESSORS STRIVE TO IMPROVE EFFICIENCY AND PRODUCTIVITY.

CONSIDER ALSO THE DEVELOPMENT OF THE ETHANOL INDUSTRY IN THE U.S. THIS EVOLUTION HAS BEEN UNDERWAY FOR THREE DECADES, DRIVEN NATIONALLY BY A DESIRE FOR REDUCED DEPENDENCE ON FOREIGN OIL AND LOCALLY BY AN INTEREST IN VALUE-ADDED AGRICULTURE. A MAP OF ETHANOL PRODUCTION SITES WOULD QUICKLY DEMONSTRATE THAT THESE HAVE BEEN BUILT PREDOMINANTLY IN THE CORN BELT, TAKING GRAIN OFF THE RAILROADS AND DIVERTING IT TO LOCAL CONSUMPTION IN ETHANOL PLANTS. I READ RECENTLY THAT A UNIT TRAIN OF ETHANOL WAS SHIPPED FROM SOUTH DAKOTA TO CALIFORNIA. AGAIN, THE CONVERSION OF CORN TO ETHANOL IN SOUTH DAKOTA WAS A RESPONSE TO ECONOMIC FORCES WELL BEYOND THE CONTROL OF THE RAILROADS.

ANOTHER EXAMPLE WOULD BE THE CONCENTRATION OF CATTLE FEEDLOTS IN THE SOUTHERN PLAINS. THESE EVOLVED BECAUSE WARMER TEMPERATURES ALLOW FOR MORE EFFICIENT UTILIZATION OF ENERGY IN FATTENING CATTLE AND THE LOCAL SUPPLIES OF FEED WERE EXCELLENT. HOWEVER, THE GROWTH OF CATTLE NUMBERS COUPLED WITH DECLINING WATER SUPPLIES HAS TURNED A GRAIN-SURPLUS MARKET INTO A GRAIN-DEFICIT MARKET. INVESTMENT IN INFRASTRUCTURE BY RAILROADS AND PRIVATE INDUSTRY HAS CREATED A COST-EFFECTIVE WAY TO IMPORT THE VOLUME OF FEED GRAINS NEEDED TO MAINTAIN CATTLE PRODUCTION IN THIS REGION ON A BASIS THAT WILL ALLOW IT TO COMPETE IN THE WORLD MARKET.

SO WHAT DO THESE ILLUSTRATIONS INDICATE? TO ME, THEY INDICATE THAT ECONOMIC DEVELOPMENT IS OCCURRING AS IT SHOULD IN U.S. AGRICULTURE. WE ARE CREATING MORE MARKETS FOR OUR PRODUCTS. WE ARE INCREASING EFFICIENCY AND PRODUCTIVITY. WE ARE POSITIONED TO MAINTAIN OR INCREASE GLOBAL MARKET SHARE.

WE UNDERSTAND THAT THIS IS A DYNAMIC PROCESS THAT REQUIRES ADAPTATION THROUGHOUT THE SUPPLY CHAIN. WE KNOW THAT MONTANA BARLEY GROWERS REPLACED THE CALIFORNIA DAIRY SHED WITH ALTERNATIVE MARKETS. WE KNOW THAT SOME GRAIN ELEVATORS IN SOUTH DAKOTA ARE NOW RECEIVING HARVEST GRAIN AND STORING IT FOR FUTURE USE IN ETHANOL PRODUCTION. WE KNOW THAT CATTLE FEEDERS ON THE SOUTHERN PLAINS HAVE FOUND A WAY TO STAY COMPETITIVE.

IN EACH OF THESE INSTANCES, THE PRODUCERS AND PROCESSORS WERE COMPELLED BY MARKET FORCES TO ADAPT, BUT THE TEMPORARY STRAIN OF ADAPTING SHOULD NOT MASK THE BENEFICIAL OUTCOME WHEN RESOURCES ULTIMATELY FIND THEIR HIGHEST AND BEST USE. IF LEGISLATION HAD ALTERED THE IMPACT OF MARKET FORCES, ADAPTATION WOULD HAVE BEEN IMPEDED AND THE ECONOMIC DISEQUILIBRIUM THAT STIMULATED IT WOULD HAVE BEEN PROLONGED.

THE EVOLUTIONARY CHANGES WE HAVE SEEN AND CONTINUE TO EXPECT REQUIRE A RAILROAD INDUSTRY WITH THE CAPACITY AND INCENTIVE TO ADAPT WITH U.S. AGRICULTURE. IF FEDERAL LAW MAKES IT THE DUTY OF RAILROADS TO ENSURE THAT COMPETITION EXISTS FOR EVERY SHIPPER, RAILROADS WILL BE FORCED TO DIVERT FUNDS TO UNECONOMIC USE. INSTEAD OF INVESTMENT WHERE THE MARKET DEMANDS IMPROVED RAIL ACCESS, THEY MAY BE CREATING IT IN A MARKET WHERE NON-RAIL ALTERNATIVES ARE BETTER. INSTEAD OF ENCOURAGING A CAPTIVE SHIPPER TO INVEST IN EFFICIENCY IMPROVEMENTS, THEY MAY HAVE TO TAKE SERVICE AWAY IN ORDER TO PROVIDE IT ELSEWHERE. RAILROADS DO NOT CREATE COMPETITION FOR AGRICULTURAL PRODUCTS, BUT THEY CAN SUBSTANTIALLY IMPAIR THE ABILITY OF THOSE PRODUCTS TO COMPETE IF THEY ARE UNABLE TO RESPOND TO MARKET SIGNALS.

S. 919 IS IMPORTANT TO SCOLAR BECAUSE WE UNDERSTAND HOW COSTS ARE BORNE. IF THE RAIL TRANSPORTATION SYSTEM IS FORCED TO ABSORB COSTS THAT ARE NOT RETURNED IN THE MARKETPLACE, RAIL WILL BE UNFAIRLY DISADVANTAGED VERSUS OTHER MODES OF TRANSPORTATION. SHIPPERS THAT ALONE ARE NOT SUSTAINABLE WILL BE SUBSIDIZED TO THE DETRIMENT OF THEIR EVENTUAL ADAPTATION.

FROM A CORN GROWER IN MINNESOTA TO A FLOUR MILLER IN LOS ANGELES, ALL DEPEND ON AN EFFICIENT AND RESPONSIVE RAIL TRANSPORTATION SYSTEM. WITHOUT THAT, THE ENTIRE AGRICULTURAL SUPPLY CHAIN WILL BE PENALIZED AND, MOST IMPORTANTLY, FOREIGN MARKETS FOR U.S. PRODUCTION WILL BE JEOPARDIZED.