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Before the
Senate Commerce, Science and Transportation Committee

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Chairman Rockefeller, Ranking Member Thune, and members of the committee, thank you for the opportunity to submit this statement on behalf of the U.S. Department of Agriculture (USDA) for today's hearing on "Freight Rail Service: Improving the Performance of America's Rail System." It is our hope that the information we provide will prove helpful as you examine the current state of U.S. freight rail service.

I serve as the Deputy Administrator, Transportation and Marketing Program, for USDA's Agricultural Marketing Service (AMS) whose mission is to facilitate the efficient, fair marketing of U.S. agricultural products, including food, fiber, and specialty crops. Within AMS, the Transportation Services Division serves as the expert source for economic analysis on agricultural transportation from farm to markets. As part of USDA, we inform, represent, and assist agricultural shippers and government policymakers through: market reports, regulatory representation, economic analysis, transportation disruption reports, technical assistance, outreach to stakeholders, and responding to inquiries.

AMS does not have regulatory authority over transportation issues. However, 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 U.S. Surface Transportation Board (STB) proceedings involving rates, charges, tariffs, practices, and services.

STB is the agency that Congress charged with resolving railroad rate and service disputes and reviewing proposed railroad mergers. STB is an independent regulatory adjudicatory agency, although it is administratively affiliated with the Department of Transportation.

A Building Problem

Since October 2013, AMS has reported that railroad service to U.S. grain shippers has been inadequate, characterized by long delays, missed shipments, burgeoning backlogs, and higher costs. The problems have centered on Canadian Pacific Railway Company (CP) and BNSF Railway Company (BNSF). Service problems have been widespread in Minnesota, Montana, North Dakota, and South Dakota.

As a result, STB held a public hearing on April 10, 2014, to hear how shippers have been impacted and how BNSF and CP railroad executives will address the problems. USDA submitted comments about adverse impacts on grain shippers, including grain piling up on the ground outside elevators awaiting rail transportation, and some grain shippers either paying ocean vessel demurrage charges or missing vessels that departed before the delayed grain shipments could be loaded. Later in April, STB issued an order to the rail companies to reduce the backlog of fertilizer deliveries in order to meet spring planting timeframes.

On June 20, 2014, based on concerns about the slow pace of progress, STB directed CP and BNSF to publicly file plans to resolve their backlogs of grain car orders, as well as provide weekly status reports until the backlogs are eliminated.

Last week, STB held a field hearing in Fargo, North Dakota, to further review the current state of the issue. Based on the testimony provided by nine panels and the questions and answers between STB and panelists, issues remain with railcar shortages and service delays. As stated previously, STB is the only regulatory body with the authority to act on freight rail economic issues. During the field hearing, several participants requested that the STB issue a service order. Under the Interstate Commerce Commission Termination Act (ICCTA), the Board has the authority to take temporary action to restore rail service, including direct service orders on the movement of traffic, requiring joint or common use of railroad facilities, or prescribing temporary routes establishing priority preference.

Current Situation

USDA's current analysis indicates grain production and grain stocks this harvest season are expected to exceed permanent grain storage capacity by an estimated 694 million bushels (about 3.5 percent of the expected U.S. record harvest) in seven states, which include— in decreasing order of storage capacity shortage—South Dakota, Indiana, Missouri, Illinois, Ohio, Michigan, and Kentucky. This quantity is the equivalent of 173,500 jumbo covered-hopper rail cars, 13,219 barges, 881 15-barge tows, or 762,600 truckloads. Some of the impact could be mitigated by temporary storage; under special circumstances with unusually large crops, USDA sometimes allows emergency and temporary storage of grain, with the storing entity continuing to be financially responsible for the quantity and quality of the grain.

South Dakota could be short of grain storage capacity by 197 million bushels (20 percent of storage capacity); it is estimated to have the greatest grain storage shortage in addition to continued rail service delays due to competition for rail capacity. Indiana is estimated to be short by 196 million bushels (15 percent), Missouri by 109 million bushels (15 percent), Illinois by 83 million bushels (3 percent), Ohio by 55 million bushels (6 percent), Michigan by 33 million bushels (7 percent), and Kentucky by 20 million bushels (7 percent).

These levels of storage capacity shortage are higher than any year since 2010, which had an 805 million bushel shortfall in permanent storage capacity distributed throughout the top 14 grain-producing states. Because 2013 grain is reportedly still in storage and waiting to be moved before the 2014 harvest, it is critical to move as much of the 2013 grain crop as quickly and efficiently as possible.

Of particular concern is the area served by the former Dakota, Minnesota, and Eastern Railroad (DM&E) that traverses South Dakota between Tracy, MN, and Rapid City, SD, and provides the main rail service to the state. This section of track was purchased by CP in 2007 and sold on May 31, 2014, to Genessee & Wyoming Inc. (G&W). G&W created a new short line railroad, the Rapid City, Pierre, and Eastern Railroad (RCP&E), to serve this section of track, which includes many grain shippers. AMS does not have access to the terms of the sale but understands that CP agreed to provide a certain number of grain cars and locomotives to RCP&E during a transitional period after the sale.

USDA is concerned that railroad service to grain shippers may not recover in time for harvest of the 2014 crops. Should this happen, grain elevators could run out of storage capacity, grain stored on the ground would run the risk of spoiling, and the costs of inadequate rail service would continue to accrue.

According to its September 5 report to STB, BNSF had 2,231 grain cars past due an average of 8.9 days, up 10 percent from the 2,029 it reported the prior week. Forty-two percent of the past due grain cars are located in North Dakota and are 8 days late. BNSF also reported 599 past due grain cars in Montana and 268 in South Dakota. Canadian Pacific (CP) reports that customers have removed 23,968 open requests for grain cars from its system, leaving open requests of 6,762 as of September 5. Grain car requests in North Dakota were reported to be 12.54 weeks late, while those in Minnesota were 18.76 weeks late. CP fulfilled 2,331 grain car orders during the week and reported that new requests for grain cars totaled 2,010. Of the fulfilled orders, only 384 grain car orders were moved on the Rapid City, Pierre & Eastern Railroad (RCP&E) line in South Dakota.

This lack of rail capacity is having effects on other U.S. transportation modes. For example, barge operators expect strong demand for their services during this year's harvest, especially in October, when there is widespread harvesting of the corn and soybean crops. As of September 2, the average barge rate from the Illinois River to the Mississippi River Gulf for October delivery was 773 percent of tariff ($35.84 per ton), 43 percent higher than the 5-year average. The October St. Louis barge rate was 763 percent of tariff ($30.42 per ton), 56 percent higher than the 5-year average. Grain shippers may decide to buy barge freight for October now, or wait until then and buy at the weekly rate, which could be higher or lower than the October rate being quoted now. The last time rates exceeded these levels was in 2008, when flooding interfered with barge logistics on the Upper Mississippi and Illinois Rivers.

On a positive note, on August 27th, 2014, the Port of Vancouver and the North Dakota Department of Agriculture signed a memorandum of understanding (MOU) to ship products such as lumber, paper, cement, and fertilizer east to North Dakota and return them to the Port filled with North Dakota products such as wheat, corn, soybeans, peas, flax, and other specialty crops. This MOU addresses railcars that are often returned to the Port empty and helps alleviate the railcar shortage in North Dakota. The Port has indicated it plans to purchase 180 railcars and ship two shuttle trains per month, with the first full railcars returning to the Port from North Dakota as early as mid-September. The Port is working with BNSF Railway on the project and may expand service under the MOU if demand grows.

Conclusion

U.S. agricultural producers rely on a transportation network that is reliable, efficient, and safe. USDA will continue to monitor and report on the rail challenges faced by U.S. agricultural producers and shippers. I would be happy to answer any questions for the record you may have. Thank you.